M A N I T O B A	)	**Order No. 173/05**
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**December 22, 2005**

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

AN APPLICATION BY SWAN VALLEY GAS CORPORATION FOR AN INTERIM EX PARTE ORDER OF THE PUBLIC UTILITIES BOARD TO APPROVE THE COMMERCIAL AGREEMENT DATED OCTOBER 25, 2005 BETWEEN SWAN VALLEY GAS CORPORATION AND LOUISIANA PACIFIC CANADA LTD., AND TO PROVIDE FOR RATES AS DESCRIBED IN SECTION D-02 OF THE APPLICATION

Introduction

By this Order, the Public Utilities Board (Board) approves interim rates for Swan Valley Gas Corporation (SVGC), to be applied to its largest customer, Louisiana Pacific Ltd. (LP). The new rates are to be effective December 23, 2005, and are subject to a final determination at a later date.

These interim rates are provided in advance of a Board hearing to occur on January 18, 2006 with respect to rates in general, including the rates established herein on an interim basis.

Application

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

1) the terms and conditions of an October 25, 2005 Commercial Agreement between SVGC and LP (the Agreement), to be effective on an interim basis from December 23, 2005 until such time as the Board issues a final Order(the Agreement provides, among other things, LP’s identified share of SVGC’s annual revenue requirement); and

2) increases in gas consumption rates, revised Purchase Gas Variance Account (PGVA) riders, and increases in the delivery charge for each sales rate customer class, to be effective on an interim basis for all natural gas

consumed on or after February 1, 2006; the rates, including riders, to remain in effect for each sales rate class until a further Board Order.

This Order addresses only item 1, above, namely approval of the Agreement between SVGC and LP, and establishes rates for LP on an interim basis.

The Board has set in motion a process to hear the entire Application on a final basis, based on a least cost regulatory model used to regulate SVGC from its inception.

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. MIPL is a federally regulated company which owns a transmission pipeline between Norquay, Saskatchewan and Benito, Manitoba (the TransGas Limited pipeline system does not extend to the Saskatchewan-Manitoba border). The MIPL pipeline is dedicated to SVGC, and transports gas intended for its customers, including LP (an oriented-strand-board manufacturer). SVGC's transmission pipeline connects to the MIPL pipeline at Benito, and transports the natural gas to Swan River and Minitonas.

LP is SVGC's anchor customer and approximately 80% of the throughput of the MIPL pipeline is intended for LP.

SVGC currently reports having 227 customers, as compared to the initial forecast of 1,434; and the annual volume of gas sold in 2004 was 306,784 gigajoules (GJ) as compared to the initial forecast of 563,861GJ at the time operations commenced. SVGC's 2004 revenue was $276,992, as compared to the initial forecast of $821,000. These variances were typical of SVGC's early years and have resulted in SVGC experiencing revenue and cost recovery shortfalls.

LP is SVGC's largest customer, and both LP and SVGC depend upon each other with respect to their business operations. LP and SVGC have entered into a new service contract, for a two year period, the terms of which focus on potential LP load growth and SVGC's goal of recovering MIPL transportation charges.

As previously indicated, SVGC is the only user of the MIPL pipeline, and bears full responsibility for its costs as a fixed charge regardless of the volume of gas transported. As a result of the new two year period LP contract, the subject of this Order, LP will now be contributing its pro-rata share of the costs based on total volume reflecting the actual customer load profile of SVGC. LP's rate was initially set when operations began in 2000, and was established with the expectation of much higher customer numbers and volumes than has proven to be the case to-date.

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.

Alternative sources of space heat in the serviced communities include propane, fuel oil, electricity and wood. Increases in natural gas commodity prices since SVGC's inception have significantly impacted SVGC's ability to gain customers through fuel source conversions, making SVGC's new service agreement with LP even more important than it was initially understood to be.

Board Findings

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 forecast customer and volume levels. Consequently, a shortfall in delivery revenues occurred in the early years. In addition, less volume flow on the system resulted in the under-recovery of transportation charges, which SVGC intends to recover over a number of years, through the Gas Consumption Charge.

The Board notes that the initial five year Agreement between SVGC and LP has concluded. The Board further notes that, even with the recent contract renewal with LP, SVGC's prospects for significant financial improvement remains doubtful, particularly given the most recent spike upwards in the price of natural gas that followed Hurricane Katrina and its effects on Gulf Coast gas production and transmission.

The Board is of the view that the changes in SVGC's contract with LP, now secured, were required to ensure the financial viability of SVGC. Further, and as has been done, the financial deficiencies of the prior contract between LP and SVGC had to be addressed. The failure of SVGC in these matters would have a significant negative impact on the communities served. Homeowners, businesses and public institutions have invested in gas heating, and LP depends on natural gas for its manufacturing operations. As well, LP is a significant local employer.

The Agreement addresses the necessary changes required to SVGC transportation cost recovery rates. The new Agreement is to run for two years, and becomes effective December 23, 2005.

SVGC reserves a capacity with TransGas and pays on the basis of volume reserved. LP is charged for its share. On December 15, 2005, LP elected to reduce its share of the SVGC contract demand for the TransGas transportation agreement from 1,461 GJ per day, assumed in both the rate application and the agreement, to 800 GJ per day. The annual costs to LP are reduced from $67,146 to $36,063, for a cost decrease of $31,083. However, the impact is revenue neutral on SVGC, and there are no changes to either LP’s obligations for the SVGC payable amount of $328,213 and the MIPL amount of $350,684. The sum of the three components under the revised agreement totals $714,960, which results in 12 equal monthly payments of $59,580, as reflected in the Agreement.

The contract reflects the financial arrangements required by SVGC and provides the operating flexibility sought by LP. The Agreement provides capability for LP to expand the use of natural gas, thus providing potential for increased production with additional benefits to the community.

The Board welcomes the cooperative effort on the part of SVGC and LP to address a serious problem, and notes that both parties have acted in a most expeditious manner given the urgency of the situation.

The Board notes that it is mostly LP that is impacted by the new agreement, which is in the best interests of other customers of SVGC. The Board notes that while the contract with LP becomes effective on December 23, 2005, SVGC is seeking other customer rate changes as of February 1, 2006.

The Board is of the opinion that it is in the best interests of SVGC, LP and the other customers for the Agreement between LP and SVGC be put into effect at this time.

For all of the aforementioned reasons the Board finds that, in relation to the LP agreement, the circumstances giving rise to SVGC request for an interim ex parte order are special, meriting the Board granting the interim ex parte Order. To wait for the January 18, 2006 hearing would not be in the best interest of either party to the contract renewal, nor to SVGC’s other customers and communities.

IT IS THEREFORE ORDERED THAT:

1. The terms and conditions of the Commercial Agreement between SVGC and LP, dated October 25, 2005 and effective as of December 23, 2005, including the identified share of revenue requirement for SVGC, as more particularly described in the Agreement, and in Section D-02 of the application, BE AND ARE HEREBY APPROVED on an interim basis until such time as the Board issues a final order in this matter.

2. The rates for LP attached hereto as Schedule “A”, BE AND ARE HERBY APPROVED.

THE PUBLIC UTILITIES BOARD

“GRAHAM F. J. LANE, C.A.”
Chairman

“G. GAUDREAU, C.M.A.”
Secretary

Certified a true copy of Order No. 173/05 issued by The Public Utilities Board

Secretary

SCHEDULE "A"
Interim 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			