M A N I T O B A	)	**Order No.12/06**
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**January 31, 2006**

BEFORE: Graham F. J. Lane, B.A., C.A., Chairman
Mario J. Santos, B.A., L.L.B., Member

AN APPLICATION BY SWAN VALLEY GAS CORPORATION FOR:

1) **FINAL APPROVAL OF THE AGREEMENT DATED OCTOBER 25, 2005 BETWEEN SWAN VALLEY GAS CORPORATION AND LOUISIANA PACIFIC CANADA LTD.; and**
2) **APPROVAL OF COMMODITY AND DELIVERY RATES EFFECTIVE February 1, 2006.**

TABLE OF CONTENTS

	Page
INTRODUCTION	3
APPLICATION	3
BACKGROUND	16
BOARD FINDINGS	18
IT IS THEREFORE ORDERED THAT	21
APPENDIX “A”	23

INTRODUCTION

By this Order, the Public Utilities Board (Board):

a) approves commodity and delivery rates for Swan Valley Gas Corporation (SVGC) for all customers effective February 1, 2006; and
b) confirms rates applicable to Louisiana Pacific Ltd. (LP) effective December 23, 2005, initially approved on an interim basis by Board Order 173/05.

With the cooperation of SVGC, the Board varies SVGC's initial application to reflect natural gas commodity price decreases that occurred subsequent to the filing date of the application. As a result of the amendment to the application, the average annual homeowner bill is projected to increase by $171, or 17.1%, as compared to the $292 or 29% increase proposed in the initial application. Increased commodity prices account for $78 of the projected average annual residential bill increase, and amendments to delivery rates account for the other $93.

APPLICATION

On December 12, 2005, SVGC filed a rate application with the Board seeking approval of:

1) a two-year Agreement between SVGC and LP (Agreement), to be effective on an interim basis from December 23, 2005; and
2) increased gas consumption rates, revised Purchase Gas Variance Account (PGVA) riders, and delivery charges for

each sales rate customer class, to be effective for all natural gas consumed on or after February 1, 2006.

The application, as initially filed by SVGC, proposed overall rate increases of approximately 29% for all customer classes. As subsequently amended, average rate increases for the various customer classes were 12.9% to 19%.

The following table outlines SVGC's revenue requirements (2003-2007):

TABLE 1

	Actual Results			Forecast Results		
	2003	2004	2005YTD	2005	2006	2007
Cost of Service						
Operating, Maintenance & Administration	$167,546	$84,862	$70,740	$96,213	$156,498	$156,498
Transportation	323,041	326,148	214,575	323,582	421,096	411,993
Management Fees	62,243	-	25,536	38,444	38,654	38,863
Net Amortization	75,724	61,848	46,554	84,338	85,276	85,732
Property and Corporate Capital Taxes	34,696	37,902	24,200	38,000	77,500	96,000
Finance Charges	143,000	14,093	(2,000)	(13,958)	44,083	49,519
Net Income (Loss)	(210,931)	80,111	35,364	52,463	68,231	65,663
Total	$595,318	$606	$414,970	$619,082	$891,338	$904,269

Note: **Actual Net Income (Loss) reflects volumes as well as rates, and does not reflect the Board-approved rate of return on rate base (assets less liabilities). In addition, Net Income (Loss) results do not reflect the losses arising out of the write-down of MIPL transportation costs accumulated in the Gas Cost Variance Account (recognized in SVGC's audited results for 2003 and 2004).*

Operating, Maintenance and Administrative Expenses (OM&A)

SVGC forecasts its OM&A expenses will increase from $96,000 projected for 2005 to $156,000 in 2006, an increase of $60,000 or 62%. This is due primarily to increased allocated SaskEnergy labour costs as a result of an analysis performed to determine the value of services provided by SaskEnergy. Vehicle costs are expected to increase due to increases in fuel costs and travel (the latter includes the relocation of a SaskEnergy employee to Kamsack to provide service to SVGC as required).

Projected transportation cost increases represent estimated Many Islands Pipe Lines (Canada) Limited (MIPL) pipeline charges, passed on directly to LP and thus represent "no loss" to SVGC or expense load to its other customers.

Rate of Return

For the purpose of calculating SVGC's Rate of Return on its net rate base (basically assets less liabilities), SVGC is assumed to have a debt equity ratio of 65/35, although in actuality all of its capital is equity (there is no debt). The deeming of a 65/35 debt equity ratio is to the benefit of SVGC's customers, as was SaskEnergy's decision to convert debt into equity.

Interest rates and allowable shareholder equity returns of 3.83% and 11.0%, respectively, are established for 2006, with 4.47% and 11.0% for 2007. Combining these rates with the deemed debt equity ratio of 65:35 and the projected rate base results in an overall allowable rate of return of 6.34% and 6.75% on SVGC's rate base for 2006 and 2007, respectively. These financial return allowances are disclosed as finance charges and Net Income, respectively, in Table 1.

Transportation and Delivery Revenue Requirement

Delivery rates are expected to fully recover the 2006 and 2007 cost of service. Barring unforeseen events requiring amendments, new delivery rates for space heating will remain in place for the entire two-year term of the new LP Agreement.

LP has elected a billing payment option to allow a greater degree of cost certainty and administrative ease. This provides for equal monthly payments by LP through the two year term for both MIPL transport and SVGC delivery.

TransGas Transportation Charges

SVGC will contract with TransGas Limited (TransGas), its carrier, for natural gas volumes of 2,055 gigajoules (GJ)/day in 2006. Using TransGas's proposed monthly demand rate for 2006 of $3.7566/GJ, SVGC will incur $92,631 for TransGas transportation charges. Assuming LP has transportation requirements of 1,461 GJ/day, its portion of TransGas transportation charges will be $65,861.

Non-industrial customers have a daily demand requirement of 594 GJ/day resulting in transportation charges of $26,770. These charges will be recovered through commodity rates.

MIPL Transportation Charges

MIPL cost of service is $435,671, which represents a contract demand level of 4,198 GJ/ day. LP has contracted to pay $355,235 of the required MIPL transport charges, an increase from $255,480, and the majority of the incurred costs. The increase raises the allocation of MIPL transportation costs to LP to a level more reflective of its proportionate usage of the pipeline.

Non-industrial customers will be responsible for the remaining MIPL transportation costs, to be billed through the commodity rates. The amount per GJ as applied for in the commodity rate for each customer class is projected to be sufficient to recover the non-industrial portion of $80,436.

Distribution Service

The 2006 SVGC distribution cost of service is projected to be $470,242 (excluding MIPL and TransGas transportation charges). Based on the customer load forecast, current delivery rates, and current contributions from LP, SVGC can expect to realize revenues totaling $283,924 from this rate component. This excludes LP revenues to be received by SVGC to recover LP’s portion of MIPL and TransGas transportation charges.

LP’s billings for 2006 and 2007 delivery services will increase from $166,924 to $318,242. This significant increase is based on the balance that remains for SVGC to recover after taking into account revenues to arise from non-industrial rate increases.

Non-industrial customers are projected to contribute $117,000 to SVGC's distribution revenues, based on an estimated throughput of 63,326 GJ's. As the total revenue forecast at $435,242, including LP's increased contribution, is not expected to recover the projected cost of service, SVGC applied to recover an additional $35,000 from non-industrial customers (a 30% increase with respect to the distribution revenue and rate component).

TABLE 2

Swan Valley Gas Corporation Cost of Service	**2006**
Operating, Maintenance & Administration	$ 156,498
Management Fees	38,654
Net Amortization	85,276
Property and Corporate Capital Taxes	77,500
Finance Charges	44,083
Net Income	68,231
Total Cost of Service	$ 470,242
Revenues at Existing Rates	
Louisiana Pacific	$ 166,924
Non-Industrial	117,000
Total	$ 283,924
Incremental Revenues	
Louisiana Pacific	$ 151,318
Non-Industrial	135,000
	$ 186,318
Total Revenues	
Louisiana Pacific	$ 318,242
Non-Industrial	52,000
	$ 470,242

Gas Consumption Charge – Cost of Gas

On August 31, 2005, SVGC received Board approval (Order #127/05) to extend the then-current Gas Consumption Charge, including the Purchase Gas Variance Account (PGVA) rate rider. The Gas Consumption Charge proposed in the current application, as amended, is for the period February 1, 2006 to October 31, 2006, this to facilitate a transition to a November 01 to October 31 annual gas consumption year.

The Gas Consumption Charge is intended to recover SVGC's cost of gas sold over the period February 1, 2006 to October 31, 2006.

SVGC purchases gas at market prices based upon the AECO daily price index. Included in the price are:

a) a TransGas Energy Pool (TEP) basis differential of $0.04/GJ; and
b) a gas management fee of $0.065/GJ.

SVGC has no storage facilities and purchases gas as needed, each day.

AECO natural gas commodity prices utilized for the development of the approved revised rates were the average closing AECO forward prices for the five-day period November 21 to November 25, 2006, as updated on January 20th, 2006 at the request of the Board.

Natural Gas Price Hedging

SVGC's Board-approved policy involves the use of financial derivatives to hedge a portion of winter volume requirements. A fixed-price hedge is to be executed between May 1 and September 30 of each year, for the upcoming winter.

However, given the extraordinarily high natural gas prices that followed Hurricane Katrina and damage to Gulf of Mexico production and transportation, a price situation which continued from last fall through to mid-December 2005, SVGC received Board approval to put aside the hedging policy. SVGC did not hedge volumes at the then-market price of approximately $13.50/GJ.

SVGC was directed by the Board to monitor market prices and execute a swap for the remaining winter months upon deemed reasonable prices, and then so advise the Board.

Prices only recently subsided; thus SVGC's cost of gas purchased is now reflecting lower cost purchases not offset by hedging losses. This has benefited SVGC's customers, and is reflected in the varied application and lower rate increases than otherwise would have taken place – 12.9%-19% rather than 29%.

SVGC is expected to resume applying its hedging policy next fall.

Transportation

TransGas and MIPL transport SVGC's natural gas supplies from TEP across the border to SVGC's local delivery system.

TransGas transportation charges to SVGC non-industrial customers are expected to be $26,770 annually, effective January 01, 2006, to be billed at a flat rate of $2,231 monthly. MIPL transportation charges for non-industrial customers are expected to be $80,437 annually, effective January 01, 2006. This amount will be charged to SVGC monthly at a flat rate of $6,703.

SVGC adjusts the TransGas and MIPL rates embedded within its Gas Consumption Charge to reflect actual costs.

Purchase Gas Variance Account (PGVA)

SVGC's PGVA was in a deficit position of $395,304 as at October 31, 2005, a balance projected to increase to $436,311 as at January 31, 2006. This projection is based on the average of AECO forward closing prices for the five-day period November 21 to 25, 2006.

In order to restrain the growth of the PGVA, which represents monies due from customers to SVGC, and the interest charges applied thereto, SVGC sought Board approval for a PGVA rate rider to supplement the Gas Consumption Charge.

SVGC sought to recover 8% of the outstanding PGVA over the test period. Based on the forecasted PGVA balance at January 31, 2006 of $436,311, the rider will collect $34,905 over the period February 1, 2006 to October 31, 2006. This equates to a PGVA rate rider of $1.035/GJ. Without the rate rider, which the Board approves by this Order, the PGVA was forecast to increase to $538,000 by October 31, 2006 rather that $433,000 with the rider applied.

Gas Consumption Charge

With respect to gas consumption charges SVGC initially sought approval for:

1) current cost of gas at TEP to be $10.657/GJ, up from $7.738/GJ (since amended to reflect falling commodity prices);
2) TransGas and MIPL transportation charges to be embedded in the Gas Consumption Charge by customer class;
3) increasing the PGVA rate rider from $0.955/GJ to $1.035/GJ, effective February 1, 2006;
4) commodity rate changes to be effective as of February 1, 2006; and
5) new rates to be maintained until a subsequent application and Board determination.

Delivery Rates

For 2006, SVGC delivery rates for space heating customers were proposed to increase by 10%, reflecting SVGC’s cost recoveries rising from $117,000 to $152,000.

In order to generate the additional $35,000 fairly between the rate classes, the class average percentage for each rate class bill impacts would be maintained within 1% of the overall required increase of approximately 30%. Class average increases for this rate component were to range from 29.7% for Residential to 30.9% for Institutional customers.

SVGC noted that given the extraordinary market price environment for natural gas and related heating fuels experienced since August 2005, its rate proposals for combined commodity and delivery rates were constrained by alternate fuel price competition.

Annualized Bill Impacts

SVGC's application, as varied to account for downward price changes in commodity costs, still provides significant annual bill increases.

For example, on an annualized basis, the average homeowner will see an increase of $171 annually or 17.1%. The change in the commodity rate, primarily due to market prices, represents $78 of the increase, while the delivery rate accounts for $93. For all rate classes, the commodity rate increase intended to recover higher forecast market prices, is the dominant driver of bill impact.

Total annualized bill and bill impacts are for average usage as well as for small and large usages for each rate class are summarized on the following Table.

TABLE 3

Annual Bill and Annualized Bill Impacts

Rate Classification		Annual Usage	Total Annual Bill Current Rates	Proposed Rates	Total Increase	Percentage Change
		m3	$/Year	$/Year	$/Year	
Residential	**Average**	**1,733**	**1,003.18**	**1,174.74**	**171.57**	**17.1%**
	Small	1,000	655.00	754.00	99.00	15.1%
	Large	4,000	2,080.00	2,476.00	396.00	19.0%
Commercial	**Average**	**6,582**	**3,137.38**	**3,591.53**	**454.16**	**14.5%**
	Small	3,000	1,604.28	1,811.28	207.00	12.9%
	Large	8,000	3,744.28	4,296.28	552.00	14.7%
General Service	**Average**	**35,749**	**15,227.61**	**17,301.06**	**2,073.44**	**13.6%**
	Small	20,000	8,660.28	9,820.28	1,160.00	13.4%
	Large	70,000	29,510.28	33,570.28	4,060.00	13.8%
Institutional	**Average**	**109,892**	**44,496.86**	**50,321.14**	**5,824.28**	**13.1%**
		100,000	40,520.28	45,820.28	5,300.00	13.1%
		150,000	60,620.28	68,570.28	7,950.00	13.1%

Annual Bills Excludes any applicable Manitoba revenue tax and the federal GST.

Numbers may not add due to rounding. January 24, 2006

Board Hearing

The Board held a hearing by teleconference on January 18, 2006 following a Notice published in the Swan Valley Star and Times newspaper and a letter explaining SVGC's application to all SVGC customers. Subsequently, the Board asked SVGC to update its projection of future commodity prices and this update provided for the lower rate increases approved by the Board by this Order.

The Board has applied a least cost regulatory model in its regulation of SVGC. This involves the avoidance where possible of public hearings in Swan River and full involvement of Board Advisors, as attendance in Swan River and the involvement of Advisors results in significant expenses that would be passed on through rates to SVGC's customers.

The Board required SVGC to provide a detailed notice to all its customers by mail inviting comments to the Utility and/or the Board. In addition:

a) a notice of the application and the Board hearing was published in the local paper;
b) SVGC met with representatives of the Towns of Swan River, Benito and Minitonas; and
c) SVGC contacted the local School and Hospital Board administrations.

The communications and meetings provided a review of SVGC's application and an indication of the causes of the Utility's then-proposed 29% rate increases. (As previously indicated, the application was subsequently revised, reducing the average proposed rate increase to between 12.9% and 19%.)

Arrangements were made by the Board to allow interested parties to view the application at the municipal offices in Swan River and to participate in the teleconference held on January 18th, 2006. No opposition was recorded or received from SVGC customers or any other parties to SVGC's then-application. The Administrator of the Town of Swan River participated in the teleconference. The Board concludes that a satisfactory community acceptance of SVGC's application existed, albeit subsequent events led to a significant reduction in the rate increases approved.

BACKGROUND

SVGC is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan Crown Corporation. By Board Order 93/00, SVGC's acquisition of natural gas distribution franchise rights for the Swan Valley region of Manitoba was approved.

SVGC's natural gas supply is transported to Manitoba through a pipeline owned by Many Islands Pipe Lines (Canada) Limited (MIPL), also a subsidiary of SaskEnergy. The MIPL pipeline is dedicated to transport gas intended for SVGC customers, including LP (an oriented-strand-board manufacturer). LP is SVGC's anchor customer with approximately 80% of the throughput of the MIPL pipeline delivered to LP.

SVGC currently reports 227 customers, as compared to the initial forecast of 1,434, and an annual volume of gas sold less than 60% of the pre-operating forecast. These variances from the initial expectations have resulted in SVGC experiencing revenue and cost recovery shortfalls.

Both LP and SVGC depend upon each other with respect to their business operations, and they have entered into a new two-year service contract, the terms of which focus on potential LP load growth and SVGC's goal of recovering MIPL transportation charges. LP will contribute its pro-rata share of transportation costs based on total volume. The Board approved the Terms and Conditions of the contract by Board Order No. 173/05.

Through its rates, SVGC recovers from its customers the cost of providing both natural gas commodity and the delivery service. Commodity costs include the cost of gas purchased and transportation costs to deliver natural gas to SVGC at the Saskatchewan-Manitoba border. SVGC recovers the delivery cost of transporting the gas from the Saskatchewan border to the customer's meter via its delivery rates. Delivery costs are recovered from its customers through two components: a Basic Monthly Charge and a Delivery Charge applied to each unit of gas consumed.

Increases in natural gas commodity prices have negatively impacted SVGC's ability to gain customers through fuel source conversions. In its efforts to mitigate these circumstances, largely beyond its control, SVGC has undertaken various marketing efforts.

In addition, SaskEnergy, SVGC's parent corporation, has acted to assist SVGC to reduce the financial and operational pressures experienced by the SVGC as a result of lower customer base and volumes experienced. These measures have included:

a) measures to lessen the cost of infrastructure;
b) forgiving some transportation costs related to MIPL;
c) adjusting the contract demand level on the pipeline to meet SVGC's situation;
d) utilizing SaskEnergy human resources from its Yorkton

offices;

e) waiving management fees in 2004 and holding same to nominal levels; and

f) restructuring the capital structure to eliminate debt.

In addition, SVGC operations utilize SaskEnergy resources for administrative and business support, with such services provided on a least cost basis. These particular concessions and assistance save SVGC $42,000 per year.

Overall, SVGC's operating and administrative costs have been held to far lower than average anticipated levels. Operating and maintenance related costs originally estimated to be approximately $450,000 for 2006, are now expected to be below $200,000.

BOARD FINDINGS

Varying the application to reflect much lower natural gas commodity prices from the levels experienced when the application was filed, the Board will approve rate increases ranging from 12.9% to 19%.

In providing this approval, the Board accepts the application as submitted, excepting for the variance with respect to commodity prices and costs stated above.

In considering SVGC’s request for an interim Order, the Board notes that the Utility has been, with the approval of the Board, regulated on a least cost regulatory model since its inception. The regulatory model recognizes SVGC’s small customer base and the consequent need for regulatory cost efficacy; regulatory costs are a factor in the determination of customer rates.

The Board observes that largely because of unanticipated large increases in natural gas commodity prices since SVGC commenced operations, the Utility has not achieved the initially forecasted customer and volume levels. The Board also notes the significant efforts made by SVGC in marketing with regards to both its major customer, LP, as well as to all customers in the franchise area.

The Board is of the view that the changes in SVGC’s contract with LP, will improve the financial viability of SVGC to the benefit of all of its customers, and will give final approval to Board Order No. 173/05.

SVGC has very limited abilities to manage gas prices because of its very small annual volumes. Only one transaction of only one type may be executed, and only for a portion of the winter volumes, and only if the opportunity reasonably presents itself.

The Board notes that, with Board approval, SVGC did not hedge its annual volumes this past fall, as prices were high. As a result, customers were sheltered from much higher commodity prices for the period November 1, 2005 to January 31, 2006, representing almost half normalized consumption volumes.

The Board notes the forecast growth in the PGVA balance, which will grow to $538,000 by October 31, 2006 if no further action is taken. The Board notes that the size of the PGVA represents a significant liability for a low customer base of approximately 200. SVGC needs to continue to recover the PGVA deficit, and towards that end the Board will approve the proposed increase in the rate rider from the current $0.955/GJ to $1.035/GJ.

The Board notes and commends the efforts of SVGC and SaskEnergy to contain operating and administrative costs. The Board encourages both companies to continue in their efforts, particularly given the size of the PGVA balance and the small number of customers among whom OM&A costs are shared.

The hearing process was amended to restrain regulatory costs for the benefit of customers. While satisfied with its testing of SVGC’s Application through this process, the Board is prepared to meet with the community to discuss these matters upon the request of the community.

IT IS THEREFORE ORDERED THAT:

1. The terms and conditions of the Commercial Agreement between SVGC and LP, dated October 25, 2005 and approved on an interim basis in Board Order 173/05 effective as of December 23, 2005 BE AND IS HEREBY CONFIRMED AS FINAL.

2. SVGC's request to increase the gas consumption and delivery components of the sales rates charged by SVGC effective February 1, 2006, as varied subsequent to the Board hearing, BE AND IS HEREBY APPROVED.

3. SVGC's request to recover $34,000 of the PGVA by way of a rate rider of $1.035/GJ effective February 1, 2006, BE AND IS HEREBY APPROVED.

4. The Rate Schedule attached as Appendix "A" reflecting the above changes BE AND IS HEREBY APPROVED.

5. The Public Utilities Board's Order No. 111/04 BE AND IS HEREBY CONFIRMED AS FINAL.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"G. GAUDREAU, C.M.A."
Secretary

Certified a true copy of Order No. 12/06 issued by The Public Utilities Board

Secretary

Appendix "A"

Swan Valley Gas
Corporation
A SaskEnergy Company

Monthly Natural Gas Rates
February 1, 2006

For customers who purchase their natural gas and delivery service from Swan Valley Gas:

Rate Class (Code)	Applicable To	Monthly Natural Gas Rates: Basic Monthly Charge ($)	Delivery Charge ($/m^3)	Gas Consumption Charge ($/m^3)	2000 to 2009 Project Price Customer Contribution* ($)
Residential:					
Residential (M01, M11, M21)	Residence, Cottage, Farm up to 10,000 m^3/yr	15.00	0.132	0.442	877.40
Commercial:					
Commercial (M02)	0 to 10,000 m^3/yr	26.69	0.055	0.442	1,016.50
General Service (M03)	10,001 to 100,000 m^3/yr	26.69	0.043	0.432	7,490.00
Institutional (M04)	100,001 to 1,000,000 m^3/yr	26.69	0.031	0.424	16,317.50

*Includes GST

Minimum Bill: Basic Monthly Charge

Taxation: Any taxes, levies or surcharges which may be lawfully imposed by or at the request of any municipal, provincial, or federal authority will be charged to the customer as required.

For Contract Industrial Service
See next page:

Swan Valley Gas
Corporation
A SaskEnergy Company

Monthly Natural Gas Rates
February 1, 2006

For industrial customers who contract for delivery service from Swan Valley Gas, but who purchase their natural gas from a supplier other than Swan Valley Gas:

Rate Class	Applicable To	Monthly Delivery Rates: Basic Monthly Charge ($)	Delivery Charge ($/m^3)	Demand Charge ($/m^3/Day)
Industrial:				
Delivery Service	100% firm and Over 1,000,000 m^3/yr	250.00	N/A	0.351
Minimum Bill:	Basic Monthly Charge plus Demand Charge plus Apportionment of upstream transportation requirements			
Interruptible Service:	Interruptible (In conjunction with Delivery Service contract)	250.00	0.015	N/A
Minimum Bill:	Basic Monthly Charge plus Delivery Charge plus Apportionment of interruptible upstream transportation requirements			

All terms and conditions of service and rates are defined in and contained in a contract.

Taxation: Any taxes, levies or surcharges which may be lawfully imposed by or at the request of any municipal, provincial, or federal authority will be charged to the customer as required.

Appendix "A"

Monthly Natural Gas Rates
Louisiana Pacific Canada Ltd.
Effective December 23, 2005

		Monthly Delivery Rates		
Contract Rate	**Applicable To**	**Basic Monthly Charge ($)**	**Delivery Charge ($/m^3)**	**Demand Charge ($/m^3/Day)**
Delivery Service	100 % firm and Over 1,000,000 m^3/yr	59,580.00	n/a	Included
Minimum Bill	Basic Monthly Charge includes daily flows up to 1,831 GJ per day plus apportionment of upstream transportation requirements			
Interruptible service	Interruptible	250.00	0.015	n/a
	(In conjunction with Delivery Service Contract)			
Minimum bill	Basic Monthly Charge plus Delivery Charge plus apportionment of any interruptible upstream transportation requirements			