M A N I T O B A	)	**Order No. 90/03**
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**May 30, 2003**

BEFORE: G. D. Forrest, Chairman
Len S. Evans, Member
M. Girouard, Member

AN APPLICATION BY SWAN VALLEY GAS CORPORATION FOR AN ORDER OF THE BOARD APPROVING:

1. **A CHANGE IN GAS PRICING METHODOLOGY**

2. **REVISIONS TO THE SASKENERGY - SWAN VALLEY GAS CORPORATION CONTRACT DESCRIPTION OF THE GAS PRICING METHODOLOGY**

3. **AN INCREASE IN THE GAS CONSUMPTION CHARGE FOR EACH SALES RATE CLASS**

1.0 Background

The Manitoba Public Utilities Board ("the Board") approved franchise agreements and other matters related to the distribution and sale of natural gas for Swan Valley Gas Corporation ("SVGC") in Order 93/00, dated July 4, 2000. In approving sales rates, the provision and management of gas supply was considered by the Board. The Board found the gas supply as proposed by SVGC to be reasonable and directed SVGC to file the gas supply contract (the Contract) entered into with SaskEnergy, when available. SVGC filed the contact with the Board on December 15, 2000.

The commodity price of natural gas for SVGC was established as the unitized delivered commodity cost of gas purchases that SaskEnergy made on behalf of all of its customers at the TransGas Energy Pool ("TEP"). TEP pricing is determined by the market place, with producers, marketers and consumers agreeing on prices through open access for all purchases and sales.

In addition to the commodity cost SVGC is required to pay for storage and transportation costs incurred by SaskEnergy to provide SVGS gas from the TEP, calculated at an estimated SVGC annual load factor of 30 – 35%.

Additionally SVGC paid SaskEnergy a fee of $0.03 per Gigajoule ("Gj") for procuring and managing the gas supply, pursuant to a Management Services Agreement. Based on the non-industrial consumption estimated at the franchise hearing, the annual fee payable to SaskEnergy was estimated be $6,735.00.

The overall cost of gas currently embedded in sales rates, incorporating these pricing provisions, is $5.379 per Gj. Current sales rates became effective on February 1, 2001 and were approved by the Board in Order 17/01, dated January 31, 2001.

2.0 The Application

On April 11, 2003 SVGC applied to the Board for interim ex parte approval for a change in the current gas pricing methodology. The proposal is to allow for TEP pricing based on prevailing market prices rather than using SaskEnergy's gas consumption charge as approved by the Saskatchewan regulator ("Saskatchewan"). Additionally, SVGC asked for approval to revise the gas supply contract with SaskEnergy to reflect these changes. The change would increase the gas consumption charge for each rate class by $1.062 per Gj to $6.441 per Gj, and would become effective June 1, 2003.

The Contract stipulates that SVGC will pay SaskEnergy for the commodity cost of gas at a rate as approved from time to time by Saskatchewan and a pro-rata share of downstream (from TEP) transportation and storage costs, based on SVGC's load factor. The difference between the Saskatchewan approved rate and actual gas costs is accumulated in SaskEnergy's PGVA. When disposition of the SaskEnergy Purchase Gas Variance Account ("PGVA") balance is approved, SVGC would be allocated its share and a rate rider would be imposed on SVGC customers to dispose of the PGVA balance.

Although Saskatchewan approved SaskEnergy's change to the commodity charge on two occasions in 2001, SVGC did not apply for any rate increases to reflect these changes. Current gas costs are greater than the presently approved commodity rate, and SaskEnergy's PGVA balance, owing to SVGC by its customers, is increasing. Existing sales rates reflect a commodity price of $5.379 per Gj, while current commodity prices are much higher and the market forecast is for prices to average over $6.25 per Gj for the balance of

2003 and into the winter of 2004. SVGC estimates that its share of the SaskEnergy PGVA deficit at May 31, 2003 will be $57,000, which is to be recovered from customers at a future date.

Under the proposed market-based pricing methodology SVGC would establish a commodity rate based on a forward AECO 12-month price strip daily index and would establish an annual rate using this strip. SVGC would no longer be responsible for any of SaskEnergy's PGVA balance, after May 31, 2003. In essence, the change would eliminate the need for SVGC to purchase natural gas and storage services to balance supply with demand from SaskEnergy's regulated supply. Instead, SVGC would purchase gas needed for its customers and its own internal operations based on the posted AECO daily price, plus the AECO to TEP differential as needed for its customers and its own internal operations.

SVGC submits that until SaskEnergy commences recovery of the PGVA balance and aligns its gas costs with current market prices, SVGC's new and developing customer base will be sent misleading price signals, and that a market based price would be preferable to the existing methodology.

SVGC requests that the fee for the procurement and management of gas supply be increased from $0.03 per Gj to $0.065 per Gj. The requested fee of $0.065 per Gj would yield an annual fee, for the 2003/04 forecast consumption of 46,915 Gj of $3,049.00, which is less than half of the original estimate. SVGC submits that this fee is reasonable and is the lowest charged by SaskEnergy to any of its customers. The fee reflects factors such as risk to SaskEnergy, recovery of fixed costs, price charge by other marketers, daily volumes and provision of other non-standard services.

SVGC is requesting that the existing supply contract with SaskEnergy be revised to incorporate the above changes.

3.0 Forecast Cost of Gas

SVGC filed a revised feasibility test in conjunction with the franchise hearing that assumed 853 customer attachments by year 2 with annual consumption of 509,000 Gj. In December 2002, SVGC projected that 333,000 Gj would be delivered by the system, with the majority being attributable to the Louisiana-Pacific ("LP") plant in Minitonas. LP purchases its gas from a third party.

The lower throughput is attributed to fewer customers and less than anticipated average use per customer. At the end of 2002, 187 customers were using natural gas. Another 336 customers had committed and paid for the services installation but later forfeited the $300 activation rebate. Current data indicates that the average use per residential customer is 75 Gj per year, compared to the 111 Gj assumed in the feasibility test. The average commercial use is 189 Gj per year, compared to the assumed 309 Gj. SVGC suggests that the unprecedented high natural gas prices have largely negated the advantage of natural gas over electricity for the residential owner, especially as electric rates have not increased for the last six years.

Given these circumstances, SVGC has projected that there will be only 220 non-industrial customers on the system by the end of 2004, and has projected a consumption of 46,915 Gj, including internal use of 1,200 Gj to estimate the cost of gas from June 1, 2003 to May 31, 2004. Gas commodity costs are estimated to be $302,024 at TEP. After deducting the internal use commodity gas cost of $7,565, the required commodity rate is $6.441 per Gj, an increase of 19.7%. Total cost of gas, including all transportation and storage charges is estimated to be $615,859 of which $15,753 is for internal use.

4.0 Rates and Customer Impacts

Because SVGC is not seeking any change to Basic Monthly Charge or the Delivery Charge, the annual bill impacts for the customer classes are as follows:

Rate Class	Existing Bill	Proposed Bill	Increase	Increase
	$	**$**	**$**	**%**
Residential	925 - 1,528	1,006 - 1,692	82 – 164	8.9 - 10.7
Commercial	1,830 - 2,736	2,035 - 3,964	205 – 328	11.2 - 12.0
General Service	10,548 - 20,690	11,990 - 23,560	1,441 - 2,870	13.7 - 13.9
Institutional	25,160 - 41,720	28,850 - 47,870	3,690 - 6,150	14.7 - 14.7

SVGC submitted that the requested rates had the advantages of:

- Reflecting current forward market prices
- Mitigating the increase in the PGVA
- Reflecting established processes used by other Manitoba utilities
- Establishing SVGC as a more independent operation

On the other hand the requested rates result in higher customer impacts which could increase the risk of customers shedding or curtailing consumption.

SVGC prepared a customer notice respecting this application and proposed to inform all active customers by a single direct mailing.

5.0 Alternative Proposal

In the event that the Board did not grant the request to change the pricing methodology, SVGC requested that the gas commodity rate be increased to reflect SaskEnergy's current approved gas consumption charge of $0.2014 per cubic metre. This approved rate would require an increase to $5.783 per Gj for sales volumes of 45, 715 Gj. This is an increase of $0.404 per Gj, or 7.5%. Under this scenario, the annual bill for the typical residential consumer would increase by 3.5% and the institutional average bill would increase by 5.7%

Subsequent to the April 11, 2003 SVGC application, SaskEnergy applied to Saskatchewan for approval of an increase to gas rates. The request is for the commodity rate to increase to $6.62/Gj, effective May 1, 2003. Additionally SaskEnergy has requested that a rate rider of $0.63/Gj be implemented to recover its PGVA, for all of SaskEnergy's customers, including SVGC. The PGVA balance is estimated to be $71.1 million at April 30, 2003. On this basis the commodity cost of gas to SVGC would increase by approximately 23%.

6.0 PGVA

SVGC reserved the right to make further application for rate change in respect of transportation-related costs and recovery of the PGVA. Although this application does not request the disposition of any of the components of the PGVA, SVGC provided information in this regard. The total May 31, 2003 PGVA balance for SVGC is projected to be $179,000, of which $57,000 is related to gas commodity. The balance is related to Many Islands Pipeline Transportation ("MIPL") to the SVGC border station in Manitoba, and other miscellaneous charges. If the Board were to accept this proposal, the gas commodity component of the PGVA would cease, assuming that the forecast market prices would be as forecast.

The December 31, 2002, PGVA balance was $82,490, excluding carrying costs, owing to SVGC, of which approximately 76% is related to MIPL transportation charges. SVGC is responsible for the MIPL annual revenue requirement of $531,931, pursuant to National Energy Board ("NEB") tariffs. These costs were to be recovered by LP and anticipated growth in non-industrial customers. Because customer growth has not materialized, MIPL collected only $133,000 over the past two years on behalf of non-industrial customers.

As of January 1, 2003 these non-industrial customers collectively face annual MIPL costs of $308,000 most of which will accumulate in the PGVA. LP is responsible for the other portion of MIPL's revenue requirement. This application does not consider any aspect to the PGVA or rate riders to dispose of the balances. SVGC stated that they are currently formulating a revenue requirement management plan for this aspect and will return to the Board with a subsequent application.

7.0 Other Matters

SVGC recognizes the importance of continued marketing efforts, business development assistance and rates and business policies to encourage additional customer attachments. The short-term efforts will focus on those customers who have signed up and paid the connection fee for service, but ultimately forfeited the $300 rebate. The sign-up fee was set at $800, of which $300 would be refunded as soon as gas consumption commenced. As well SVGC will provide local assistance for local economic development efforts to secure industrial loads such as for an ethanol plant, straw board plant and grain dryers.

SVGC has met and will continue to meet with stakeholders to discuss the need for continued customer activation, including municipal and community facilities, and plans respecting necessary commodity gas cost adjustments.

8.0 Board Findings

The proposed information notice sent to SVGC customers that requested any comments be made in writing and be forwarded to the Board by no later then April 23, 2003 was reviewed and approved by the Board. The Board notes that no comments were received by that date.

The Board is aware the difficulties facing SVGC are due to fewer than anticipated customers consuming natural gas, resulting in lower than estimated throughput volumes. During the franchise hearings, the Board expressed its concern about forecast customer attachments in view of the fact that natural gas prices had just started to experience significant increases. The price of gas, now estimated by SVGC to average $6.441 per Gj was estimated at $3.50 per Gj at the hearing in June 2000. The Board required SVGC to again canvass all customers that had expressed interest in gas service to determine if sufficient interest still remained in the project, assuming a cost of gas of $5.25 per Gj. The indication by SVGC subsequent to this effort was that required volumes could still be achieved, even though fewer non-industrial customers expressed a continuing interest in the short term. The shortfall in non-industrial volumes was expected to be made up by greater than originally estimated annual consumption by LP.

The Board remains of the view that commodity rates should reflect the best estimate of market prices at any given point in time. Although the increases are significant, the Board considers that any alternative to market pricing will send false price signals to the consumers, and will erode the financial integrity of SVGC, which will not benefit any of the stakeholders. The Board considers that the proposed change in pricing methodology will also allow SVGC a greater opportunity to make more timely application to the Board for any further changes in rates, without having to await any rate approvals by Saskatchewan. With the recent volatility in gas prices, such changes may be necessary more frequently than once per year to better control and manage the disposition of PGVA balances.

The Board is of the view that the request to increase the management fee from $0.03 per Gj to $0.065 per Gj is reasonable in the circumstances. The Board considers that SaskEnergy is entitled to a minimum annual fee to cover fixed costs for providing a service to SVGC. Even though the increase is significant on a unit basis, the amount of the annual fee will be less than half of what was originally forecast. The Board will therefore approve the request for a commodity charge of $6.441 per Gj and a management fee of $0.065 per Gj, to be effective for all gas consumed on and after June 1, 2003, on an interim basis pending receipt of additional information as described below:

The Board will require SVGC to file a signed copy of the revised contract between SVGC and SaskEnergy, as well as a blacklined copy outlining all changes to that document from the one currently in existence. The revised contract shall specify the gas pricing methodology as requested in this application, commodity charge and gas management fee, together with the delivery point(s) and estimated gas consumption. The Board will require this information in order to review the PGVA balances from time to time in the future. The Board will require these documents to be filed as soon as possible, but by no later than July 1, 2003.

The Board had previously urged SVGC officials to address the matter of the ever-increasing PGVA balance and to come forward with an action plan in the very near future. In the Board's view this application addresses only a small component of the problem, in that the commodity related gas costs comprise only approximately 25% of the projected PGVA balance at May 31, 2004. The Board notes that there is a significant PGVA balance forecast for May 31, 2003 owing by the customers and that even with the requested rate increase the balance may grow to an estimated $417,262 by May 31, 2004. With the alternative proposed by SVGC, this balance would increase to $448, 043.

The Board notes the comment that SVGC, in consultation with MIPL have commenced the preparation of revenue recovery management plan and disposition of the PGVA balance. The Board has concerns about the magnitude of the balance, the potential impact on SVGC and its customers, and the issue of inter-generational inequity. Fewer than 200 customers are on the system and the cost owed per customer is significant. The Board will expect any plan to address such matters, as well as proposed rate riders to dispose of the balances. The Board expects receipt of this plan as soon as possible and further expects SVGC to immediately inform the Board when it will be filed.

9.0 IT IS THEREFORE ORDERED THAT:

1. The request to change the gas pricing methodology, as requested by SVGC BE AND IS HEREBY APPROVED.

2. The request to increase the gas consumption component of the sales rates charged by SVGC to $6.441 per Gj, effective June 1, 2003 BE AND IS HEREBY APPROVED, on an interim basis.

3. The request to increase the Gas Management Fee to $0.065 per Gj effective June 1, 2003 BE AND IS HEREBY APPROVED, on an interim basis.

4. SVGC not be responsible for any of SaskEnergy's PGVA balance beyond May 31, 2003.

5. SVGC file an executed copy of the revised contract between SVGC and SaskEnergy, as well as outlining all changes to that document from the one currently in existence, as soon as possible, and in any case by no later than July 1, 2003.

6. SVGC immediately inform the Board as to the progress of discussions with MIPL respecting the revenue recovery management plan and to file the plan with the Board as soon as possible.

THE PUBLIC UTILITIES BOARD

"G. D. FORREST"
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order No. 90/03 issued by The Public Utilities Board

Acting Secretary