IN THE MATTER OF
the Utilities Commission Act
S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF
Applications by
Inland Natural Gas Co. Ltd.

DECISION

December 11, 1987

Before:

M. Taylor, Chairman*
J.D.V. Newlands, Deputy Chairman
N. Martin, Commissioner

* M. Taylor, Chairman of the British Columbia Utilities Commission and Chairman of this Division during the hearing, left the Commission on October 31, 1987.

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1.0 BACKGROUND

The background to the Inland Natural Gas Co. Ltd. ("Inland", "Applicant") Application spans two years since the first government announcement that a competitive market for natural gas sales would develop in British Columbia. Prior to the summer of 1985, all natural gas producers in British Columbia sold their gas to the British Columbia Petroleum Corporation ("BCPC"). The Corporation in turn resold gas to Westcoast Transmission Company Limited ("Westcoast") for delivery to distribution utilities in British Columbia and for export to the United States. On March 28, 1985, the Governments of Canada, British Columbia, Alberta and Saskatchewan entered into an Agreement known as the Western Accord which initiated a process of replacing government-set prices of oil and natural gas with prices set by the market. The Natural Gas Price Act was proclaimed in British Columbia effective July 1, 1985. This Act provided sweeping changes to the marketing system for natural gas within British Columbia, and along with revisions to the Petroleum and Natural Gas Act, established a new royalty system and authorized producers to sell their natural gas to customers other than BCPC.

In late October 1985, an agreement was struck between the Governments of Canada, British Columbia, Alberta and Saskatchewan on Natural Gas Markets and Prices. This Agreement reinforced the earlier provincial initiatives by signaling the governments' intent that immediate steps be taken to enable consumers to enter into supply arrangements with producers at negotiated prices. The agreement fosters a competitive market for natural gas in Canada.

As part of the Agreement on Natural Gas Markets and Prices, the Government of Canada established a Pipeline Review Panel to undertake an all-encompassing review of the role and operations of interprovincial and international pipelines engaged in the buying, selling and transmission of gas. The Pipeline Review Panel issued its report in June 1986. The report sets out the Panel's views on many aspects of interprovincial trade in natural gas. The Panel also came to conclusions with respect to distribution services within Canada.

Inland was the first utility in British Columbia to file Transportation Rate Schedules with the Commission. Rate Schedules 15 and 16 were accepted by the Commission for filing on an interim basis, effective October 11, 1985. In accepting the filings on a interim basis the Commission recognized in Order G-82-85 that changes to the tariffs would be required.

In December 1985 the Commission issued an Order requiring Inland to amend its Transportation Tariffs to remove any reference to net income indemnification. In 1986, complaints by Industrial customers and producers persisted with respect to the Terms and Conditions in the Inland tariffs. The Commission responded to these concerns and the need to establish Transportation Tariffs for all major gas utilities in the Province by issuing a letter in July 1986 requiring all utilities to file Transportation Tariffs with the Commission in September 1986.

In October 1986 the Commission heard several complaints regarding the Inland Transportation Schedules pertaining to the availability and appropriateness of those Schedules for particular negotiated agreements to be effective November 1, 1986. At that time there was an urgent need to deal with the individual contract arrangements since some industrial customers were eligible to commence transportation services effective November 1, 1986 the start of the gas contract year. As a result of these hearings several Industrial customers, represented by Mr. R.B. Wallace, accepted the Inland Transportation Schedules on an interim basis so that transportation service could commence. The Industrial customers, however, made it clear that they took exception to many of the Terms and Conditions in the Transportation Schedules and would press for changes to the Schedules without prejudice of them having entered into transportation service November 1, 1986.

Considering the need for a final review of the transportation services offered by Inland, the Commission determined that the transportation service functions of the utility would be reviewed in full as part of the Inland Rate Design Application. The Commission set that hearing to commence on

February 10, 1987. At a pre-hearing conference in December 1986, the Producers and Industrials intending to participate in the hearing requested the Commission to provide a facilitator/mediator to assist the parties in negotiating changes to the Transportation Schedules before commencement of the hearing. Inland accepted this proposal and a consultant was made available to assist the parties. Certain hearing participants later requested a delay in the hearing commencement so that new information could be assimilated. The Commission postponed the hearing until March 3, 1987 to commence in Prince George, B.C.

Following a week in Prince George, the hearing moved to Kelowna the week of March 10, 1987. At the end of the Kelowna session the Applicant and some participants requested that the Commission adjourn the hearing for two weeks so that further negotiations on Transportation Schedules could be undertaken by the participants. The Commission acceded to this request and the hearing was adjourned. Thereafter, the participants requested additional adjournments to continue negotiations and the hearing did not resume until May 19, 1987 at Vancouver. In an attempt to expedite the hearing this session was to deal solely with issues arising out of the provision of transportation services by Inland. The hearing continued without interruption until conclusion of argument of the transportation phase of the hearing on June 3, 1987. The Commission's Decision was issued June 17, 1987 (Appendix A).

Inland initially proposed three Transportation Schedules (15, 16 and 17). These schedules provide for various types of transportation service coupled with utility sales of interruptible gas. Later, at the request of the Commission, Inland filed Documents 1 and 2 which allow for the use of interruptible transportation gas and Document 3 which provides for transportation service solely on Inland's system requiring the transportation customer to make separate arrangements with Westcoast. Inland proposed that Documents 1 and 2 become Schedules. At the further request of the Industrial intervenors Inland filed Documents 4 and 5 which provide for other types of transportation service on the Inland system where the customer arranges his own transmission with Westcoast. Inland opposed Documents 3, 4 and 5 for reasons set forth in the Commission's Decision dated June 17, 1987. Documents 4 and 5 subsequently became Schedules 21 and 22.

On June 5, 1987 The Honourable Jack Davis, Minister of Energy, Mines and Petroleum Resources and The Honourable Bruce Strachan, Minister of Environment and Parks, pursuant to Sections 19(1)(a) and 20 of the Utilities Commission Act, referred to the Commission the Applications for Energy Project Certificates by Northwood Pulp and Timber Ltd., Prince George Pulp and Paper Limited and Husky Oil Operations Ltd. for review by consolidation into one hearing. The Commission was directed after the hearing to submit a report and recommendation to the Lieutenant Governor in Council in accordance with the terms of reference set out therein (Appendix A).

Pursuant to Order in Council #1149/87, Mr. Vernon Millard was appointed to the Commission to discharge the duties of the Commission with regard to the above. The Applications by Prince George Pulp and Paper Ltd. and Husky Oil Operations Ltd. were subsequently withdrawn as negotiations between the parties resulted in an agreement for a contract (Appendix B), which was accepted by the Commission as just and reasonable. The Application by Northwood Pulp and Timber Ltd. was heard and in his October 22, 1987 report to the Lieutenant Governor in Council, Commissioner Millard recommended rejection of the Application. Commissioner Millard's recommendations are set forth under Section 7.0, Recommendations (page 58) and Appendix C of his report (Appendix C). As at December 7, 1987 the government has not advised the disposition of the report, but the Minister of Energy has authorized its public dissemination.

1.1 Phase II of the Rate Design Hearing

Inland's original Rate Design Application filed on June 18, 1985 was subsequently modified extensively. The original Application was divided into three components. The first involved the "closing" of existing rate schedules and the creation of new rate schedules. The second involved shifting recovery of a portion of Inland's cost of service from industrial customers to residential and commercial customers thereby increasing rates to be charged residential and commercial customers. The overall goal of the tariff amendments was to make the industrial rates more competitive and residential and commercial rates more cost-based.

The third component involved procedures to be used to amend Inland's tariff schedules as follows:

(i) revenue deficiencies resulting from the revision to Schedule 11 (large industrial) to be recovered from Schedules 1 (residential) and 2 (commercial) as specified in paragraphs (ii) and (iii) below;

(ii) 90% of all revenue deficiencies resulting from increases in costs other than gas purchase costs to be recovered from Schedule 1;

(iii) 10% of all revenue deficiencies resulting from costs other than gas purchase costs to be recovered from Schedule 2; and

(iv) all revenue deficiencies resulting from increases in gas purchase costs to be recovered from all schedules with the exception that increases to Schedules 4, 5, 11, 12 and 12A shall not exceed 3% plus the Vancouver Consumer Price Index and Schedule 6 shall not exceed 2% plus Vancouver Consumer Price Index in any 12-month period.

Any revenue deficiencies resulting from the imposition of the above limits were to be recovered 90% from Schedule 1 and 10% from Schedule 2.

On October 31, 1985, Inland filed with the Commission Volume 6 (Revised) as a supplement to the June 1985 Application. Its purpose was to:

(i) request that a hearing to establish Rate Schedule 6 (Exhibits 6 and 6A) be convened as soon as possible;

(ii) update the June filing for changes in Federal grants and municipal taxes;

(iii) include plywood manufacturing plants under Rate Schedule 6 (Exhibit 6A); and

(iv) update the June 1985 filing for the August 1, 1985 wholesale price increase.

More specifically, Schedule 6 was introduced by Inland to attempt to prevent sawmills and plywood plants on Inland's system converting to woodwaste, and to develop new markets. Inland recognized that the introduction of Rate Schedule 6 would reduce current revenue, but considered the retention of existing customers imperative for the benefit of all customers.

On June 30, 1986, Inland filed with the Commission Volume 9 which was a further revision of the earlier filings of June 1985 and October 1985. Volume 9 introduced a number of modifications to Inland's Application to reflect changed price relations between competing energy sources as well as Inland's anticipation of a decline in natural gas prices as a result of deregulation.

On July 29, 1986, the Commission ordered (Order No. G-46-86) that a public hearing of Inland's Application be held commencing November 3, 1986. On October 3, 1986 the hearing was adjourned to November 24, 1986, and on October 28, 1986 the Commission ordered (Order No. G-60-86) that the hearing be further adjourned to February 24, 1987 as a result of new amended tolls approved by the National Energy Board for Westcoast Transmission Co. Ltd. ("Westcoast"), and amended natural gas field prices in British Columbia, both to be effective on November 1, 1986. Order No. G-60-86 also directed that a complaint filed by Mr. R.B. Wallace on behalf of certain large industrial customers regarding Inland's transportation tariffs be heard at the same time as Inland's rate design Application.

On December 18, 1986 the Commission ordered (Order No. G-85-86) that the hearing be segmented into two phases. Phase 1, dealing with transportation tariffs, was to commence on February 10, 1987.

Inland filed Volumes A and B on January 16 and 23, 1987 respectively to further revise and update its Application. This update involved:

(i) directing consultants to redo their assignments to reflect the current environment;

(ii) calculating prospective rates based on Inland's fiscal 1987 revenue requirement; and

(iii) directing Inland's witnesses to rewrite their testimony to incorporate changes since 1985.

Volumes A and B replaced all previously filed material.

A new pricing concept, the Gas Pricing Clause ("GPC"), was proposed in this filing. The GPC would allow Inland to automatically recover or credit differences between estimated revenues set by Commission-approved base tariff rates and negotiated agreements with large industrial customers. If Inland was successful in collecting more revenues from the large industrials than estimated, the benefits were proposed to be shared by the residential/commercial customers and Inland shareholders on an 80%/20% split. Revenue deficiencies were proposed to be collected in the same 80/20 split manner. As a result of this filing, certain Intervenors applied for and were granted an adjournment.

On March 3, 1987, the first day of the transportation tariffs hearing, Inland further updated its Application (Exhibit 30). This update consisted of 17 points, the more central of which were:

- the removal of the 80/20 split in revenues between customers and shareholders as a result of adjustments due to the GPC.
- the introduction of a new stand-alone interruptible Rate Schedule 12.
- the expansion of Rate Schedule 6 to include small industrial customers facing alternative fuel competition.
- the establishment of a deferral account for swings in future revenues if the GPC is not approved.

The hearing of this first phase of the Inland Rate Design Application required 19 sitting days.

The rate design phase of the hearing commenced on June 22, 1987 in Kelowna, B.C. and continued for a total of 18 days. Final argument was heard on July 20, 1987.

The issue of market-responsive large industrial rates was the dominant issue at the hearing particularly with regard to "bypass" rates. "Bypass" in this context contemplates that a customer has the opportunity to build its own distribution facilities to replace a utility's facilities already in place for that purpose. This form of competition for the utility also exists in the case of a new customer located adjacent to the Westcoast Transmission Co. Ltd. system. Bypass is contemplated whenever it is more economic for a customer to build its own facilities than it is to remain on the system at current and projected future rates.

The Honourable Jack Davis, Minister of Energy, Mines and Petroleum Resources, in a press release dated March 19, 1987, stated:

> "Given our commitment to deregulation we now must allow the bypass alternative. Bypass arrangements have been proposed elsewhere in Canada to relieve the cost of gas to industry, and in order to be competitive we must allow similar market oriented practices here.

> We are not opposed to industry making its own bypass arrangements. However, other gas users --- residential, commercial and small industrial --- benefit if a compromise can be reached and the industry can save the cost of building a bypass pipeline.
>
> If large industries and utilities can negotiate contracts which reflect the true cost of service to all categories of customers, we will have achieved the best of all possible worlds. All users will be treated equitably and the advantage of location will be captured by energy-using industries in British Columbia."

Counterbalancing the above is the historic development of the Applicant's system, wherein investment decisions have been made by investors to support the construction of the system, investment decisions have been made by investors within the economic region served by the system and individual investments have been made by customers of all classes to use the service provided by the system. Needless to say, if "bypass" was always an option the system would not have developed in the manner it has.

The Applicant's system commenced service in 1957 and by June 30, 1958 supplied natural gas to 6,230 residential customer and 998 commercials. In August of 1958 Inland entered into a contract with Cominco Ltd. in Trail, British Columbia which was subsequently increased by approximately 50% in 1964. In 1959 Canadian Chemicals and Cellulose Ltd. at Castlegar became a customer.

From 1964 to date major expansions of the industrial load have taken place every few years, mainly from the construction of new plants, with intervening years showing level or declining sales.

Since inception the Applicant has aggressively promoted residential and commercial sales and in 1978 established a separate marketing department.

Through the efforts of the marketing department combined with the National Energy Program, the Canadian Oil Substitution Program and programs from the provincial government such as the Gas Extension Assistance Program, the number of residential attachments increased significantly to an average of approximately 6,000 per year in the 1980's. Inland now serves over 135,000 customers in 70 communities in British Columbia.

During the first 19 years of operation six separate rate reductions were instituted by the Applicant between 1965 and 1973 which reduced the average price paid by a residential customer from approximately $1.50/Mcf to slightly under $1.00/Mcf.

In 1976 the Applicant sought a rate increase and subsequently between 1976 and 1986 several rate increases have been granted. These have generally taken the form of a straight increase per unit sold for all classes and more recently on a percent basis. The former method allocated a larger percentage share to the industrial customers whereas the latter method allocated a larger share to the residential and commercial customers. In 1985 higher residential rates were approved with a refund to other customer classes.

It is apparent that in recent years significant plant investment has been made to provide service to residential and commercial customers whereas the same level of investment has not been required to maintain or extend service to industrial customers.

TABLE 1

COST OF SERVICE

1983 (Exhibit #2)

	Rate 1	Rate 2	Rate 4	Rates 5/10	Rates 11/12/15	Columbia
% Deficiency (Excess)	-39.95	-6.21	18.54	15.72	16.16	22.50
Revenue / Cost	.72	.94	1.23	1.19	1.19	1.29

1987 (Exhibit#18, Volume A, Tab 8)

	Rate 1	Rate 2	Rate 4	Rates 5/10	Rates 11/12/15	Columbia
% Deficiency (Excess)	-28.73	-.92	19.77	24.98	31.47	36.76
Revenue / Cost	.77	.99	1.25	1.33	1.46	1.58

2.0 THE UTILITIES COMMISSION ACT AND OTHER RELEVANT LEGAL MATTERS

2.1 Background

Sections 64, 65 and 66 of the Utilities Commission Act, S.B.C. 1980, c. 60 (the "Act"), for the most part, provide the Commission with the jurisdiction to fix rates for utility service. These sections read as follows:

Commission may order amendment of schedules

64. (1) The commission, on its own motion, or on complaint by a public utility or other interested person that the existing rates in effect and collected or any rates charged or attempted to be charged for service by a public utility are unjust, unreasonable, insufficient, unduly discriminatory or in contravention of this Act, regulations or any law, may, after a hearing, determine the just, reasonable and sufficient rates to be observed and in force, and shall, by order, fix the rates.

(2) The public utility affected by an order under this section shall amend its schedules in conformity with the order and file amended schedules with the commission.

Discrimination in rates

65. (1) A public utility shall not make, demand or receive an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service furnished by it in the Province, or a rate that otherwise contravenes this Act, regulations, orders of the commission or other law.

(2) A public utility shall not, as to rate or service, subject any person or locality, or a particular description of traffic, to an undue prejudice or disadvantage, or extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description, and the commission may, by regulation, declare the circumstances and conditions that are substantially similar.

(3) It is a question of fact, of which the commission is the sole judge, whether a rate is unjust or unreasonable, or whether, in any case, there is undue discrimination, preference, prejudice or disadvantage in respect of a rate or service, or whether a service is offered or furnished under substantially similar circumstances and conditions.

(4) In this section a rate is "unjust" or "unreasonable" if the rate is
(a) more than a fair and reasonable charge for service of the nature and quality furnished by the utility,
(b) insufficient to yield a fair and reasonable compensation for the service rendered by the utility, or a fair and reasonable return on the appraised value of its property, or
(c) unjust and unreasonable for any other reason.

Rates

66. (1) In fixing a rate under this Act or regulations
(a) the commission shall consider all matters that it considers proper and relevant affecting the rate,
(b) the commission shall have due regard, among other things, to the fixing of a rate that is not unjust or unreasonable, within the meaning of section 65, and
(c) where the public utility furnishes more than one class of service, the commission shall segregate the various kinds of service into distinct classes of service; and in fixing a rate to be charged for the particular service rendered, each distinct class of service shall be considered as a self contained unit, and shall fix a rate for each unit that it considers to be just and reasonable for that unit, without regard to the rates fixed for any other unit.

(2) In fixing a rate under this Act or regulations, the commission may take into account a distinct or special area served by a public utility with a view to ensuring, so far as the commission considers it advisable, that the rate applicable in each area is adequate to yield a fair and reasonable return on the appraised value of the plant or system of the public utility used, or prudently and reasonably acquired, for the purpose of furnishing the service in that special area, but, where the commission

> takes a special area into account, it shall have regard to the special considerations applicable to an area that is sparsely settled or has other distinctive characteristics.
>
> (3) For this section, the commission shall exclude from the appraised value of the property of the public utility any franchise, licence, permit or concession obtained or held by the utility from a municipal or other public authority beyond the money, if any, paid to the municipality or public authority as consideration for that franchise, licence, permit or concession, together with necessary and reasonable expenses in procuring the franchise, licence, permit or concession.

2.2 Arguments on Commission Jurisdiction

Legal arguments were made by the Applicant and the industrial intervenors regarding how those sections should be interpreted and applied in fixing rates. The wording in these sections has not previously been the subject of precise definition, either by the Commission or by the Courts.

Inland stated that these three sections of the Act effectively set upper and lower limits within which the Commission can fix rates that are just and reasonable. The upper limit is determined by the value of the service, whereas the lower limit is that which allows Inland to recover its costs of providing service. Inland argued that within these limits the Commission has the discretion to fix rates which it considers just and reasonable. In support of this submission, the Applicant cited the Supreme Court of Canada decision in British Columbia Electrical Railway Co. Ltd. v. The Public Utilities Commission of British Columbia, [1960], S.C.R. 837. That decision considered sections 16(1)(a) and (b) of the Public Utilities Act , R.S.B.C. 1948, c. 277 which reads as follows:

> "**16.** (1) In fixing any rate:
>
> (a) the Commission shall consider all matters which it deems proper as affecting the rate:

> (b) the Commission shall have due regard, among other things, to the protection of the public from rates that are excessive as being more than a fair and reasonable charge for services of the nature and quality furnished by the public utility; and to giving to the public utility a fair and reasonable return upon the appraised value of the property of the public utility used, or prudently and reasonably acquired, to enable the public utility to furnish the service:"

The Supreme Court of Canada was asked to address a question, consisting of two parts, as follows:

> "1. (a) Was the Commission right in deciding as appears in the Reasons for Decision of July 14, 1958 that no one of the matters and things referred to in clauses (a) and (b) of subsection (1) of section 16 should as a matter of law be given priority over any other of those matters or things and that, if a conflict arises among these matters or things it is the Commission's duty to act to the best of its discretion?
>
> (b) If the answer to question 1(a) is "No" what decision should the Commission have reached on the point?"

Mr. Justice Martland of this Court ruled as follows at page 856:

> "As I read them, the combined effect of the two clauses is that the Commission, when dealing with a rate case, has unlimited discretion as to the matters which it may consider as affecting the rate, but that it must, when actually setting the rate, meet the two requirements specifically mentioned in clause (b). It would appear, reading Sections 8, 16 and 20 together, that the Act contemplates these two matters to be of primary importance in the fixing of rates.
>
> In my opinion, therefore, these two factors should be given priority over any other matters which the Commission may consider under clause (a), or any other things to which it shall have due regard under clause (b), when it is fixing any rate."

Mr. Justice Locke was somewhat more brief in his comments when he said at page 848:

> "The obligation to approve rates which will produce the fair return to which the utility has been found entitled, is, in my opinion, absolute . . ."

On the basis of the above comments Inland submitted that the Supreme Court of Canada had ruled that while it is the Commission's duty to prevent discrimination between and within various rate groups, before this can be done it is the Commission's duty to ensure that the utility is allowed through its rate structure to earn a fair and reasonable return.

Thus, the Applicant submitted that it is not open to the Commission, in amending Inland's rates and rate structure, to change them in such a way that Inland is deprived of the opportunity to earn the appropriate return as determined by the Commission. This does not mean, however, that each particular class of customer, however defined, must earn a level of revenue by itself that is identical to its cost of service (TR 6640-6650).

On the other hand, the industrial intervenors submitted that there is a legal requirement for cost-based rates for each class of customer. They said that this results from the concluding words in section 66(1)(c) of the Act:

> ". . . without regard to the rates fixed for any other unit."

This was taken to mean that each distinct class of service be considered as a self-contained unit and a rate be fixed for that unit without regard for the rates to be charged for other units. Therefore, the industrial intervenors submitted that rates significantly in excess of the cost to serve a class of customers are not just or reasonable unless there is some clear offsetting purpose or cause. In support of their submission, the industrial intervenors relied on the decision of the British Columbia Court of Appeal in Prince George Gas Company Limited and the City of Prince George v. Inland Natural Gas Co. Ltd. (1958), 25 W.W.R. 337.

The Court of Appeal was asked to determine whether it was justified for the then Public Utilities Commission to:

(i) grant Inland's application to build and operate a gas pipeline to serve the Prince George area while refusing Prince George Gas Co.'s application;

(ii) set the price to be paid by Inland to Westcoast for gas supplied at the diversion point; and

(iii) decide that consumers in Prince George should, by the price to be paid by them, subsidize the construction by Inland of a branch line 300 miles south of Prince George, leading to Nelson.

The industrial intervenors cited lengthy passages from that decision to suggest that the Commission cannot fix rates for different rate groups for the specific purpose of making a contribution to the residential customers' rates. The Commission may justify a lower rate of return from one class of customers and a higher rate of return from another class of customers (TR 6775-6787).

In response to the industrial intervenors' submissions, the Applicant pointed out that the case the Court of Appeal decision cited dealt with two separate companies, Prince George Gas Company Limited and Inland, instead of two classes of customers. The Court of Appeal decision ruled that it is improper to set rates such that a subsidy between rate classes is intentionally created. The Applicant suggested that to set rates within the band prescribed by section 65 of the Act is entirely appropriate even if it causes, incidentally, one customer group to contribute a disproportionately greater amount to Inland's revenue requirement.

The Applicant further submitted that the industrial intervenors misinterpreted section 66(1)(c) of the Act. This section talks about classes of service, not classes of customers. Inland submitted that classes of service here refers to electric versus gas versus railway and so on. Thus, the industrial intervenors were in error when they construed section 66(1)(c) as requiring cost-based rates for the industrials on a stand-alone basis (TR 6842-6850).

2.3 Summary and Conclusions on Jurisdiction

The Commission agrees with Inland's submission that, in the first instance, Inland is entitled to have rates fixed which allow it the opportunity to recover its cost of service, if market circumstances permit, based on the evidence presented at the time those rates are fixed. Within this overall target this amount is then recovered from various classes of Inland's customers through rates which are just, reasonable and not unduly discriminatory. Those rates do not guarantee that Inland in fact recovers its revenue requirement.

The Commission disagrees however with the suggestion that the Act requires there be cost-based rates for each class of customer. If this was the case there would be no need for the just, reasonable and not unduly discriminatory standard which is expressly provided for by the Act. Further, the Commission would be unable to set rates which would allow Inland to compete with an alternative source of energy if these rates were below Inland's cost of serving these customers. Pursuant to section 65 of the Act it is a question of fact, of which the Commission is the sole judge, whether a rate is unjust or unreasonable. This requires consideration of a variety of factors which the Commission considers relevant, not only cost of service.

The majority of the Court of Appeal of British Columbia was concerned that customers in the Prince George area would be paying more for their gas under the proposed rates than they would have had Inland not planned on constructing its branch line from Savona to Nelson. This is not the situation in this case. There was no suggestion that any particular class of customer was contributing less than Inland's variable cost to serve that particular class and therefore create a situation in which a subsidy may arise.

The Commission finds that, so long as departures from cost-based rates are based on evidence other than solely a desire to implement a policy of subsidizing one class of customers at the expense of another, it cannot be said that those rates are not just, reasonable and not unduly discriminatory. The Commission further agrees that for any class of customer, a range exists within which the precise rate can be determined. This range, however, will change over time due both to changes in the Applicant's costs and free market competitive conditions.

3.0 GENERAL PRICING CONCEPTS

3.1 Background

At this hearing the most fundamental pricing issues were competitive versus cost-based rates. These pricing concepts can also be differentiated in terms of objectives, such as efficiency and fairness. A market is said to be competitive when:

(i) there are a large number of buyers and sellers;
(ii) the product is relatively homogeneous;
(iii) there is freedom of entry and exit; and
(iv) there is no collusion among producers and sellers.

At this point in time a competitive or quasi-competitive market exists in the purchase of natural gas, depending on the customer class, whereas a natural monopoly continues to exist in the transmission and distribution of the product. A natural monopoly is defined as a circumstance in which economic efficiency dictates only one supplier of the service. Bypass has eliminated the monopoly circumstances of some customers and inserted a competitive service choice that results in a partial competitive marketplace.

Competitive pricing refers to price setting in a competitive market. Given these conditions the market price of the product is set competitively, driven by the dynamics of demand/supply. The market strives to match demand and supply through the pricing mechanism. With the appearance of bypass, the Applicant's system is characterized by both competitive and cost-based pricing.

Complexities arise in the cost-based approach because "cost" is itself an ambiguous concept. Generally speaking, there are two basic approaches to quantifying cost. The first is the long-run incremental cost analysis. This is typically advanced as a proxy for marginal cost and is concerned with the added costs of serving expected additional demand over some planning cycle. The second is sometimes referred to as fully distributed or allocated cost of service. This is generally concerned with how to allocate historical original costs to various customer classes or rate categories. Within both of these concepts the geographic area to be served must be defined.

Marginal cost pricing (long-run incremental cost analysis) is advocated on the ground that it allows more accurate reflections of market forces in both production and consumption of goods. Strictly speaking, marginal cost pricing requires that the price of a good should reflect the cost of the production of its last additional unit. At a level of demand where the consumer's willingness to pay for the good matches its value, the market is in equilibrium.

As a pricing objective, however, marginal cost pricing may be incompatible with "fairness" as another pricing objective.* For example, groups of customers in the same sector (e.g. residential customers) tend to incur different marginal costs. A case in point is rural versus urban customers where the marginal costs of serving the former are typically higher than those of the latter. Yet residential customers, under postage stamp rates, are charged the same base rate regardless of geographic location. From the

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* Regulated rates that are considered to be fair, are generally fixed with other criteria in mind besides economic efficiency, such as revenue, stability, discrimination and joint cost allocation to name but a few.

investor's perspective marginal cost rates are almost never equal to the revenue derived under rates based on embedded costs, and hence the investor could be deprived of his opportunity to earn a fair return.

Similarly, under historic pricing the allowed rates of return have to be "efficient" so that the utility can continue to attract capital but must also be fair to protect the consumers from discriminatory monopoly pricing. Typically a "zone of reasonableness" is established wherein the lower limit is set such that new investment capital continues to be attracted, and the upper limit is set to be comparable to return on investment of similar risk elsewhere.

Finally, price discrimination is an important issue. Differential pricing is common in public utilities as customers are typically classified into residential, commercial, and industrial sectors, and are charged different rates. Although the marginal costs of serving these customers are different, the different rates often reflect the fact that industrial customers usually more fully utilize the system and have more service options available (ie. exhibit higher price elasticities of demand).

Welfare economics provides insights into the problem of defining unjust discrimination. It is clear that if you can help someone without hurting anyone else, welfare as a whole will be increased. This welfare principle suggests that if added cost is less than the rate charged, that added service can be priced below the average cost of the previously established business and the excess of revenue over added cost can be used to reduce the prices charged the old business, thereby improving their welfare. If, however, service is sold below added cost, the added costs of new business will not be recovered and the old customer, or investor, will be worse off.

3.2 Summary of Evidence

Inland's overall pricing policy is to be competitive in all customers categories (TR 6033). In general, the Applicant suggested that competitive prices could be achieved by shifting some of the large and small industrial's revenue responsibility to the residential and commercial customers. With the exception of commercial customers, this means a movement toward cost-based rates (TR 6639). For residential, Inland considers this to be a step closer to meeting the fairness objective in pricing (TR 6644). The Applicant acknowledged that there was a limit to how large an increase their residential customers in the West Kootenay Power and Light Company, Limited ("WKPL") service area could absorb due to the competitiveness of WKPL's residential electric rates (TR 106, 556,758). However, Mr. Kadlec, President and Chief Executive Officer of Inland, testified that in the long-run, he expected WKPL residential rates to increase substantially and that these increases would be more than adequate for the expected additional amount of Inland residential rate shift to remain competitive (TR 559-58, 760-62, 786). Even though rate shifts to the commercial rate class would result in a movement away from cost-based rates, the Applicant maintained that this shift was nevertheless warranted as these rates would remain competitive and there was not another rate group which could absorb the remaining revenue deficiency (TR 758, 793).

For the industrial customers, Inland identified two categories, the captive and the non-captive. The non-captives at this time are defined as those with realistic bypass options whereas the captives are located a greater distance from the Westcoast system and hence do not have an economic "bypass"* option. For the non-captives, Inland proposed that rates should be individually negotiated. Inland also requested the right to negotiate rates with individual

* Bypass can mean, not only an alternate distribution connection, but also the utilization of another form or type of energy that would eliminate a dependance on gas.

large industrial captive customers and certain Rate Schedule 5 customers if and when it becomes necessary in order to prevent load loss due to bypass competition for these customers or competition from alternative fuels generally (TR 6663). A new negotiable rate (Schedule 6) for small industrial customers having options for competitive fuels, bypass, or who may be required to convert to environmentally approved wood waste burners in the Williams Lake area will not be required in 1987/88 but in 1988/89. For this last category, Inland's negotiated rate would have to compete with the cost of converting the woodwaste burners to provide heat for the wood product kilns. Inland identified about 20 Rate Schedule 6 customers (TR 6687). Inland concluded that its pricing proposals are driven by both competitive and cost of service study considerations (TR 6831).

The Applicant testified that historically there is no evidence to suggest that large industrials will consume more gas when prices are reduced (TR 6668). Inland opposed both the evidence of Mr. Drazen (expert witness for the industrial intervenors) that large industrial rates should be based on average cost for the entire class and Dr. Acton's (expert witness for C.A.C. et al) evidence on grounds that it was too theoretical, and not well founded in facts (TR 6665).

With regard to competitively negotiated rates for large industrial customers, Inland argued that the parties to the agreement should not have to come before the Commission to justify the negotiated rates as this is not done in the competitive world (TR 6692, 6699).

The industrial intervenors testified that cost-based rates are the only reasonable rates which will minimize vulnerability to price changes and are the fairest for all customer classes (TR 6789). They submitted that Inland is now in a position to raise rates to the core market* to bring rates more in line

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* The core market comprises all residential and commercial customers plus those industrial customers choosing to purchase sales gas from Inland.

with costs, and correspondingly, industrial rates should be lowered. The industrial intervenors argued that bypass is a competitive challenge that Inland must face with cost-based rates (TR 6769-70).

The industrial intervenors stated that if Inland's rates were cost-based, Inland would never have expanded into the residential market which at the current rate is uneconomic from a cost point of view. Residential customers would also have been sent the proper price signals, resulting in appropriate fuel choice. As a consequence, Inland would not now be vulnerable to bypass because there would be no economic incentive for industrials to bypass. The industrial intervenors maintained that Inland has provided an incentive to bypass by demanding excessive margins from industrials to subsidize residential customers (TR 6790). This has resulted in a situation for the industrials which they claimed was plainly irrational. They argued for example, that Celgar is subsidizing WKPL residential electric rates in order to keep Inland residential rates competitive with WKPL residential electric rates, Celgar must also subsidize Inland's residential rates (TR 6799). The industrials concluded that cost-based rates are the only way to rationalize such situations and are supported by other regulatory authorities in Alberta and Saskatchewan (TR 6796).

The industrial intervenors also expressed concerns with individually negotiated rates although they wholeheartedly endorsed rates based on negotiations at which all industrial customers were present (TR6801). They anticipated the negotiation process to be difficult and time consuming and could lead to a deteriorating utility/customer relationship. The industrials testified that Inland can reduce the rate applicable to industrials by a large percentage while still recovering its full cost. With regard to small industrials, they maintained that Inland should not negotiate rates with small industrials but rather reduce margins in order to avoid bypass (TR6804). For the non-bypass large industrials, rates must be cost-based and must take into account the advantage Inland receives from the interruptibility of those customers (TR 6812).

The industrial intervenors argued that Dr. Acton's evidence was totally discredited and therefore should be given no weight by the Commission. In their view, Dr. Acton's evidence demonstrated a lack of familiarity with the facts, did not differentiate between Rate Schedules 11 and 15, and his argument for increased sales resulting from lower rates in the industrial class could not be substantiated (TR 6822).

CAC et al argued that Inland's Application is simply a method of doing whatever is necessary to keep industrial customers on the system. They argued that Inland relies on marginal cost pricing and cost of service (COS), whichever is more convenient given the situation. The COS is used by Inland to justify the proposed shift of revenue requirement from large industrials to residential and commercial customers. CAC et al testified that the COS should be given less weight because competitive alternatives are available for every rate class, and the COS is too subjective in deriving the allocation factors, or in the choice of overall methodology (TR 6718, 6723-30).

CAC et al testified that the only case for negotiated rates is for large industrials with an identifiable bypass option. That is, negotiated rates should be the exception rather than the rule. With respect to small industrials, they submitted that Inland is over-reacting to potential alternatives and sees every potential competitive option as a threat to load loss. They argued that Inland appeared almost too eager to automatically pass any revenue loss to core customers (TR6736). Even when negotiated rates are justified, they felt that the Commission should restrict the use of individual negotiated rates as a general principle in the absence of evidence that they are necessary as the only alternative to meeting the perceived threat of load loss. In the opinion of CAC et al, such evidence is not yet available (TR 6741). If in the future a competitive situation develops that can only be handled on an individually negotiated basis, the Commission should consider granting authority at that time.

CAC et al stated that Dr. Acton's Ramsey pricing model is a viable alternative to Inland's proposal (TR 6760). Ramsey pricing in their view is a formal way to maximize efficiency or total welfare. The CAC stated that it promotes efficiency because it leaves the total consumption as close as possible to the level that would have occurred if prices had been set at marginal cost. This is accomplished by making larger price adjustments to the price-insensitive components of demand, and small price adjustments to the price-sensitive components of demands, the so-called inverse elasticity rule. Overall, these price adjustments make the resulting consumption pattern and amounts as nearly identical as possible to the consumption pattern that would have resulted from marginal cost pricing (Exhibit 130, p. 10).

CAC et al argued that Dr. Acton's evidence should be given considerable weight and that the results of his model can be made more precise with improved data on factors such as price elasticity (TR 6760).

Two of the principal pricing objectives are fairness and economic efficiency. Both Mr. Drazen and Dr. Acton regarded them as important (Exhibit 136, p. 6 and Exhibit 130, p. 2). Dr. Acton noted on page 2 of his prepared testimony that "Economic efficiency is concerned with pursuing the greatest output of goods and services for a given amount of inputs. Fairness is a matter of how the goods and services are distributed, and who is called upon to pay for them. Put differently, efficiency is largely concerned with how big the 'social pie' is to be, and fairness is concerned with how the 'pie' is to be divided."

Dr. Sarikas, who appeared on behalf of Commission staff, testified that economic efficiency requires that service be priced at marginal cost. If service is priced lower or higher than that amount, users will use more or less of other services which results in an inefficient allocation of resources (Exhibit 138, p. 4). On the other hand, fairness is attained when a customer pays what a service costs (Exhibit 138, p. 3).

3.3 Summary and Conclusions on General Pricing Concepts

When fixing rates, the Commission gives consideration not only to historic and marginal cost but also gives weight to objectives such as provincial and national policies with respect to energy pricing, the ability of consumers to pay for services, the diffusion of social benefits, and a balancing of all regulated pricing objectives including economic efficiency.

In the context of this hearing, fairness in terms of cost-based rates is not in conflict with market forces in the residential and industrial sectors since cost-based rates for Inland would result in a shift of the revenue burden from the industrial classes to the residential class, thereby helping Inland meet market constraints in the industrial gas sector. The proposed increase to the commercial sector would result in a movement away from cost-based rates but would still keep those rates competitive.

However, if competitive circumstances existed which would preclude this shift and the entire increase was borne by the residential category without a reduction in the base cost of gas by producers, Inland's residential rate would exceed West Kootenay's at the 65% and 72.5% furnace burning efficiency level through 1990. At 80% efficiency the Applicant's rates are lower than West Kootenay's (see Table 2).

TABLE 2

RESIDENTIAL RATE COMPARISON
($/GJ)

YEAR	COMPANY		Natural Gas Furnace Burning Efficiency 65%	72.5%	80%
1987	Inland		7.00	6.27	5.69
	WKPL		6.93	6.93	6.93
	* %	Inland	-1.0	+10.5	+22.0
1988	Inland		7.83	7.02	6.36
	WKPL		6.93	6.93	6.93
	* %	Inland	-11.5	-1.30	+8.9
1989	Inland		8.37	7.51	6.80
	WKPL		7.09	7.09	7.09
	* %	Inland	-15.2	-5.6	+4.3
1990	Inland		8.86	7.94	7.20
	WKPL		7.53	7.53	7.53
	* %	Inland	-15.0	-5.2	+4.6

* Note:

- % change in Inland's rates to meet WKPL.
- Information based on Exhibit 129.

On the basis of the assumptions implicit in the above the maximum rate shift which could take place and still have Inland competitive results in the following revenue cost ratios (see Table 3).

TABLE 3

RESIDENTIAL REVENUE COST RATIOS FOR VARIOUS FUEL EFFICIENCIES

	65%	72.5%	80%
1987	.75	.84	.93
1988	.75	.84	.93
1989	.76	.84	.93
1990	.79	.88	.97

Assumptions

1. All assumptions used in Table No. 2 apply.
2. The allocated residential cost of $66,134,168 established in Exhibit 18, Tab 8 is assumed to remain constant.

Rates that are not proportional to costs are regarded as discriminatory in an economic sense (Exhibit 137, pp. 1 - 8). However, pricing discrimination is permitted so long as it is not undue.

To constitute unjust or unreasonable discrimination requires:

(i) more than a fair and reasonable charge for service of the nature and quality furnished by the utility,

(ii) insufficient to yield a fair and reasonable compensation for the service rendered by the utility or a fair and reasonable return on the appraised value of its property, or

(iii) unjust and unreasonable for any other reason.

The above considerations have been applied in deriving the suitability of rates identified in Section 5.

With regard to the negotiations issue, the following questions are relevant:

(a) Are negotiated rates the best strategy for establishing rates to provide utility service and provide the opportunity for existing and new investors to have the opportunity to earn a fair return in a market which is characterized with aspects of both pure competition and natural monopoly?

(b) If negotiated rates are approved, what conditions should the Commission impose on the negotiated rates, if any, to ensure that the rates are just, reasonable and not unduly discriminatory?

(c) If negotiated rates are approved, should there be a formal process of approval of negotiated rates and if so, what should this process be?

(d) If negotiated rates are approved, should transitional provisions be required and should a distinction be made between current and new customers?

In answer to these questions the Commission is of the following opinions:

(a) In considering the evidence heard to date in this proceeding the Commission believes that negotiated rates are the best strategy for encouraging efficient economic development ensuring fair treatment of core customers while at the same time providing existing and new investors the opportunity to earn a fair return.

(b) (c) (d) The Commission has put forward some observations with regard to negotiated rates in general but has directed that additional submissions be made by the interested parties as set forth commencing on page 33. With regard to the "bypass" segment of the negotiated rates a decision has not been made at this time.

Traditionally, a version of postage stamp rates has been used throughout the Inland service area. The evidence indicates clearly that Government policy makes bypass a realistic option for some of Inland's large industrial customers. The Commission notes that the bypass alternative eliminates postage stamp rates for certain customers as it is a distance-related rate concept. Table 4 shows the range of costs of bypass. Table 5 provides a general indication of a mileage-related rate for the captive industrials. If distance-related rates were adjusted for all classes of customers significant geographic variances will occur.

TABLE 4

(1) By-Pass Customers	(2) Throughput (GJ) Firm & Interruptible	(3) Unit Cost ($/GJ) Minimum	Maximum
PGP & P	2,795,500	0.043	0.100
Cariboo	1,136,800	0.049	0.113
Husky	458,500	0.068	0.161
Quesnel	708,400	0.081	0.181
Northwood	2,894,200	0.040	0.092

NOTES

1. Column (2) is obtained from Exhibit 101, Tab 4, Schedules 7 and 8.

2. Column (3) is derived from Exhibit 137 A.

   Maximum unit costs are based on 10-year project life, 20 percent cost of capital and zero percent debt.

   Minimum unit costs are based upon 30-year project life, 10 percent cost of capital and 50 percent debt.

3. Northwood capital costs have not been adjusted for the additional tie-in costs as identified during the bypass hearing.

TABLE 5

CUSTOMERS	UNIT COST $/GJ
B.C. Forest Products	0.12
Finlay Forest Products	0.13
Weyerhaeuser Canada Limited	0.13
Celgar Ltd.	0.39
Cominco Ltd.	0.45
Average for Class	0.29

The current average non-gas margin for large industrials assuming an equal level of risk for all customer classes is approximately $0.465/GJ.

Given this geographic variation, a bypass postage stamp rate would either have to be set low enough to keep the lowest cost bypass customers on the system, and thereby reduce the contributions of other higher cost bypass customers, or, risk losing those customers. Given this fact, and considering the time already spent in negotiations between the potential large bypass customers and Inland, the Commission concludes that the negotiation process is the most effective method for fixing individual rates to potential bypass customers.

The Commission also concludes that the agreed upon rate must more than cover variable costs and be just, reasonable and not unduly discriminatory. In the Guidelines section of the Terms of Reference for bypass review (Exhibit 134), the Commission was directed to review "the financial and economic costs and benefits of the proposals as they would affect "the bypass applicants, Inland, the residential, commercial and small industrial customer class." This implied that more than just the cost of service for the new bypass facility was important in setting the rates.

As was discussed numerous times throughout the hearing, all negotiated rates are subject to the approval of the Commission. Given the differing circumstances of each customer's bypass alternative, the Commission cannot say at this time at what precise level of rates, approval will be given. However, based on the above discussion the Commission can indicate to both Inland and those customers that they can expect to receive approval of rates which generally follow the formula set forth in Mr. Millard's Decision dated October 22, 1987. In essence the negotiations are reflected in the rate determination model. Before approving the rate the Commission will insure the input variables, such as capital cost, operating cost and load are verified.

The final rate approved by the Commission will approximate the rate a bypass customer would incur to provide his own pipeline service.

The Commission believes generally that negotiation must take place within a range for non-captive customers and, if circumstances change, for captive customers as well. The range for existing customers should not be less than Inland's variable cost of service on the one hand, nor higher than the rate fixed for that category of service by this Commission adjusted for the specific risk. Needless to say, this is a transitional position and subject to change over time. With regard to new customers, Inland must be responsive to the economic realities of all concerning the sale but in so doing must fully recover the cost of new facilities required and make some contribution to facilities supported by the existing customers.

Further with regard to new customers, exclusive of increased requirements from existing customers at current locations or locations adjacent thereto, negotiated range rates may be appropriate. The appropriate range would fall within the range of a rate which is not insufficient to yield a fair and reasonable compensation for the service rendered by the utility or its property nor more than a fair and reasonable charge for the nature and quality furnished by the utility. The Commission also appreciates that in other circumstances this phase could also represent a floor price.

If negotiated range rates are to be fair and reasonable a special onus must be accepted by the utility, due to the natural monopoly characteristic currently existing, to ensure that the rate charged is fair to both existing and new customers. Amongst other matters negotiated rates will provide the utility the flexibility to encourage the location of new industrial customers at locations within its system at the lowest cost of providing the service while at the same time making a contribution to the success of the new customer. Needless to say this may provide a new customer with a competitive advantage over an existing competitor but this in principle is no different than that which has already taken place with "bypass".

The Applicant is directed to review the concept of negotiated range rates for new customers and submit its views to the Commission by January 29, 1988 and simultaneously "serve" a copy of its report on participants in this hearing. The participants are directed to provide their views to the Commission by February 26, 1988 with the Applicant responding thereto by March 17, 1988.

If this form of negotiated rate is determined to be in the public interest, and to provide sufficient lead time, the Commission would propose to close* the existing fixed industrial rate schedules effective November 1, 1988. However, the Commission will be flexible in this regard to the extent that if an industrial can show it has based its plans on the closed rate schedule, upon application the Commission would consider permitting the industrial to have access to this schedule up to November 1, 1989 in the broad public interest. This means that the existing industrial and new industrials would continue to have access to a rate schedule upon which investment decisions have been made.

If negotiated range rates are determined to be in the public interest the end result should be that customers receive the advantage of location, the frequency of rate increases is reduced for other classes of customers and an enhanced opportunity exists for the investors to have the opportunity to earn a fair return.

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* "close" means new customers would not have access to this schedule but it would continue to be available to existing customers already on these rates.

4.0 FULLY-ALLOCATED COST OF SERVICE STUDIES (FACOS)

4.1 Methodology

The FACOS study methodology consists of three steps. First, items in the B.C.U.C. uniform system of accounts are aggregated into functional components such as production, storage, transmission, distribution and administration. Second, these functional components are classified as being either demand commodity or customer categories.

Commodity costs are those which vary with the volume of gas service provided and are referred to as variable costs. The largest component of variable costs is the cost of gas. Costs related to capacity or the maximum rate of use are assigned to demand and are referred to as fixed costs since they do not vary directly with sales. The last component, customer costs, are associated with serving individual customers. This is generally straight forward with the exception of the classification of distribution costs wherein those costs must be segregated between demand and customer-related costs.

The final step allocates these "classified" categories to the various customer classes*. Customer costs are allocated to rate classes on the basis of the number or weighted number of accounts. Commodity costs are generally allocated on the basis of energy consumed.

The main controversy in the allocation process centres on the demand allocation step. There are some 40 published methods of allocating costs (TR6345, 6574 - 75). The extremes are represented by using allocation factors based upon class energy consumption and on class contribution to system peak. For the former case, this is equivalent to collapsing all demand costs into the commodity component. The latter method is an attempt to follow

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* Costs that can be directly assigned to a customer are normally accomplished before the allocation of joint cost facilities.

only cost behaviour. Other common methods include the non-coincident demand method, the average and excess method and the partial plant method. The first method allocates costs to rate classes on the basis of the highest demand established by that class irrespective of the time of its occurrence. The second allocation method recognizes both the class average use of capacity and the class capacity required at the system peak load. The partial plant method is based on the assumption that each increment of system load is supplied by a partial plant. The cost of that partial plant is assigned to the respective time periods when load is served by the partial plant. Each class must bear a share of the cost of each of these partial plants. By accumulating all of the fractional parts, a weighted total for all hours for each class is developed (TR 6607-09).

The most basic partial plant method assumes that all classes are firm and must be supplied at all hours. A modification is sometimes made to recognize interruptible loads to insure that this category of customer makes a contribution to facilities available for their use. The result of the modification is that non-firm classes receive a higher allocation than would be the case under the coincident peak method (where the allocation would be zero) and less than that which would be received under the non-coincident peak method.

Most other methods are variations of the allocation methods discussed above. While there is no ideal method, the better methods reflect the nature of cost incurrence.

4.2 Inland's Fully-Allocated Cost of Service

The Applicant had cost of service studies done for both 1983 (Exhibit 2) and 1987 (Exhibit 18). The methodology of both these studies generally follows the traditional models.* That is fixed costs are assigned to the demand

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* The study short-cuts the three-step FACOS study procedure by combining the classification and allocation steps.

component, variable costs to the commodity component and customer-related costs are assigned to the customer component. Allocating costs to the customer classes was done primarily on the basis of class coincident peak responsibility. Each customer class was treated as if it earned the full rate of return and hence no differentiation is made with regard to risk.

In the 1983 study Inland allocated relevant fixed costs to the large industrial customer class as if their actual coincident peak was their firm contract demands (C.D.) plus half the curtailable level of 50 percent of their nomination. That is, the large industrials were deemed to consume 75 percent of their C.D. volumes even though their firm portion is only 50 percent. This was a judgment made by the Applicant to recognize that the large industrials ". . . should not use the system at times other than the five curtailable days for nothing . . ." (Exhibit 2, p. B-4). Mr. Schultz, Inland's consultant responsible for the FACOS study, testified that there was no cost-based rationale for the derivation of this allocation factor other than that it seemed appropriate in his judgment (TR 5693).

In the 1987 study Mr. Schultz made an additional change in the FACOS study methodology. He derived an allocation factor T to allocate transmission costs as if 100 percent of the large industrial C.D. volume was firm even though industrial C.D.'s are curtailable up to 50 percent for five days each year (TR 5602). This has the impact of increasing the industrial cost of service while reducing it to the core customers.

Pursuant to a Commission direction that Inland respond to a request of Mr. Wallace for an individual cost of service for each large industrial customer, Inland filed Exhibit 52. Mr. Schultz, who was also responsible for this study, expressed misgivings about this particular study (TR 5607-09). One important assumption in the study was that industrials were deemed to receive their entire gas supply through Westcoast, and each would pay Westcoast's

TABLE 6

LARGE INDUSTRIAL INDIVIDUAL COST OF SERVICE STUDY (Exhibit 52)

	MARGIN CALCULATIONS	Rates 11/12/15	Large Industrial Customers: Cariboo	Husky Oil	Northwood	P.G. Pulp	Quesnel	TOTAL CAPTIVE	B.C. Forest	Finlay	Weyerhaeuser	Celgar	Cominco	Consumers
	(1)	(8)	(9)	(10)	(11)	(12)	(13)		(14)	(15)	(16)	(17)	(18)	(19)
1	COST OF SERVICE	$21,648,386	$832,613	$754,148	$1,597,325	$1,778,605	$1,104,367	$15,581,327	$2,593,880	$1,232,895	$4,156.426	$2,246,329	$4,256,036	$1,095,761
2	Gas Supply - Demand Charges	$7,916,353	$476,608	$176,138	$1,173,388	$1,139,714	$263,688	$4,686,816	$659,998	$322,746	$1,056,826	$414,442	$1,968,598	$264,207
	- Commodity Charges	$9,989,309	$287,932	$525,861	$273,547	$482,853	$768,301	$7,650,814	$1,734,835	$807,023	$2,753,428	$1,331,700	$355,127	$668,701
	Total Gas Supply Expense	$17,905,661	$764,540	$701,999	$1,446,935	$1,622,567	$1,031,990	$12,337,631	$2,394,833	$1,129,769	$3,810,255	$1,746,142	$2,323,725	$932,907
3	ING Internal COS - \1	$3,742,724	$68,073	$52,149	$150,390	$156,038	$72,378	$3,243,696	$199,047	$103,126	$346,172	$500,187	$1,932,311	$162,854
4	Volumes - GJ Firm	18,558,500	1,111,818	448,424	2,831,087	2,734,067	692,832	10,740,272	1,619,413	764,130	2,480,074	1,091,182	4,151,909	633,564
	Interruptible	1,331,300	226,654	53,811	135,953	341,162	40,825	532,894	36,694	6,296	149,136	180,910	155,136	4,722
	Total	19,889,800	1,338,473	502,235	2,967,040	3,075,229	733,658	11,273,165	1,656,106	770,426	2,629,210	1,272,092	4,307,045	638,286
5	ING Internal COS - $/GJ \1	$0.188	$0.051	$0.104	$0.051	$0.051	$0.099	$0.288	$0.120	$0.134	$0.132	$0.393	$0.449	$0.255

\1 Includes revenue-related taxes on ING's internal costs, on WCTL demand charges and on commodity sales (industrial customers purchase interruptible gas only)

This Cost of Service Study assumes:

All large industrial customers contract for T-Service at WCTL's full demand charge on their nominations

The core customers pay the remainder of WCTL's demand charges

· The industrial customers are assigned none of the costs associated with the East Kootenay link demand charges on their full nominated demand. As a result, the industrials were not assigned any costs associated with the East Kootenay Link. Inland's transmission-related costs were allocated on a demand-distance related basis (Exhibit 52, pp. 1 - 2). Since detailed data was not available, Mr. Schultz testified that this method serves as a proxy for a more in-depth evaluation.

As Table No. 6 shows, the overall Inland margin for the industrial class is \$.188/GJ with the average margin for captive customers at \$.288/GJ. The margin range for non-captive customers is between \$.051/GJ and \$.104/GJ (Exhibit 52).

4.3 Positions of Other Parties

The main concern Mr. Drazen had with Inland's FACOS study was with Mr. Schultz's allocation of demand costs. The 1983 study allocated transmission demand costs based on 75% of the industrial C.D. while in 1987 it was 100% of nominated demand. In Mr. Drazen's view the cost of service study should have made a greater allowance for the fact industries are subject to being curtailed and this results in an excess of revenues over costs in the industrial class that is even greater than at the present time (TR 6262).

Mr. Drazen's examination of the individual industrial cost of service study of Exhibit 52 led him to the opinion that the demand-distance measure used by Inland is "quite inappropriate" (TR 6208). Under the assumptions introduced by Inland, Cominco, the customer the greatest distance from WCTL, would receive a higher portion of transmission-related costs. The reality of the situation, however, is that Cominco is supplied to some extent through Alberta and the East Kootenay Link (TR 6209). This fact should therefore be recognized.

CAC et al argued that the choice of allocation factors is very much a matter of judgment and that the FACOS study methodology is a matter of individual preference (TR 5605, 5638, 5696). They stated that one of the reasons Inland preferred the coincident peak allocation method was because the data is easily available (TR 6728-29).

Dr. Sarikas, appearing on behalf of Commission staff, stated that although the coincident peak allocators may track cost causation closely, this method may not be considered fair as no costs are assigned to interruptible customer sales (TR 6575) and hence this interruptible customer benefits from the use of the facilities to take delivery of its energy at no cost to him since the costs are paid for by the firm customers. Dr. Sarikas stated that it is unlikely that Inland could meaningfully conduct FACOS studies utilizing other allocation methods as they do not have the required data (TR 6580-83).

4.4 Summary and Conclusions on Inland's Fully-Allocated Cost of Service Study

The primary purpose of a fully-allocated cost of service study is to understand the "movement" of costs and to equitably apportion the total cost of service to the various rate classes. This allocation among the various rate classifications is on the basis of class use of capacity, commodity, and customer-related facilities. There is no single correct method of making an allocation, and results to some extent reflect judgments. The choice of the method to be used in allocating demand-related costs can reflect either an attempt to conform to cost behaviour or may reflect notions of fairness. Differences resulting from the choice of method are not significant except for off-peak and seasonal loads as shown in Table 7. The method employed by Inland is regarded as acceptable in these circumstances given the limited availability of load data for use in the allocation process.

Notwithstanding the above, the Commission has some concerns and suggestions regarding the presentation of the FACOS Study.

The first step in the costing procedure, functionalization, has not been clearly defined by the Company. In response to a Commission staff request the

Applicant was asked to explain the method by which the plant accounts were functionalized, and the Company provided working papers (Exhibit 15, Vol. 15, Tab 4). The information was difficult to interpret.

Also the classification of costs was not treated separately. Allocation factors were relied upon to accomplish classification in terms of customer, commodity, and demand rather than by completing the class functionalization process before proceeding with classification and allocation steps. This prevented these three components of the rate class from being easily traced from the Uniform Accounts to the end of the study. In response to another Commission staff request (Exhibit 100, Volume 19, Tab 5), the Company provided a classification breakdown of the major components of the functionalized Cost of Service. However, the methodology employed to accomplish this step is not easy to follow from the information available in the study. Steps should be taken to improve the presentation of the study. This may require further discussion with Commission staff in the future and if so, this discussion should be undertaken and concluded by June 1, 1988.

With regard to load data, Inland should make every economically justifiable attempt to upgrade and improve their data base. The Commission recognizes, however, that the benefits and costs of obtaining additional information are not easily measured and requires that judgments be made. The Applicant is directed to review this matter and report to the Commission by June 1, 1988.

TABLE 7

ALLOCATOR COMPARISONS

	Rate 1	Rate 2	Rate 4	Rates 5/10	Rates 11/12/15	Columbia
Coincident Peak (1)	.4355	.3512	0	0.0924	.1211	0
Coincident Peak (2)	.4106	.3311	0	.0870	.1713	0
Non-Coincident Peak (3)	.3805	.3068	.005	.0904	.2173	0
Average and Excess Demand (4)	.388	.313	0	.0822	.2153	--
Energy (including interruptible) (5)	.229	.180	.003	.122	.420	.046
Energy (excluding interruptible)	.250	.1957	.003	.133	.428	--

(1) Based on Exhibit 18, Schedule 4.1 and assumes that the industrial contract demand is 50% interruptible.

(2) Inland's allocators.

(3) Based on Exhibit 15, Tab 4.

(4) Calculation

(5) Based on Exhibit 100, Volume 19, Tab 1

5.0 CLASS REVENUE REQUIREMENTS

5.1 Background

Section 4 discussed the determination of costs for each class based on the FACOS study methodology. In setting the rate level for each class, cost is one of the considerations. However, as previously discussed there are other primary objectives, some of which may conflict, that must be taken into account in arriving at class rates. The list of objectives includes the following:

- effectiveness in yielding sufficient revenue under the fair return regulatory standard.
- relative rate and revenue stability from year to year.
- fairness in apportionment of the total cost of service among customer classes over time.
- avoidance of "undue discrimination".
- economic efficiency to ensure that customers pay what a resource is worth.
- competitive market constraints.

The above list of pricing objectives can be compressed into three primary criteria. Rates should:

(i) provide the opportunity to earn a fair return,

(ii) reflect a fair apportioning of the value of the service, and

(iii) discourage "wasteful use" while at the same time promoting "all use that is economically justified in view of the relationships between costs incurred and benefits received".

There is no dispute as to the importance of the first principle that rates should provide the opportunity to recover the total cost of service. It is also obvious that there are potentially a large number of different class revenues which could produce the required total revenue. Various formulae could be applied to the existing rate structure and be used to develop the revenue requirement. Such formulae could consist of a simple across-the-board percentage increase in existing rates, or an equal addition of a fixed amount to existing rates, or some combination between these two extremes.

Clearly, however, a "formula" approach should be supported by evidence of cost increases and causation or other rationale. The second criteria in the list of "primary criteria" requires that rate relationships be "fair". The last criteria in the list of "primary criteria" refers to studies of the cost of service by which are meant marginal or incremental cost.

Recognition of both supply and demand conditions provide the guiding principle in rate making. On the supply side, costs or relative cost differences of supplying service to each class of customer in a geographic area are considered. On the demand side, value of service to, or the demand characteristics of, the classes served by the utility are considered. Thus, although rates are not uniquely determined, it is possible to identify a range of rates. There is no rule or formula for the relative weighting of cost of service and the other criteria in rate setting. Ultimately experienced judgment must be relied upon.

The range of rates considered for a given class lies between the value of service and a rate which covers slightly more than the variable costs incurred in providing service. Value of service can be either higher or lower than the variable cost of service since the former depends on market considerations while the latter depends on supply or cost considerations.

Rates set at variable costs may be advantageous to a utility, especially under conditions of idle capacity, since any contribution to fixed costs lowers costs to other classes. However, if all classes of rates are based on this principle, over the long run the financial viability of the utility would be jeopardized.

The market imposes an absolute constraint on rates. In general, if value of service is sufficiently high an excess monopoly profit accrues to the utility. If value of service is higher than variable costs but lower than fully-allocated costs, then other customer classes benefit to the extent that the rates based on value of service contribute to fixed costs already incurred. If the value of service is lower than variable costs, other customer classes would be better off without this customer or customer class sales. The above general parameters are directly affected by competitive pricing at the producer level and depending on the field price the above may or may not happen. In the final analysis it is the end price to the consumer that determines the direction of the market and not the individual components therein, albeit the long-term impact on the utility and its customers are governed by the utility's costs.

A case can be made to consider a short-term retention rate which is lower than variable cost if a customer load would otherwise be lost in perpetuity and the expected future discounted sales revenues are higher than the future discounted variable costs. Risk, however, would be a major factor to consider.

Determination of value of service varies with market conditions. In the Inland case, value of service to the captive customers is primarily constrained by alternative fuel costs and technological change. For the non-captive customers, value of service is a function primarily of bypass costs at this time.

In summary, the translation of cost to pricing requires a knowledge of and use of other factors such as the relationship between demand and supply, relative growth of consumption, and factors which determine consumption such as the availability and price of alternatives.

5.2 Summary of Evidence

Inland favored the application of the cost standard, ie. a revenue to cost ratio of one for each of the rate classes. However, a revenue to cost ratio objective was not indicated in their evidence. When pressed, Inland did provide revenue to cost ratios for the next three years but still did not provide any specific goals (see Table 8). The Applicant did agree that the residential revenue to cost ratio has generally been less than one throughout North America since 1970 and that a residential revenue to cost ratio of 0.95 is close to one (TR 5029). Due to the high proportion of gas costs to total revenue requirements, Inland's expert witness, Mr. R.S. Johnson (Stone and Webster) used an indicator which compared the rates of return implicit in the revenues generated for each rate class. Mr. Johnson testified that the implicit residential rate of return is, in general, about 70 percent of the allowed rate of return (TR 5031). Inland also agreed that class risk differentials exist and that at least with regard to leaving the system, industrial customers pose a far greater risk than do other customers (TR 5153 - 56).

Although gradualism was recognized as an important pricing objective, Inland proposed to shift most of the revenue requirement in the first year with the remaining minimal revenue shifts being accomplished in the succeeding two years (TR 558-60). In Inland's proposal, the only class moving away from equality of revenue and cost is the commercial rate class, Rate Schedule 2. This was rationalized on the grounds that Rate Schedule 2 rates are, and will remain, competitive with alternative fuels in the Inland service area (TR 793).

Table 9 shows Inland's anticipated rate shifts due to bypass competition, alternative fuel competition and FACOS study considerations for small and large industrial rate classes over the next three years (Rate Schedule 5 and Rate Schedule 11 respectively). Table 10 shows the anticipated impact on the residential and commercial sectors over the next three years.

TABLE 8

INLAND REVENUE/COST PERCENTAGES TO 1989/90

	RATE SCHEDULES				
	R.S. 1	R.S. 2	R.S. 4	R.S. 5/10	R.S. 11/12/15
Current	79.2	102.0	---	138.0	127.2
1987/88	83.2	108.1	---	134.5	107.7
1988/89	84.3	109.6	---	127.9	105.8
1989/90	85.4	111.1	---	122.1	103.8

(Source: TR 5137-38, 5179)

TABLE 9

RATE SHIFT ($000)

	Large Industrials	Rate 5	Other	Total
1987/88	4,701	0	81	4,782
1988/89	415	905	0	1,320
1989/90	418	787	0	1,205
	5,534	1,692	81	7,307

(Source: Exhibit 129)

TABLE 10

PERCENTAGE IMPACT ON RATE SCHEDULES 1 AND 2

Due to Rate Shift ($/GJ)

	1986/87		1987/88		1988/89		1989/90	
	R.S. 1	R.S. 2	R.S. 1	R.S. 2	R.S. 1	R.S. 2	R.S. 1	R.S. 2
Total	4.547	4.341	4.895	4.722	5.266	5.094	5.631	5.453
Cumulative Inflation Factor	1.000	1.000	1.025	1.026	1.0689	1.0699	1.1153	1.1161
Real Average Rates (1)	4.547	4.341	4.776	4.601	4.926	4.761	5.049	4.886
Nominal Growth	---	---	1.0765	1.088	1.076	1.079	1.069	1.070

(Source: Exhibit 129)

NOTE:

(1) The real average rates include price elasticity effects of -0.45 for both Rate Schedule 1 and Rate Schedule 2 lagged by one year.

The recommended amount of the shift from one rate class to another rate class over time relies heavily on judgments made by the Applicant. Inland testified that consideration was given to the FACOS study, how the shift should be shared between Rate Schedule 1 and Rate Schedule 2, the proposal to do away with Rate Schedule 10, the changes made to Rate Schedule 5 and the risk of Rate Schedules 11/15 customers going to bypass (TR 4373, 5153). Inland stated that judgment was used in determining the number of customers, and indeed which customers, were likely to pursue bypass and/or alternative fuels in the Rate Schedule 5 class (TR 3845, 3952-55, 4143). With regard to intra-class revenue requirements shifting, such as is the case for captive and non-captive small or large industrial customers, Inland stated that the proposed rate differentials were not in their judgment (TR5067-69, 5086) unduly discriminatory.

Dr. Acton advocated the use of marginal cost pricing which calls for equating the price charged for service to the marginal cost of providing such service. He further advocated that in order to maximize economic efficiency, subject to the revenue requirements constraint, Ramsey pricing should be implemented. Ramsey pricing is a method whereby the large price adjustments are made to the price-insensitive demands and small price adjustments are made to the price-sensitive demands. This permits recovering an above average share of the revenue deficit from customers who will make the least adjustment in their consumption (Exhibit 30, p. 10).

In Dr. Acton's view, an important aspect of the Ramsey Pricing recommendation is that revenue deficiencies resulting from so-called bypass or "non-captive" customers would be made up at least in part by industrial customers through increased consumption as a result of price decreases to the large industrial rate class.

Mr. Drazen expressed concern that what he characterizes as a substantial overcharge in the industrial rates can affect "competition among commodity producers" (i.e. the potential for Inland's customers to lose sales due to competition). However, he did not provide any evidence to show differences in the impact upon competition between industries served by Inland and industries served by other gas distributors in B.C., or between producers who are potential bypass customers and those for whom bypass is not an option.

Mr. Drazen also stated that there are three main reasons why rates should be based on cost of service: (i) equity, (ii) efficiency, and (iii) stability. The equity consideration is that each customer class should pay the costs that it imposes on the utility (Exhibit 135, pp. 6 - 7).

5.3 Summary and Conclusions on Class Revenue Requirements

With respect to the suggestion that rates should be rigorously cost-based, the Commission concludes, based on the evidence, that such an objective ignores factors such as accuracy of the cost analysis, impact of alternative cost allocation methods, customer class risk, competitive market realities and investment decisions already made. For illustrative purposes, the Commission has prepared Table 11 which shows the revenue cost ratios based on the various allocation factors of Table 7.

Based on the evidence at this time the Commission considers large industrial customers as divided into two classes: the captive and the non-captive. This is consistent with the principle that customer classes are to be defined based in part on their demand characteristics. The Commission also recognizes that the duration of the contract affects the level of risk. The Commission accepts the principles of the allocation of Westcoast Transmission Co. Ltd. costs as proposed but recognizes an adjustment may be required as a result of a pending National Energy Board Decision.

In accepting the class revenue requirements prepared by the Applicant for the year commencing November 1, 1987 and subsequent years it must be recognized that these evolved over the course of the hearing as a result of initiative taken solely by the Applicant, as a result of negotiations with the industrial customers and as a result the Applicant adjusting its proposal as a result of evidence brought forward and cross-examination at the hearing. This process permitted a concensus to form in many areas. If the Application had not evolved as it did, clearly the Commission would not have accepted the Applicant's proposal. The Commission recognizes that the class revenue requirements must be adjusted to reflect the difference between the estimated "bypass" rates and the rates effective on October 31, 1987.

With regard to the years commencing November 1, 1988 and November 1, 1989 the Commission directs the Applicant to develop and file rates based on the principles adopted in this decision. The Commission appreciates that this decision results in an underrecovery from the Residential customers. The Commission, however, at this time does not adopt 100% recovery due to different levels of risks.

The Commission would observe that due to competitive market pressures which exist the Applicant may have to review its policy of broad service. In the alternative, opportunities may exist to reduce costs through new technology or by attaching customers at less than class average costs. The Applicant is directed to review alternative methods of improving the revenue to cost ratio and advising the Commission of the results by February 26, 1988.

With regard to Rate Schedules 4, 5 and 5X* the Commission approves these levels and has commented further on page 71 of this Decision with regard to Schedule 5X. The discontinuation of Rate Schedule 10 is approved.

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* Schedule 5X is a transitional schedule for customers currently on Schedule 5 but who will wish to move to new Schedule 2.

TABLE 11

REVENUE TO COST RATIO COMPARISON FOR VARIOUS ALLOCATION METHODS

	RATE SCHEDULES					
Allocation Method	R.S. 1	R.S. 2	R.S. 4	R.S. 5/10	R.S. 11/12/15	Columbia
Coincident Peak (50% of Demand) Exhibit 18, Sch. 4.1	0.768	0.9757	1.2527	1.3183	1.6317	1.5819
Coincident Peak (75% of Demand) Exhibit 18, Sch. 4.1	0.792	1.020	N/A	1.380	1.272	1.5819
Non-Coincident Peak Exhibit 15, Tab 4 Based on 1985	0.7868	1.0089	0.8571	1.3236	1.4042	1.5819
Average and Excess	0.7842	1.0042	1.2527	1.3459	1.4083	N/A
Energy (including interruptible)	0.8437	1.1182	0.974	1.245	1.085	1.0186
Energy (excluding interruptible)	0.8354	1.1031	0.9535	1.2197	1.0756	1.5819

6.0 RATE ADJUSTMENT MECHANISMS

6.1 Background

The Applicant proposed a new concept, the Gas Pricing Clause ("GPC"), to deal with the problem of under- or over-collection of revenue as a result of negotiated rates. The GPC is a mechanism of shifting revenue or cost from one rate class to another. In the Applicant's case, the GPC is used for revenue or cost shifts from inter-utility and industrial customers.

The GPC consists of two components. The first is an adjustment for any difference in margin realized on sales to customers under Rates 11 and 12, sales to Columbia and for transportation under Rate 15. This is the Margin Adjustment Clause ("MA"). The second is an adjustment to track changes in purchased gas costs for each customer group. This is the Purchase Gas Adjustment Clause ("PGA") [Exhibit 19].

The MA component would be computed annually based on the total margin generated by sales under negotiated rates. Originally, the Applicant proposed a 20% - 80% split between shareholders and Rates 1 and 2 customers for any excess revenues or cost collected. The Applicant's position was amended later, however, so that 100% of excess revenue or cost would be shifted to Rates 1 and 2 customers (TR 1084).

6.2 Summary of Evidence

The Applicant's position is that given deregulation and the possibility of bypass, GPC would allow the Applicant to remain revenue neutral due to competitive pressures. Negotiated rates will allow the Applicant to keep customers on the system by offering them rates that are competitive with bypass and other alternatives. Loss of margin from such negotiated rates should be compensated by an increase in the margin for Rates 1 and 2 customers, and the GPC is designed to accomplish this automatically.

Inland's justification for the position that residential and commercial customers (Rate Schedules 1 and 2) should carry the burden of any revenue deficiency arising from lower rates for the industrials is that the rates to these customers are still out of line on the basis of costs in the case of the residential and value of service with regard to the commercial. The proposed GPC is the mechanism which would allow Inland to shift revenue deficiencies/excesses due to competitively negotiated industrial rates onto the residential and commercial rate classes [Exhibit 19]. If the GPC is not approved, the Applicant suggested that a deferral account be set up (TR 6669). However, the Applicant prefers implementation of a GPC to a deferral account (TR 6839).

The GPC is not meant to be a short-term mechanism, as it will effectively accommodate issues that need to be resolved over the next two to three years (TR 6839). The Applicant also asserted that the current rate situation is not reflective of its management, but is largely a result of the external environment (TR 6855).

The CAC et al, while reacting indifferently to the PGA clause of the GPC, objected strongly to the MA clause. The CAC et al argued that the MA clause is set up primarily to meet the bypass alternative which, except for five large industrial customers, is uncertain. The GPC further departs from normal regulatory procedures and would deny public participation in the review process because it works automatically. They argued that it would also reduce the Applicant's incentive to negotiate effectively (TR 6751).

The CAC et al pointed out that the MA clause is also intended to be used by Inland in the future to shift revenue loss to Rate Schedules 1 and 2 customers arising from matters other than the current round of negotiated rates (TR 6753). Conceptually, the MA clause is opposed because the CAC et al perceives that matters of revenue shift should be determined by the Commission. They believed that there should be public hearings and participation by all interested parties (TR 6751, 6758). The CAC et al also opposed the amount of the rate shift and suggested that Dr. Acton's Ramsey pricing model, based on the inverse elasticity rule, was another methodology for determining the amount of the required revenue shift (TR 6759 - 60).

Finally, the CAC et al argued that the Applicant's shareholders as well as captive customers should be considered to share parts of the burden of lost revenue (TR 6715, 6764).

Dr. Sarikas, consultant to Commission staff, testified that the GPC concept is feasible, albeit it is a departure from the regulatory norm even though similar mechanisms have been adopted in California and elsewhere (TR 6360). At a more general level, Dr. Sarikas testified that as long as negotiations are going to be handled quickly it matters little whether a GPC is used or a rate case is filed to deal with the revenue shifts since in either case there would be no regulatory lag. To the extent that some customers are now benefiting from regulatory lag, their benefits would be eliminated by the GPC. The GPC mechanism would also eliminate the incremental costs of hearing. As a consequence, there would be some kind of trade-off between costs and benefits. Dr. Sarikas noted that a GPC, in common with other adjustment clauses, looks at only one item at a time and not the whole picture (TR 6466 - 70).

6.3 Summary and Conclusions on Rate Adjustment Mechanisms

The need for an adjustment to track changes in purchased gas costs is tempered by the ease with which changes in gas costs are passed through under the present practice of seeking Commission approval before incorporating cost changes into current billings. If at a future time the number of gas suppliers and the frequency of cost changes make the need for a purchased gas adjustment clause more evident the Commission will consider Inland's request but rejects the PGA at this time.

With regard to the Margin Adjustment segment of the GPC the Commission believes the potential benefits are more than offset by negative aspects in this period of transition. The Commission is concerned with regard to the fairness inherent in adjusting one aspect of the Applicant's cost without regard to all other costs and the potential lack of incentive for management to negotiate deligently as long as a margin exists in the marketplace which will absorb the cost shifts. If parity pricing was achieved in all customer classes this would not be a concern. The Margin Adjustment clause is rejected at this time.

With specific regard to negotiated range rates for other than the existing "bypass" customers after November 1, 1988 (assuming these are ultimately found to be in the public interest) the Commission believes an incentive along the lines originally proposed by the Applicant is appropriate, albeit it does not adopt the Applicant's proposal. However, as a protection to the captive customers and an incentive to the shareholders to encourage management in its negotiations, the Commission believes at this time 10% of any negotiated rate in excess of the lower range exclusive of cost of gas and related charges should be directly to the benefit of the shareholders for 24 months from date of filing. After this period has expired this 10% shall be included in the general revenue of the Applicant.

Pursuant to Commission Order No. G-69-87 a short-term deferral account has been established to accommodate the adjustments in the 1987/88 fiscal year. This account will be eliminated over the appropriate period of time by the application of a rider to Rate Schedules 1 and 2. Under ideal circumstances the discontinuation of this "rider" would be offset by rate adjustments in the following year, hence, providing rate stability.

7.0 RATE STRUCTURE

7.1 Background

Rate structure is designed to determine intra-class revenue requirements by taking into account end-use consumption characteristics and load profiles of the various customer groups within a class of customers. Sometimes differences in these characteristics and profiles are such that the creation of a sub-class(es) from an existing class is warranted.

The regulatory process of rate determination results from three conceptually distinct steps:

(i) estimation of total revenue requirements and deficiencies;

(ii) allocation of total revenue requirements and deficiencies to the various customer classes (cost allocation);

(iii) allocation of revenue requirements within each customer class to the various customers with differing consumption patterns (rate structure).

Given (i) and (ii), step (iii) can be undertaken in terms of the design of rate structure.

7.2 Applicant's Proposal

The rate structure proposed by Inland is briefly summarized below:

Rate Schedule 1 - Residential

The rate form is proposed to be changed to two rate blocks from three. The minimum monthly customer charge is reduced to $3.90 with no gas consumption (see Appendix D).

Rate Schedule 2 - General Service

Inland intends to remove the following clause (TR 6695):

> "...This Schedule is not available to an industrial Customer who has a total connected load (burner rating) of five hundred and eighty-six (586) kilowatts (two thousand one hundred and ten [2,110) megajoules per hour) or more."

This would allow small industrial customers currently served under Rate Schedule 5 to transfer to Rate Schedule 2.

Consumption of 1 GJ in the first block is proposed to be moved into the following rate block and the minimum monthly bill increased from $5.76 to $15.25/GJ as a minimum monthly customer charge without a gas component (see Appendix D).

Rate Schedule 4 - Dual Fuel Service

This is a seasonal rate with eight asphalt plants currently taking service thereunder. Inland proposes that the minimum monthly bill of $630.98 is no longer to be tied to gas purchases, and a minimum monthly customer charge of $325.00 be introduced.

The rate form is proposed to be reduced from three blocks to two.

Rate Schedule 5

Inland proposes that customers consuming less than 500 GJ/mo. be transferred to Rate Schedule 2. Those customers, whose consumption exceeds 500 GJ/mo. are to remain in Rate Schedule 5. As a result of Rate Schedule 5 restructuring certain customers would find it beneficial to move from Rate Schedule 5 to Rate Schedule 2. However, even this transfer would result in an increase in natural gas costs of about 24%. Inland therefore proposed an interim Rate Schedule 5X (TR5254 and Exhibit 124).

Rate Schedule 5X is proposed as a one-year transitional rate (TR5252). Inland expects 64 customers to take advantage of this proposed rate in 1987/88 (Exhibit 124). In 1988/89 Inland expects 23 customers to move to Rate Schedule 2 and the remaining 41 customers to continue with Rate Schedule 5. In summary, one group of customers will move from Rate Schedule 5 to 5X and then Rate Schedule 2, while a second group will move from Rate Schedule 5 to 5X and then back to Rate Schedule 5.

		1987	1988	1989
1.	Rate Schedule	5	5X	5
	% Increase/Year		.5	3.5
2.	Rate Schedule	5	5X	2
	% Increase/Year		8.6	14.5

Rate Schedule 6

This is a new fully-negotiated rate that Inland proposed to meet the competitive pressures of bypass, woodwaste and more efficient energy utilization in the small industrial market. Customers served under this new rate would ordinarily be served under Rate Schedule 5 (TR 6687).

The rate consists of a demand and commodity charge. It is applicable to firm gas sales based on a customer nominated contract demand. The term of the contractual agreement between the parties would be no less than one year (Exhibit 109).

Rate Schedule 10 - Gas Engine Service

Inland proposed that service under this Schedule be discontinued and service provided under Rate Schedule 2.

Large Industrial

Rate Schedule 11 -
Large Volume Firm Service

Traditionally large industrial customers have purchased their firm gas supplies under Schedule 11 and interruptible service under Schedule 12. Customers contract for a firm daily contract demand (C.D.) subject to a maximum curtailment of five days in each year up to one-half their C.D. Volumes in excess of the C.D. are sold on an interruptible basis under Rate Schedule 12. For billing purposes, a volume of gas equal to the C.D. times the number of days in the month is considered to be firm Rate Schedule 11 gas and the remainder, interruptible Rate Schedule 12 gas.

As a result of the Province's statement on bypass, Inland divided this rate into categories A and B. Category A would include all customers not having a viable bypass option, while Category B would include those customers having a potential to bypass (Exhibit 101, Volume 20, Tab 4). These categories are referred to as captive and non-captive customers respectively.

The C.D. feature is to be retained. Interruptible gas is now Authorized Over-Run (AOR) sales gas (Exhibit 94).

Rate Schedule 12 -
Large Volume Interruptible Service

Proposed Rate Schedule 12 is intended to be a stand-alone interruptible sales rate (see Appendix D) which a customer can take advantage of independently of Rate Schedule 11 (Exhibit 30).

Rate Schedule 15 -
Firm Transportation Service

This tariff permits large industrial customers to take advantage of deregulation of natural gas pricing at the well-head and transport firm gas supplies under direct purchase arrangements from the well-head to the burner-tip. Customers will contract for a firm maximum daily transportation volume (MDTV) and, except for up to five days per year when they may be curtailed to one-half their MDTV, are entitled to receive their full MDTV.* Any excess over the MDTV is to be provided on an interruptible or authorized overrun basis as sales gas.

The rate is proposed to be split into a demand/commodity charge with the Inland margin established in the manner as described for Rate Schedule 11 captive and non-captive customers. The rates equate with Rate Schedule 16 and Rate Schedule 11.

Rate Schedule 16 -
Interruptible Sales and
Transportation Service

Rate Schedule 16 will be an interruptible rate for transportation service with monthly balancing available (Exhibit 94). The Inland margin is equivalent to Rate Schedule 12.

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* Inland has been encouraged to negotiate with all industrial customers for an additional five half days curtailment.

Rate Schedule 17 -
Transportation Service

Rate Schedule 17 mirrors the provisions of Rate Schedule 15 except that the utility does not have the right to curtail the gas for five half days. In recognition of this fact the demand charges for Schedule 17 are higher. Specifically, the Schedule provides for firm transportation of direct sale gas with the excess interruptible volumes being provided from utility sales. The gas is moved under Inland's nomination with Westcoast and monthly balancing of gas volumes is provided.

Rate Schedule 18 -
Transportation Service

Rate Schedule 18 provides for firm transportation of direct sale gas with normal curtailment by the utility. A customer choosing Rate Schedule 18 for his firm gas would do so provided he wished to use Rate Schedule 19 for the interruptible transportation of his direct sale gas. Rate Schedule 18 is used in conjunction with the Inland nomination with Westcoast and has daily gas balancing.

Rate Schedule 19 -
Transportation Service

Schedule 19 provides for the interruptible transportation of direct sale gas under the Inland nomination, and balancing is on a daily basis.

Rate Schedule 20 -
Transportation Service

Schedule 20 provides for the firm and interruptible transportation of direct sale gas with the utility having no curtailment rights. The customer arranges his own transportation on the Westcoast system, therefore, Schedule 20 applies only to transportation on the Inland distribution system. Gas balancing is done on a daily basis.

Rate Schedule 21 -
Transportation Service

Rate Schedule 21 provides for a transportation of both firm and interruptible direct sale volumes. Inland retains the right to curtail the customer to five half days each year. The customer arranges his own transportation contract with Westcoast and balancing is done on a daily basis.

Rate Schedule 22 -
Transporation Service

Rate Schedule 22 is comparable with Rate Schedule 15, except that the customer arranges his own transportation on the Westcoast system. The Schedule arranges for the firm transportation of direct sale gas with interruptible volumes being provided from utility sales. Inland has regular curtailment rights and monthly balancing is provided. In reality the balancing for Rate Schedule 22 is done entirely on the Westcoast system.

7.3 Summary of Evidence

In final argument, the Applicant suggested that the 2,110 megajoule per hour limit in Rate Schedule 2 be removed from its rate structure proposal. The reason given was that it would allow the small industrial customers who find Rate Schedule 5 unsatisfactory to transfer onto Rate Schedule 2 (TR 6695).

CAC et al presented no objection to the Applicant's rate structure proposal. Both the proposed customer and demand charge were seen as appropriate (TR 6765).

With respect to the proposed fixed or customer charge which will replace earlier rate provisions, Dr. Sarikas commented that "so long as most customers have usage in the tail block of the rate, the question is primarily a matter of form rather than substance" (Exhibit 137A, p. 5). He also pointed out that the two part demand/commodity rate permits the recovery of all or a portion of fixed cost by means of a suitable demand charge. Since the demand and commodity components are billed separately, the rate structure recognizes differences in load factor. The inclusion of all fixed cost in the demand charge provides the most competitive rate structure where competition involves a separately priced commodity component. Use of the demand/commodity rate should also improve the Applicant's revenue stability (Exhibit 137).

7.4 Summary and Conclusions on Rate Design

There was very little disagreement at the hearing regarding rate structure issues. The Commission, however, expressed considerable concern regarding the impact on those customers that would be transferred from Rate Schedule 5 to Rate Schedule 2 for 1987/88. Inland's proposal to introduce Rate Schedule 5X reduces the rate impact on these customers. Whether or not Rate Schedule 5X should be automatically closed after 1987/88 is not self-evident at this time. Therefore, the Commission will consider further submissions from Inland in the future, and until the submissions are received that rate will remain "closed" but in force.

With regard to the proposed consolidation of Rate Schedule 1 and Rate Schedule 2 from three blocks to two the Commission is concerned with the impact this may have on customers in Central and Northern British Columbia inasmuch as the existing structure recognized the significantly colder climatic circumstances. Nevertheless, the Commission on the basis of the evidence will accept the Inland proposal but if an undue burden results will review this structure.

In addition to the above, the Commission believes the Applicant should consider other forms of interruptible rates, namely, different levels of interruptibility over various time periods. Needless to say, these rate forms would have different prices depending on the quality of service provided. The

Applicant is directed to review this and advise the Commission of its views by February 1, 1988.

The Commission directs that the Applicant file rate schedules for the years commencing November 1, 1987 as well as rate schedules for the year commencing November 1, 1988 and November 1, 1989 predicated upon the principles determined by the Commission to be appropriate in this Decision. The Commission recognizes that these rates may require adjustment but believes rates must be filed at this time.

The Commission further directs that the rates filed November 1, 1987 contain a "rider" to ensure the appropriate revenue is recovered from the respective classes pursuant to Commission Order No. G-69-87 (Appendix E).

DATED at the City of Vancouver, the Province of British Columbia, this 11th day of December, 1987.

J.D.V. Newlands
DEPUTY CHAIRMAN

N. Martin
COMMISSIONER

BRITISH COLUMBIA UTILITIES COMMISSION

UTILITIES COMMISSION

ORDER NUMBER G-80-87

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission Act, S.B.C. 1980, c. 60 as amended

and

IN THE MATTER OF Applications by Inland Natural Gas Co. Ltd.

BEFORE:	J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	December 11, 1987

O R D E R

WHEREAS on June 18, 1985 Inland Natural Gas Co. Ltd. ("Inland") submitted an Application concerning Rate Design embodying proposals to "close" certain existing rate schedules and create new rate schedules; the shifting of costs of service from industrial customers to residential and commercial customers; procedures to be used in amending Inland's Tariff Schedules; and

WHEREAS on September 27, 1985 Inland filed preliminary Transportation Rate Schedules 15 and 16 which the Commission by Order No. G-97-85 accepted for filing, on an interim basis effective October 11, 1985; and

WHEREAS on October 31, 1985 Inland filed a supplement to the June, 1985 Application which, among other matters, introduced Schedule 6 as a means of defense against the conversion of sawmill operators from gas to woodwaste, and to develop new markets; and

WHEREAS on December 20, 1985, by Order No. G-97-85, the Commission required Inland to remove from Tariff Rate Schedules 15 and 16 any and all references to Net Income Indemnification; effective on and after February 1, 1986; and

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WHEREAS on June 30, 1986 Inland filed further revisions to previous filings of June and October, 1985; and

WHEREAS on July 29, 1986 by Order No. G-46-86 the Commission established November 3, 1986 as the commencement date for the public hearing of Inland's Rate Design Application; and

WHEREAS on October 28, 1986 because of new amended tolls for Westcoast Transmission Company, Limited ("Westcoast") as determined by the National Energy Board ("N.E.B."), and amended natural gas field prices in British Columbia, both effective November 1, 1986, the Commission by Order No. G-60-86 postponed the hearing commencement from November 3, 1986 to February 24, 1987; and

WHEREAS because of continuing requests for consideration of various other concerns involving Transportation Service, by Industrial customers served by Inland, and by producers of natural gas, the Commission ordered a Pre-hearing Conference in December, 1986 to seek clarification of the issues; and

WHEREAS on December 18, 1986 by Order No. G-85-86 the Commission declared that the Rate Design hearing was to be segmented into two phases as follows:

<u>Phase 1</u>, Transportation Tariffs,
to commence on February 10, 1987;
<u>Phase 2</u>, Rate Design to commence
on March 3, 1987; and

WHEREAS on January 16 and 23, 1987 Inland filed Volumes A and B to further revise its Application as a result of deregulation and changing energy prices, noting that Volumes A and B essentially replaced all previously-filed material; and

UTILITIES COMMISSION

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WHEREAS because intensive negotiations between Inland and interested parties continued apace, March 3, 1987 was established as the new commencement date of Phase 1 (Transportation Tariffs) of proceedings related to Rate Design; and

WHEREAS on March 3, 1987 Inland further updated its Application by introducing 17 points for consideration; and

WHEREAS following two weeks of hearing at Prince George and Kelowna it was determined appropriate to adjourn the proceedings to permit further intensive negotiations to continue, with the hearing to resume at Vancouver on May 19, 1987 until June 3, 1987; and

WHEREAS the Commission issued its Decision on Transportation matters on June 17, 1987; and

WHEREAS on June 22, 1987 Phase 2 of the Rate Design proceedings, concerned primarily with the appropriate method of determining customer rates, commenced at Kelowna, B.C.; and

WHEREAS the Rate Design proceedings considered the adjustments occurring in the market-place as a result of the impact of deregulation of the natural gas industry in recognition of competition, and the appropriate redistribution among customer classes resulting from recognition of the cost to the utility of providing such gas service; and

WHEREAS during the aforenoted proceedings which concluded on July 20, 1987 the matter of the propriety of permitting Industrial customers to construct and operate pipeline facilities which would effectively duplicate and bypass existing pipeline facilities operated by Inland was considered; and

.../4

UTILITIES COMMISSION

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WHEREAS by letter dated October 9, 1987 the Commission responded to Inland concerning Applications for approval of Letters of Intent between Inland and Prince George Pulp and Paper Limited ("PGPP") and Husky Oil Operations Ltd. ("Husky"), respectively, advising that negotiated rates for industrial customers are desirable for those customers with a bypass option, and stating that it approves only the first year rates under Appendix "A" (revised) of the Applications as above-noted; also drawing attention to the potential for a re-entry fee to be applicable to Transportation Service customers wishing to return to sales service; and

WHEREAS by letter dated October 20, 1987 the Commission responded to Mr. R.B. Wallace, acting on behalf of PGPP and Husky, advising that, within the restrictions of the Utilities Commission Act, the Commission responds in the affirmative to each of the following questions:

1. Does this Commission, in approving the Inland agreements, accept the principle that the rates negotiated by Inland should be based on the bypass costs in 1987/88, being the time the bypass line would have been constructed were that alternative taken, and not subject to revision from time to time?

2. Does this Commission accept the principle that incremental rate adjustments through the years should be based upon the cost increments that PGPP and Husky would have experienced over time had they constructed a bypass in 1987/88?

WHEREAS a public hearing of a bypass Application by Northwood Pulp and Timber Limited was heard by Commissioner Vernon Millard during September, 1987 with a Report and Recommendations thereon submitted to the Lieutenant Governor in Council on October 22, 1987; and

WHEREAS the Commission has considered the Applications by Inland for Transportation Tariffs and for Rate Design and the evidence adduced thereon during the public hearing of the said Applications all as set forth in a Decision issued concurrently with this Order.

NOW THEREFORE the Commission orders Inland Natural Gas Co. Ltd. to comply with the several directions of the Commission appearing in the Decision issued concurrently with this Order, with rate changes to be effective with consumption on and after November 1, 1987.

DATED at the City of Vancouver, in the Province of British Columbia, this 11th day of December, 1987.

BY ORDER

Deputy Chairman

IN THE MATTER OF
the Utilities Commission Act,
S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF
an Application by
Inland Natural Gas Co. Ltd.

DECISION

June 17, 1987

Before:

M. Taylor, Chairman
J.D.V. Newlands, Deputy Chairman
N. Martin, Commissioner

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APPEARANCES

C.B. JOHNSON D.M. MASUHARA	Inland Natural Gas Co. Ltd.
MS. LORNA BARR	B.C. Hydro and Power Authority
R. MILNER	British Columbia Petroleum Corporation
P.L. FOURNIER	Canadian Petroleum Association
T.G. PEARCE, Q.C.	City of Quesnel City of Williams Lake City of Prince George
R.B. WALLACE D.B. WENDE R. McDONALD D. THOMAS	Cominco Chemicals & Fertilizers B.C. Forest Products Ltd. Caribou Pulp and Paper Company Husky Oil Ltd. Prince George Pulp and Paper Ltd. Celgar Pulp Company Weyerhaeuser Canada Ltd. Council of Forest Industries Northwood Pulp and Timber Ltd. Westar Timber Ltd.
R.J. GATHERCOLE MS. J. VANCE	The Consumer's Association of Canada The Federated Anti-Poverty Group of B.C. The B.C. Old Age Pensioners Organization The Council of Senior Citizens' Organization
K.E. GUSTAFSON S. WORTLEY	Consumers Packaging Inc. Crestbrook Forest Industries Ltd.
DONALD CLARK HARRY SCOTT	Czar Resources Ltd. Wainoco Oil and Gas Limited
MS. E. SANDS MS. L. MALKIN	Fording Coal Limited
A. HOLLINGWORTH MS.J.A. SNIDER	Independent Petroleum Association of Canada
MS. E. DECTER	Petro-Canada Inc.
R.J. DOMER	The Sierra Club of Western Canada

APPEARANCES
(cont'd)

R. KLINE	Unocal Canada Limited
PETER GIBSON D. BLOOM	Westcoast Transmission Company Limited
D.L. RICE C.W. SANDERSON A.W. CARPENTER	Commission Counsel

W.J. GRANT S.S. WONG J. GRUNAU R. BROWNELL	Commission Staff
R. HARPER J. HODSON	Hearing Officers
ALLWEST REPORTING LTD.	Court Reporters

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1.0 BACKGROUND

The background to the Inland Natural Gas Co. Ltd. ("Inland", "Applicant") Application spans two years since the first government announcement that a competitive market for natural gas sales would develop in British Columbia. Prior to the summer of 1985, all natural gas producers in British Columbia sold their gas to the British Columbia Petroleum Corporation ("BCPC"). The Corporation in turn sold gas to Westcoast Transmission Company Limited ("Westcoast") for delivery to distributor utilities in British Columbia and for export to the United States. On March 28, 1985, the Governments of Canada, British Columbia, Alberta and Saskatchewan entered into an Agreement, commonly known as the Western Accord. The Western Accord initiated a process of replacing government-set prices of oil and natural gas with prices set by the market. The Natural Gas Price Act was proclaimed in British Columbia effective July 1, 1985. This Act provided sweeping changes to the marketing system for natural gas within British Columbia, and along with revisions to the Petroleum and Natural Gas Act, established a new royalty system and authorized producers to sell their natural gas to customers other than BCPC.

In late October 1985, an agreement was struck between the Governments of Canada, British Columbia, Alberta and Saskatchewan on Natural Gas Markets and Prices. This Agreement reinforced the earlier provincial initiatives by signalling the governments' intent that immediate steps be taken to enable consumers to enter into supply arrangements with producers at negotiated prices. The agreement fosters a competitive market for natural gas in Canada.

As part of the Agreement on Natural Gas Markets and Prices, the Government of Canada established a Pipeline Review Panel to undertake an all-encompassing review of the role and operations of interprovincial and international pipelines engaged in the buying, selling and transmission of gas. The Pipeline Review Panel issued its report in June 1986. The report sets out the Panel's views on many aspects of interprovincial trade in natural gas. The Panel also came to conclusions with respect to distribution services within Canada.

Inland was the first utility in British Columbia to file Transportation Rate Schedules with the Commission. Rate Schedules 15 and 16 were accepted by the Commission for filing on an interim basis, effective October 11, 1985. In accepting the filings on a interim basis the Commission recognized in Order G-82-85 that changes to the tariffs would be required.

In December 1985 the Commission issued an Order requiring Inland to amend its Transportation Tariffs to remove any reference to net income indemnification. In 1986, complaints by Industrial customers and producers persisted with respect to the Terms and Conditions in the Inland tariffs. The Commission responded to these concerns and the need to establish Transportation Tariffs for all major gas utilities in the Province by issuing a letter in July 1986 requiring all utilities to file Transportation Tariffs with the Commission in September 1986.

In October 1986 the Commission heard several complaints regarding the Inland Transportation Schedules pertaining to the availability and appropriateness of those Schedules for particular negotiated agreements to be effective November 1, 1986. At that time there was an urgent need to deal with the individual contract arrangements since some Industrial customers were eligible to commence transportation services effective the start of the gas contract year, November 1, 1986. As a result of these hearings several Industrial customers, represented by Mr. R.B. Wallace, accepted the Inland Transportation Schedules on an interim basis so that transportation service could commence. However, the Industrial customers made it clear that they took exception to many of the Terms and Conditions in the Transportation Schedules and would press for changes to the Schedules without prejudice of them having entered into transportation service November 1, 1986.

Considering the need for a final review of the transportation services offered by Inland, the Commission determined that the transportation service functions of the utility would be reviewed in full as part of the Inland Rate Design Application. The Commission set that hearing to commence on

February 10, 1987. At a pre-hearing conference in December 1986, the Producer and Industrial intervenors intending to participate in the hearing requested the Commission to provide a facilitator/mediator to assist the parties in negotiating changes to the Transportation Schedules before commencement of the hearing. Inland accepted this proposal and a consultant was made available to assist the parties. Certain hearing participants later requested a delay in the hearing commencement so that new information could be assimilated. The Commission postponed the hearing until March 3, 1987 to commence in Prince George, B.C.

Following a week in Prince George, the hearing moved to Kelowna the week of March 10, 1987. At the end of the Kelowna session the Applicant and some participants requested that the Commission adjourn the hearing for two weeks so that further negotiations on Transportation Schedules could be undertaken by the participants. The Commission acceded to this request and the hearing was adjourned. Thereafter, the participants requested additional time to continue negotiations and the hearing did not resume until May 19, 1987 at Vancouver. In an attempt to expedite the hearing this session was to deal solely with issues arising out of the provision of transportation services by Inland. The hearing continued without interruption until conclusion of the argument of the transportation phase of the hearing on June 3, 1987.

Inland initially proposed three Transportation Schedules (15, 16 and 17). These schedules provide for various types of transportation service coupled with utility sales of interruptible gas. Inland later filed, at the request of the Commission, Documents 1 and 2 which allow for the use of interruptible transportation gas and Document 3 which provides for transportation service solely on Inland's system requiring the transportation customer to make separate arrangements with Westcoast. Inland now proposes that Documents 1 and 2 become Schedules. At the further request of the Industrial intervenors Inland filed Documents 4 and 5 which provide for other types of transportation service on the Inland system where the customer arranges his own transmission with Westcoast. Inland opposes Documents 3, 4 and 5 for reasons discussed in this Decision.

The hearing of this first phase of the Inland Rate Design Application required nineteen sitting days. The next phase of the hearing commences June 22, 1987 in Kelowna, B.C.

2.0 UTILITY ENVIRONMENT

As the participants in this hearing and the Applicant will no doubt attest, the development of Transportation tariffs to meet the diverse interests of all the parties involved has been a lengthy and difficult task. One should not be surprised that it has been difficult for Inland and its Industrial customers to agree on the mechanisms and conditions of gas service in the new era of competitive marketing. The extent of change over the past two years has been profound, and many structural impediments continue to exist which frustrate the evolution of a truly competitive market for natural gas.

In the past year the price of natural gas purchased by Inland from BCPC has fallen from a single price of $1.86/gigajoule ("GJ") prior to November 1, 1986, to a three-tiered price in effect this current gas year. The Industrial price of natural gas has seen the greatest decline, to a price of $1.03/GJ. While the price of gas Inland is able to offer through utility sales has fallen substantially, the utility is not yet able to purchase natural gas directly from producers due to contractual commitments to Westcoast and BCPC. Inland is therefore concerned that producers selling directly to Industrial customers may undercut the fixed utility price of natural gas.

Inland has also seen a substantial change in the manner in which it pays for transmission services from Westcoast. Westcoast has altered its rate structure to provide for full demand/commodity pricing. The incorporation of the new price structures into Inland's rates has been accomplished on a load factor basis so that the high load factor Industrial customers have seen a reduction in transmission charges, while the low load factor customers have seen their transmission rates increase.

Not only have the new policies changed the method of doing business by the utility and its customers substantially, but the existence of many interrelated contracts between the parties has exacerbated the situation so that as one party becomes free from contractual obligations he may attain an advantage over other market participants who are bound by longer term contracts or other restrictions.

3.0 DECISION ISSUES

The Commission's intention in issuing a Decision following this phase of the ongoing Inland Rate Design hearing is to assist all parties participating in the hearing by clarifying the Commission's views on certain matters regarding the terms and conditions embodied within the Transportation Schedules proposed by Inland. Various participants have made it clear that the final determination by customers in choosing between utility sales and transportation service, or potential future by-pass of the Inland system, will depend on a total package of terms, conditions and rates offered in the various schedules. The Commission recognizes this fact but finds that it is able to give relatively clear direction to the parties with respect to many of the proposed terms and conditions in the new Transportation Schedules. With regard to pricing issues, the second phase of the Rate Design hearing commencing June 22, 1987 in Kelowna will consider in detail the quantity of the rate which is just and reasonable, and the method by which that rate is structured in each Schedule. At this time the Commission is only able to give conceptual direction to the participants on pricing matters as they relate to utility sales versus transportation service.

Following are 14 issues which the Commission has considered and on which the Commission is prepared to give direction at this time. Inland is instructed to revise its Transportation Schedules to incorporate the views of the Commission from this Decision in new filings to be made on or before June 26, 1987.

3.1 Pricing Methodology between Schedules

In considering the matter of pricing at this stage in the Inland hearing the Commission can give guidance on the following two matters:

3.1.1 Consistency in Pricing

The Transportation Schedules proposed by Inland provide for a level of parity in pricing between similar types of utility sales and transportation service. Inland argued that the only difference between the transportation service rates and the utility sales rates should be a reduction from the sales rate to incorporate avoided costs, and an addition to recognize added costs to the remaining utility sales customers. The Producer groups and the Industrial customers have agreed with Inland on this rate determination philosophy with the conditions that the costs should be identifiable and Inland should not consider added gas purchase costs to the core market* as an added cost. In recent drafts, Inland has not included indemnification for increased gas purchase costs to the core market in its pricing proposal, and has stated that type of extra cost would not be caught up in the indemnity.

Inland has also made the point that those parties who benefit from the new policies of competitive marketing should also bear the risk. Inland put forward that principle in Exhibit 56, at Tab 1, page 7, paragraph 10 and further stated in evidence that "the Residential and Commercial customers have not benefitted from deregulation and transportation service while the Industrials have benefitted enormously". There were no serious arguments by other parties against the general principle that those who benefit from the competitive market environment should absorb the risk which may accompany this competitive environment although other parties did not agree with Inland's characterization of who had benefitted from deregulation, or the magnitude of that benefit.

The Commission strongly believes that the base rate for comparable sales and service schedules should be consistent. In fact, the rates proposed by Inland are essentially identical, with any added costs being recovered through the indemnification clause.

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* The core market comprises all residential and commercial customers plus those industrial customers choosing to purchase sales gas from Inland.

The Commission further believes that when it considers benefits or added costs which may adjust the overall rate of a particular schedule, care must be taken to only incorporate real costs which a customer choosing transportation service imposes on the remaining sales customers. These costs should not be interpreted so broadly as to include any benefits which a customer may have previously provided to the overall system but is now taking with him in choosing to move to transportation service. For example, at one time Inland believed that to the extent that an Industrial customer damaged the overall load factor of the utility sales, and thereby made it more difficult for the utility to purchase gas at advantageous prices in the field, the customer choosing transportation service should indemnify Inland for those increased costs. This is a clear example where the Commission believes that the high load factor customer now choosing transportation service would simply be taking his inherent load factor benefits with him and should not be penalized for so doing.

As an example of added costs that a transportation customer may inflict on the remaining customers, the Commission views the current revenue credit indemnification as being an example of the type of cost which should be recovered.

The Commission feels obliged to also provide some direction with respect to the pricing of large Industrial interruptible sales versus interruptible service. It may be argued that interruptible service customers are making use of pipeline space paid for by the core customers. If this can be shown to be true at the Kelowna session, and if the interruptible service customers are no longer providing benefits to the core market from improved load factor, an argument may be made that the interruptible service transportation margin should include some payment to compensate the core market for the use of its space by the interruptible service customers.

3.1.2 Westcoast Demand Charge Allocations

In formulating its contract demand nomination with Westcoast each year, Inland typically sums the peak and contractual requirements of firm gas sales and reduces that sum by an amount of one-half of the contracted deliveries to large firm Industrial customers. The reduction in the nomination accounts for the fact that Inland can rely on curtailment of its large firm Industrial customers to 50% of their own nomination with Inland for a period of up to five days in each contract year. Recent adjustments in Inland's schedules of rates to account for changes in Westcoast charges have consistently allocated demand charges to the Industrial "firm" customers based on 50% of nomination.

The current Inland proposal is to adjust that portion of its rates attributable to Westcoast charges to account for a 100% allocation of demand and commodity costs from Westcoast. Commensurate with this increase in allocated Westcoast charges is an equal reduction in margin allocated for Inland services. Although this matter was not fully canvassed in this first phase of the hearing, the Commission wishes to register its concern that the current allocation methods may not correctly apportion costs from Westcoast. A problem may develop if future Westcoast cost increases, or decreases, are allocated on a percentage basis. For example, if exports were to increase dramatically in future years, the Westcoast charges could fall as a result of better utilization of the system. In such an event it will be important to have correctly allocated the costs of transportation between Westcoast costs and Inland costs. In this regard, the Commission expects Inland to further develop its allocation rationale in phase two of the hearing and demonstrate how future cost assessments from Westcoast would be passed on to Inland's various classes of customers.

3.2 Indemnities

Inland's indemnity provisions are found in Article VIII of the Schedule 15 Transportation Service Agreement, and similar provisions are in other Transportation Service Agreements. Under the Indemnity Inland proposes that a customer taking transportation service ("the Shipper") be required to indemnify Inland, if, as a result of the Shipper fully or partially meeting its natural gas requirements by means of transportation services, Inland experiences higher gas supply expenses than it would have had the Shipper satisfied its gas supply requirements by purchasing gas under Schedules 11 or 12 from Inland. Inland also provides for an indemnity under Article 6.2 of Schedule 15 for damages, amongst other things, incurred by Inland as a result of the shipper failing to meet its commitment to deliver gas under the Schedule.

Inland's philosophy is that those who gain the benefits from the direct purchase of gas should also bear the costs. Therefore, any increased gas supply expenses incurred by Inland should be borne by the Shippers. Inland identified four such expenses: franchise fees; any difference between a volume and a revenue credit on Westcoast's system if the National Energy Board does not grant a volume credit; any take-or-pay liability Inland incurs with Westcoast; and, unknowns. Franchise fees are covered elsewhere in the Schedules. Inland's blanket indemnity covers the other items.

The Producers and Industrial customers agreed that the core market should not bear the burden, if any, of a shortfall between a volume and a revenue credit and the risk of take-or-pay. With respect to take-or-pay, however, the Industrial panel stated the risk is simply too great for them to bear.

In general, the Producers and Industrials felt that the Indemnity is much too broadly worded and the unidentified risks are too great for them to accept. They urged that the Indemnity deal with specific items only and any unforeseen items be left until they arise.

The Commission agrees with Inland that the core customers should not bear the risk with respect to any shortfall of revenue credit and any take-or-pay liabilities. However, these items should be specifically itemized indemnities (similar to franchise fees) to be paid if they emerge. The Commission recognizes that the take-or-pay matter may be too large for either party to bear and for this reason hopes that it is resolved before the National Energy Board or between Inland and Westcoast so that direct purchases can, in fact, take place. The take-or-pay issue may be resolved for the 1987/88 gas year, but until it is permanently resolved between Inland and Westcoast it is so large a liability it cannot be accepted by the core customers alone.

With respect to the issue of the unknowns, transportation agreements have been in effect on the Inland system for the past nine months and the Commission would have thought there would be few, if any, unknowns. On the other hand, unknowns may surface that legitimately should be borne by the direct purchase customer. The Industrials' concern is that they be entitled to address who should be responsible for the liability and that the liability not be retroactive. Inland agreed with the hearing concept; however they argued that a clause needs to be in the Schedules to ensure any decision could in fact be retroactive.

The Commission is not prepared to accept a broad unspecified Indemnity and instructs Inland to remove reference to Indemnification for unknown reasons. The Commission will deal with specific new Indemnities as and when they occur. The Commission recognizes that additional operating costs or other expenses may develop as a result of Transportation service. Inland may wish to address how these costs could be recovered from Transportation customers so that core customers are not harmed. One method that could be considered is a specified allowance in the Transportation Schedules which would be credited directly to the core customers.

3.3 Curtailment Provisions

The present Tariff Schedule 11 of Inland provides for five days of curtailment to a 50% level. Inland proposes to increase the right of curtailment to 10 half-days, both for sales under Schedule 11, and for curtailable Transportation Service. Inland also proposes to change the wording in that provision slightly to increase its flexibility by setting out that a customer and Inland can agree to less than a 50% curtailment on a particular day, with the balance of the curtailment to be on another day. Inland has proposed a non-curtailable Transportation service under Schedule 17 but has not proposed a similar sales Schedule.

Inland argued that its proposal to increase the curtailment to 10 half-days provided a very low cost method of dealing with what Mr. Powell called a "needle peaking" situation. Inland provided evidence that theoretical studies undertaken by the utility demonstrated that under certain design conditions the 10 half-days of curtailment would be fully utilized by Inland. The evidence also showed that on a historical basis Inland could not identify any year in which its records showed that it had curtailed up to the current five half-day limit.

Mr. DeBiasio, on behalf of Cominco and Mr. MacMillan, on behalf of Prince George Pulp and Timber testified that they favoured retention of the current five half-days of curtailment but were willing to offer Inland peak-shaving services for an additional five half-days of curtailment, with Inland paying the fuel and other operating costs to effect the demand reduction. Mr. Howell, for Consumers' Packaging gave evidence to show that the nature of its operation was such that curtailment to 50% of its nomination on any day would result in a shut-down of manufacturing. Consumers' Packaging strongly opposed any increase in the curtailment right by Inland.

The Commission recognizes that the existing curtailment rights of Inland with its "firm" Industrial customers provide a substantial peak-shaving benefit to both the company and those Industrial "firm" customers. An additional increase in curtailment for five extra half-days would be advantageous if the base of the "needle peak" discussed by Mr. Powell is greater than five days, after considering platooning of curtailment rights to effectively broaden the base. The Commission has considerable difficulty however, with a mandated change to 10 half-days of curtailment incorporated in a firm gas contract. While the Commission is not prepared to increase the extent of curtailment, it finds favour with Inland's proposal that a short-fall in curtailment in one day can be carried over to another day.

As Inland is considering peak-shaving options the Commission believes it would be most prudent for the utility to avail itself of the offer of additional peak-shaving put forward by Cominco and Prince George Pulp and Timber. Inland should also consider allowing customers like Consumers' Packaging to negotiate a reduction in their existing curtailment responsibilities by entering into contracts with other Industrial customers to provide those curtailment rights or, in the alternative, pay Inland a higher rate to reflect the improved quality of service desired.

3.4 Confidentiality of Prices

The matter of confidentiality of prices occupied more hearing time than any other issue. Inland proposed that there should be confidentiality of burner-tip prices and margins of utility sales to allow the utility to compete with direct sales because it's cost of gas is public knowledge at this time. Inland is prepared to have the margin of its sales rates become public when the rate is unbundled to establish a transportation service rate because the cost of gas to transportation service is confidential. In evidence Inland acknowledged that while the existing commodity cost of gas to the utility is known it may become confidential effective November 1, 1987. Even if the rate remains public for the upcoming contract year, Inland will be able to attain some measure of confidentiality when the Government and existing contracts allow it to purchase gas from suppliers other than BCPC. Inland also proposed that its "negotiated" rates remain confidential to allow the utility to meet competition from competing fuels and to allow it to negotiate on an individual basis.

Other participants at the hearing argued against confidentiality of Inland's margin. Mr. Gathercole noted that revenue shifted as a result of discounted confidential margins by Inland could be automatically transferred to core customers via the Gas Pricing Clause ("GPC"). In argument he submitted that, "the core customers will be being used to subsidize Inland's undercutting its competition, and in order to see whether that is happening we need more information."

The Industrial customers argued in favour of public margins noting that recent disclosure of final offer prices by Inland to its non-captive customers had not led to a "me too" reaction of all customers demanding the lowest rate.

The Producers also argued against confidentiality noting that the consideration of choosing one gas source against another should relate to competition in the field, and not to the monopoly transportation systems. The Independent Petroleum Association of Canada ("IPAC") urged the Commission to cause Inland to separate the regulated transportation function of Inland from the function of buying and selling gas.

The Commission strongly supports the notion that margins for monopoly transportation sales and services should be public. The Commission recognizes that this could put Inland at a competitive disadvantage for the upcoming contract year if the prices of gas negotiated by Inland are made public. The Commission directs Inland to make the margins on all Industrial sales and transportation schedules explicit in those schedules. If however, Inland is ultimately allowed to negotiate discounts in the margin for customers considering alternative fuels or by-pass the reduced margin for those customers will be filed as a public Tariff Supplement when accepted by the Commission. Any reductions in margin will be offered equally to sales and service options.

With respect to authorized overrun ("AOR") gas Inland wished to have the rate for AOR sales remain confidential. The Commission believes that the margin for AOR sales should be public. However, as stated earlier in this Decision the Commission may consider a differential margin between sales and service of interruptible gas to account for the use of the valley in the core customers nomination with Westcoast. Through such methods the core customers would retain a high load factor from AOR sales or be compensated by interruptible transportation customers for the use of core customer pipeline space.

3.5 Force Majeure

The provisions regarding force majeure found in Inland's Transportation Service Agreements vary depending on, for instance, whether the transportation service in question is firm or interruptible. There would appear to be two general issues in dispute. The first is whether Shippers should receive credit from Inland for Westcoast charges incurred during a declaration of force majeure due to strikes or lockouts. The second issue considers whether Shippers should only be entitled to relief from their contractual obligations during an event which would have given rise to a declaration of force majeure by Westcoast prior to November 1, 1985.

Inland's Large Industrial sales customers are relieved from paying Westcoast charges under the existing Schedule 11. However, Inland's evidence is that it no longer receives such credit from Westcoast. It would appear that all of the parties agree that the strike relief provisions should mirror one another under either utility sales or transportation service. Inland argued this should reflect their current situation with Westcoast and the Commission agrees. If Inland must continue to pay Westcoast tolls and tariffs notwithstanding a declaration of force majeure due to strikes or lockouts and could not be reimbursed by the sales or service customer, Inland would be bearing the risk of its customers' labour situations. This is clearly unacceptable. The force majeure provisions dealing with Westcoast tolls and tariffs during strikes or lockouts shall remain in the form found in the proposed tariffs. The Commission recognizes that Inland may have to adjust the amount it is collecting under its strike adjustment clause to reflect this.

With respect to a Shipper being able to declare force majeure only in situations where Westcoast would have declared force majeure prior to November 1, 1985 the Commission finds this equally unacceptable. A force majeure provision is intended to provide relief from contractual obligations where events occur beyond the control of the contracting party. Inland's concern that Shippers may not offer adequate diversity of gas supply is not a force majeure question but one of whether adequate back-up supply is provided sufficient to reduce the risk of a failure of gas supply in reasonable circumstances. Inland has required this diversity of gas supply under the applicable schedules. Inland is therefore directed to remove Article 12.3 from the Schedule 15 Transportation Agreement, and similar provisions in other agreements.

3.6 Daily Versus Monthly Gas Balancing

Inland provides monthly gas balancing on existing Schedule 11 and the proposed Schedules 15 and 16. Inland has also provided for monthly gas balancing in Document No.5. Daily gas balancing is required for Schedule 17, Documents 1, 2, 3 and 4.

Dealing first with Schedule 17, which is a Schedule that provides for AOR sales, Inland's evidence is that it only wishes to provide daily gas balancing because this Schedule is not curtailable by Inland. Inland argued that the provision of monthly balancing allows those Industrial customers to enter into gas supply contracts at improved effective load factors which will result in lower negotiated wellhead prices. Inland wished to encourage Industrial customers to make use of Schedule 15, rather than Schedule 17, because of the curtailment rights under Schedule 15.

The Commission notes that Schedule 17 includes additional charges in the Inland margin which exactly equate with 50% of the demand charges from Westcoast. Therefore, to the extent Inland might have to increase its nomination by 50% of a Schedule 17 customer's own nomination, Inland has already compensated itself in the Schedule 17 rate for the additional demand cost with Westcoast. Also, Mr. VanGenderen testified there would be some offset because more valley gas would be available for AOR or Interruptible sales. The Commission concludes that Inland should provide monthly gas balancing for Schedule 17 because Inland has fully compensated itself for the additional demand charges liable from Westcoast.

Turning to Documents 1, 2, 3 and 4 Inland argues that there cannot be monthly gas balancing on those schedules because of the inherent differences between transportation service gas being used for interruptible purposes as opposed to AOR sales. The problem appears to be that an Industrial customer nominating interruptible service will cause Westcoast to deliver the nominated volume of gas that day under interruptible service. Inland argues that it will be liable to Westcoast for those interruptible service charges because of the "shotgunning" technique used to deliver the gas. Inland argued that because of the Westcoast provisions it is unable to offer monthly gas balancing for Documents 1, 2, 3 and 4 without incurring added costs to the core market.

The Commission accepts, at this time, Inland's testimony with respect to the need for daily gas balancing on these Documents. However, the Commission views monthly gas balancing as a desirable feature to be offered to all Industrial customers on the Inland system. The Commission encourages Inland to investigate ways to provide this balancing without added cost to the core market. This could perhaps be accomplished by modifications to the Westcoast contract or adjustment to the Documents so that the interruptible customer will absorb any remaining costs as a result of the provision of monthly balancing to the Documents.

3.7 Producers as Shippers

This issue is whether Producers should be allowed to be Shippers on Inland's system. Inland argued they should not for the reasons set out in the evidence of Mr. Arthur found under Tab 2 of Exhibit 20 and on pages 1 and 2 behind Tab 1 of Exhibit 56. Inland is concerned with the creditworthiness of possible Producer/Shippers; the necessity to deal with end-users in the management of its system (including ensuring that it has access to the end-user's property and the right to curtail the end-user); the possible monopolization of Inland's system by producers tying up capacity; and, the possible breach of franchise agreements including a possible reduction in revenue to the Municipalities.

The Municipalities supported Inland's argument although they did not appear to object to the principle of producers being Shippers, but rather to the possible reduction in revenue from franchise fees.

The Producers want to be Shippers so they may offer "one-stop shopping" to direct gas purchasers, including bundled sales service very similar to Inland's current sales tariffs. They rejected Inland's arguments saying those difficulties could be covered by provisions in the Transportation Schedules or in individual operating agreements. Inland's witnesses agreed this could be done but argued this would add undue complexity without any apparent benefit. The Industrials, Consumers Packaging and IPAC basically echoed the Producers' sentiments.

The Commission believes Producers should have access to Transportation Service Schedules as Shippers. However, the Commission acknowledges Inland's concerns with respect to creditworthiness and monopolization of Inland's system. Both of those matters should be covered in the Transportation Schedules along with other requirements like access to the end-user's property.

The Commission is not in a position to attempt to interpret the franchise agreements to determine whether Producers being Shippers would constitute a breach of such agreements. Inland was concerned with the possibility that an injunction may prevent producers from supplying gas within the municipalities and that the end-users would possibly have to go back to Inland to arrange for their transportation requirements. However, the Commission notes that the Producer will have nominated with Inland and this space will be available in a practical sense. It may be that the Transportation Agreement may simply be assigned.

The Commission recognizes that franchise matters will be discussed further in Kelowna. It is also worth noting that the current Schedules provide for the payment of franchise fees above those currently collected if it is determined these fees must be paid.

3.8 Shippers Holding Contracts With Westcoast

Inland strongly opposed Shippers holding their own contracts with Westcoast. Inland has raised various problems related to this issue including its exclusivity clause with Westcoast and the potential for further reductions in franchise fee revenue to municipalities. Apart from several contractual impediments there appear to be two main issues related to Shippers holding contracts with Westcoast. First, Inland holds the view that if an Industrial customer acquires its own contract with Westcoast it will be one step closer to by-passing the Inland system. The Industrial customers have countered this argument by stating that acquiring their own contracts with Westcoast is such an important issue that if it is not provided they are likely to be forced to by-pass the Inland system, should this be available.

The second concern raised by Inland is that Industrial customers obtaining their own contracts with Westcoast will attempt to contract gas behind the McMahon processing plant to minimize their cost of delivering marketable quality gas on the Westcoast system. Inland would also like to maximize its reserves behind the McMahon plant to reduce costs for the core customers.

Inland argued that it may be impeded from competing for plant capacity until 1991 when the Inland/Westcoast contract expires. However, other evidence at the hearing has identified the potential for Inland to contract for gas sooner than 1991.

The issue of allocating space behind the various gas processing plants in British Columbia may be unique in North America. The resolution of this issue is a perplexing problem being discussed not only in this hearing, but before the National Energy Board and between BCPC, the B.C. Government, the distributor companies and producers. Ideally, the allocation of space behind the processing plants could be determined in a way which would allow the British Columbia distributors and Industrial customers fair and equal access to the capacity at the same time.

In this regard Inland gave assurances in its argument that it would deal in some equitable manner with plant capacity with its Industrial customers when Inland itself is able to buy gas directly.

The Commission supports the desirability of Shippers having the right to contract for services from Inland related solely to the Inland transportation system if they can arrange their own transportation with Westcoast. The Commission therefore finds Documents 3, 4 and 5 to be desirable. The Commission believes that these Documents should be filed as Rate Schedules so that Industrial customers can at least avail themselves of currently uncontracted capacity behind the various gas processing plants in British Columbia, if that is their desire. The Commission recognizes that allocation of plant capacity is an important issue to the distributors although it is beyond the Commission jurisdiction. Because the issue has the potential for frustrating government policies concerning competitive marketing the Commission urges Inland, for its part, to seek an early resolution of the plant capacity problems with Westcoast and BCPC. The Commission does not believe this issue can be allowed to persist until 1991, as indicated by Inland.

3.9 Transportation Services for Inland's Schedule 5 Customers

Inland is committed to providing Transportation Service to its Schedule 5 customers commencing November 1, 1988 subject to the prior resolution of a number of issues. The Industrial panel urged the Commission to order Inland to provide Transportation Service to these customers as soon as possible.

The Commission is encouraged that Transportation Service will be made available to Inland's Small Industrial customers. This will enable them to engage in the direct purchase of natural gas. In addition, it may relieve some of the competitive pressures from alternative fuels Inland is experiencing with respect to these customers and which we expect to hear more about in the second phase of this hearing.

Inland stated that certain issues must be resolved before they can provide this service. For the most part, these are the same issues which are being resolved for Large Industrial Transportation Service to take place. The differences, if any, relate to the size of the load and the service that the Small Industrials are presently receiving. The Commission accepts Inland's argument that they must learn to walk before they can run. However, Transportation Service should be available to Inland's Small Industrial customers commencing November 1, 1988. To ensure that this service is in fact available at that time, Inland is directed to provide the Commission, by October 1, 1987, with draft schedules it feels are necessary to provide this service. Inland should at that time clearly identify what notice requirements it will require from Schedule 5 customers moving to Transportation Service.

3.10 First Call Priority

Inland requires that Shippers choosing Transportation Service provide a diverse gas supply to ensure that adequate gas will be available on days when Inland is curtailing the transportation customer. As part of the diversity of gas supply Inland requires that the Shipper have at least 75% of his maximum day transportation volume ("MDTV") as first call priority gas. The first call priority means that the gas is not under contract for delivery to other parties at an equal priority to the delivery to the Shipper.

Inland stated in argument that the 75% level of first call priority was a good starting point. Counsel for Inland further stated, "But I suppose if at some future date it was demonstrated that there was a good reason to change from that, we'd be prepared to listen at that time."

The Industrial customers did not take issue with Inland's 75% requirement for first call priority gas volumes, since the Industrials felt that, in most cases, they would require equivalent or better security of supply for their own operations.

The Producer groups argued that the level of first call priority, and the diversity of supply behind any transportation contract should be determined by the independent gas supply consultant.

The Commission recognizes that there can be many sources of gas supply, with varying levels of priority, which may be contracted as primary and back-up supply for a particular contract. The Producers demonstrated at the hearing how they had provided for interlocking arrangements of gas supply amongst themselves which made available many wells behind at least two of the gas processing plants in British Columbia to supply gas to their Industrial customers. In addition, these Producers were prepared to make Alberta gas available in the event all B.C. gas was being utilized for other contracts. Such a situation would enhance the security of gas supply to all British Columbians during emergency periods.

The Commission is satisfied that the 75% first call priority volume is a good starting point for the transportation contracts. However, the Commission can visualize situations where the amount of first priority gas should be increased in percentage, and cases where the diversity is so complete that the percentage could be reduced as low as 57.5%. The level of 57.5% simply reflects the diversity of gas supply available from BCPC which is considered to be the most diverse gas supply historically available.

The Commission therefore directs Inland to modify its first call priority clause to allow the Company to either increase or decrease the percentage of first call priority gas depending upon the diversity of gas supply offered for a particular contract.

With respect to the use of Alberta gas, Inland's position is that this gas should be provided as back-up in emergency situations only. The Producers take the position that Alberta gas should be allowed when they have exhausted the B.C. sources of natural gas. The differences of opinion with respect to the use of Alberta gas were based on implications for increased costs to the core market of Westcoast gathering and processing facilities if Alberta gas substantially displaced gas production which otherwise would have come from British Columbia.

With respect to the use of Alberta gas the Commission does not take issue with the positions raised by any of the parties. The Commission believes that the provision of Alberta gas as part of the back-up supply arrangements to a transportation contract is desirable when the Alberta gas is to be used after B.C. sources of supply have been exhausted. This provision will ensure that the Westcoast processing facilities are not by-passed by transportation customers seeking lower cost processing. The Commission would not like to see a situation develop where Inland's core customers faced escalating processing costs due to transportation customers choosing gas processed outside B.C.

3.11 Nomination Lead Times

Under the current Inland/Westcoast contract, Inland is required to nominate its contract demand twelve months in advance of the contract year for which the contract demand will apply. Inland therefore requires that its Industrial customers give the utility thirteen months advance notice of the Industrial's nomination. During the past year Inland and Westcoast have allowed the Industrial customers latitude in choosing between utility sales and transportation service for some period after the nomination deadline. At this time the date for choosing between utility sales and transportation service for the contract year commencing November 1, 1987 is September 1, 1987.

The long lead-time in making nominations has been a sore point between Industrial customers and Inland, and, in turn, Inland and Westcoast for some time. More flexibility and shortened lead-times would seem to be required in the current competitive marketing era.

Mr. DeBiasio raised interesting points during his examination by Inland's Counsel. At page 2535 of the transcript, Mr. DeBiasio suggested the Commission order Inland to have the nomination period shortened. Mr. DeBiasio pointed out that he was very impressed when the Commission ordered Inland to extend the date for choosing between sales and service this year and "lo and behold it happened". The Commission believes that the nomination lead-times included in the Inland/Westcoast contract are excessive and are not responsive to government policies fostering a competitive marketplace. In the spirit of the government agreements, and as discussed in the Pipeline Review Panel Report, this type of issue should be renegotiated by the parties. The Commission is aware that this matter is being raised at the current N.E.B. review of Westcoast rates, but the Commission also directs Inland to pursue this matter privately with Westcoast and report back to the Commission by October 1, 1987.

While the Commission believes that shorter lead-times and greater flexibility in nominations are required, the Commission does recognize the need of the utility companies to plan for capacity additions and gas supply. The amount of prior notification of demand changes would logically depend on the magnitude of the change in demand. For example, a small change in demand can, in most instances, be accommodated without long lead-times.

3.12 Affiliate Transactions

IPAC raised the matter of affiliate transactions in paragraphs 59 and 68 of its evidence and in argument. IPAC urged the Commission to impose limitations on non-arm's-length purchasing by Inland from Inland Producer affiliates.

The matter of Inland's gas purchasing and competition with other Producers and Brokers was also discussed by Inland's Counsel with the Industrial panel. The potential for utilizing brokerage companies like United Gas Brokers was canvassed.

The Commission recognizes that inadequate evidence has been raised in the hearing so far to fully address the matter of affiliate transactions. However, the Commission is very concerned that it must come to grips with the appropriate structure of distribution utilities with respect to gas purchases and sales.

In the Pipeline Review Panel Report, that Panel came to the conclusion that, "for the development of an effective competitive marketing system, the panel considered it absolutely necessary that separate policy making, management, and accounting exist between the transportation services and any marketing functions of a pipeline company." With respect to distribution companies the Panel recommended "that distribution companies also review their corporate alternatives and move to the appropriate degree of separation between any unregulated gas purchase and marketing activities, on the one hand, and their regulated transportation activities and their full service to Residential, Commercial and non-direct sale Industrial customers, on the other hand."

If Inland proposes in future to charge different commodity prices for natural gas to different customers within a similar class, or if Inland proposes to purchase natural gas from any non-arm's-length brokerage or production company, Inland is instructed to lead evidence in Phase two of this hearing on the appropriate corporate structure to ensure equitable treatment for all core customers.

3.13 Prior Termination of Contracts

Article XI in the Schedule 15 Transportation Agreement, and similar articles in other Transportation Schedules, deals with the prior termination of a Transportation Agreement if one party fails to perform any of the obligations imposed within the Agreement. The Commission is satisfied with the Article as far as it goes. However, the Commission is concerned that a utility could be left with substantial undepreciated pipeline assets through the prior termination of a contract.

Dealing first with a new customer, the Commission envisages situations where Inland would extend a separate lateral to a new Industrial customer. In so doing it would be prudent for the utility to enter into a long-term agreement with the Industrial customer, or to ensure that should the Industrial customer leave the Inland system prematurely the assets put in place for the customer would be paid for by that customer. As an example, Inland might consider an initial five-year agreement with a new customer with a proviso that should the customer not extend the contract beyond five years he would be liable for the then depreciated assets that were put in place to accommodate that load and which have no residual value if the customer terminates service.

In the case of Inland's existing customers, particularly those customers who have been with Inland for ten years or more, the Commission believes that it is appropriate to continue contract extensions on a yearly basis or longer depending on the wishes of the Industrial customer. These customers have now been with Inland for some period of time and can be considered to have contributed greatly to the assets of the utility put in place for their use.

Finally, one must consider any customers who might leave the Inland system to use alternative fuels, or to construct a by-pass pipeline. Depending on the circumstances it might be appropriate to charge such customers a re-entry fee should they wish to rejoin the Inland system at a future date. Such a re-entry fee would be appropriate if the opting in and out of customers created gyrations in rates to other customers and difficulties in gas supply arrangements. Inland may wish to address this matter further in the second phase of the hearing, or at a future date. The Commission does not consider that a re-entry fee is appropriate for customers choosing to obtain their natural gas via Transportation Service as the transportation customers are still utilizing the Inland pipeline system and contributing to it. However, Transportation Service customers wishing to return to sales service may be exposed to gas commodity prices available at that time.

3.14 Producer's Declaration

The Producer's Declaration is provided for in those Transportation Schedules where Inland has the right to curtail the Shipper. The necessity of Inland ensuring that this gas is available has already been discussed. The Commission is aware that the form and content of the Producer's Declaration has gone through a number of changes including the removal of the requirement that the Declaration be sworn. The only remaining issue is with respect to paragraph 6 which reads as follows:

> "6. The Producer acknowledges and understands that the matters declared herein will be relied on by Inland in assessing and arranging its natural gas supply requirements."

Inland argues that this provision is necessary to ensure that the person signing the Declaration recognizes the importance of the accuracy of the information contained in the Declaration. The Producers took exception to the provision, arguing that it goes beyond the scope of what needs to be covered in the Declaration and is not necessary or appropriate. As an alternative, they urged Inland to allow the provision to be covered in a preamble or a covering letter.

The Commission concurs with Inland's position on this matter. The very reason there is a need for a Declaration is for Inland to ensure, to the maximum extent possible, that the Shipper's gas will be available for the core market on the coldest winter days. Inland should and will be relying on the information supplied by the Producer in assessing and arranging its natural gas supply requirements. Paragraph 6 should be retained in the Producer's Declaration.

4.0 DECISION

The Commission directs Inland to make the necessary changes to its proposed Schedules to reflect the Commission's views contained in this Decision. The revised Schedules and Documents 1 through 5 are to be filed on or before June 26, 1987 as specified in attached Order No. G-37-87.

DATED at the City of Vancouver, in the Province of British Columbia, this 17th day of June, 1987.

M. TAYLOR, Chairman

J.D.V. NEWLANDS, Deputy Chairman

N. MARTIN, Commissioner

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER
NUMBER G-37-87

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission Act, S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF an Application by Inland Natural Gas Co. Ltd.

BEFORE:	M. Taylor, Chairman; J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	June 17, 1987

O R D E R

WHEREAS the intent of the Agreement dated October 31, 1985 between the Governments of Canada, British Columbia, Alberta, and Saskatchewan was to foster a competitive market for natural gas; and

WHEREAS the provision of Transportation Service by Inland Natural Gas Co. Ltd. ("Inland") is a necessary step in the movement towards a competitive market for natural gas; and

WHEREAS certain Industrial customers and Producers of natural gas have complained to the Commission regarding the Terms and Conditions of Inland's provision for such Transportation Service; and

WHEREAS Inland has applied to the Commission for approval of the Terms and Conditions under which it sells natural gas to certain of its customers and under which it provides Transportation Service to certain of its customers; and

WHEREAS the Commission has held a hearing inquiring into the appropriate Terms and Conditions for which approval was sought and other matters incidental to the provision of Transportation Service; and

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WHEREAS the Commission considering it desirable to issue in a timely manner a Decision on these matters, including the complaints of certain Industrial customers and certain Producers, has issued its Decision concurrently with the date of this Order.

NOW THEREFORE the Commission orders that Inland comply with the directions contained in its Decision dated June 17, 1987, on or before the dates prescribed for compliance in the Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 17th day of June, 1987.

BY ORDER

M. Taylor

Chairman

BRITISH COLUMBIA UTILITIES COMMISSION

October 9, 1987

Inland Natural Gas Co. Ltd.
Box 12503
1066 West Hastings Street
Vancouver, B.C.
V6E 3G3

Attention: Mr. Don Fairbairn

Dear Sirs:

Re : Applications for Approval of Letters of Intent Between Inland Natural Gas Co. Ltd. ("Inland") and Prince George Pulp and Paper Limited ("PGPP") and Husky Oil Operations Ltd. ("Husky"), respectively

The Commission has reviewed the above-referenced Applications, as amended. The Commission has also reviewed the Inland letter of October 8, 1987 to the Commission further revising the Applications. The Commission has not completed it's deliberations on all matters related to the hearing of Inland's Rate Design Application, and therefore that decision will be issued at a future date. However, the Commission is aware of the need for a decision on the negotiated rates issue and then on the Application for negotiated rates for PGPP and Husky. The deadline you face with respect to allocation of processing capacity at the Westcoast Transmission Company Limited's McMahon plant, and the desire of all parties to avoid an additional bypass hearing if the hearing is not necessary, requires the Commission issue this partial decision on rate design matters and individual contracts at this time.

The Commission Panel considering the Inland Rate Design Application has determined that negotiated rates for industrial customers are desirable for those customers with a bypass option, with certain stipulations that are explained in this letter. Therefore, the Commission wishes to provide you with its views in the absence of complete reasons on the Rate Design Hearing to allow suitable arrangements to be made for the upcoming gas year.

As you are aware, Sections 64 through 66 of the Utilities Commission Act ("The Act") require that the rates Inland charges for utility service be just, reasonable and not unduly discriminatory. However, just and reasonable rates must reflect actual circumstances. One of these circumstances occurs where, through the existence of a competitive alternative, an existing customer may obtain its energy needs at a lower price than the postage-stamp rate available on the Inland system. This customer then has an incentive to leave Inland's system. In this circumstance, the Commission believes that it is appropriate for that customer to be able to obtain service at a lower rate to keep it on the system so long as it can be established that, for the duration of that customer's stay on Inland's system, the customer will at least be covering Inland's variable costs of serving that customer and making a contribution towards the fixed costs of the system. The Commission believes that such competitive rates are not unduly discriminatory or preferential.

A synthesis of all the evidence before the Rate Design Panel makes it clear that government policy makes the option of bypass a realistic possibility for some major interested customers. The Commission accordingly concludes that this bypass option must be viewed as a competitive alternative to service at Inland's existing rates and that lower rates should be available to certain customers in order to avoid their leaving the system.

The Commission further believes that the contribution a customer with a competitive alternative makes towards Inland's overall costs can be maximized if individual negotiations take place between Inland and these customers, rather than the Commission attempting to pre-set rates which will keep these customers on the system. Therefore, the Commission endorses the negotiation process which has taken place with PGPP and Husky, and approves of Inland negotiating with other customers who have competitive alternatives available to them.

Obviously, the approval of such a process places a great deal of responsibility on Inland to negotiate as prudently as possible to ensure that a customer is not kept on the system at rates which are subsidized by other customers and that the contribution from that customer is maximized. The Commission's role in reviewing the negotiated rates is to ensure that Inland has met this obligation to its other customers. The Commission will only approve rates that reflect the true cost of bypass to the industrial customer including valuation of additional benefits from staying on the Inland system, if those rates are not a detriment and provide a positive contribution to the other Inland customers. The Commission will accordingly continue to review the rates established by Inland to ensure that they are just and reasonable and that any revenue shortfall is fairly allocated. At this time, the Commission recognizes that the revenue shortfall will be made up from other customer rates. The Commission will continue to review decisions made by the utility to insure that all customers are treated fairly and that management continues to operate in a prudent manner.

With respect to the actual rates applied for in these Applications, Inland's October 8, 1987 letter of revision requests that, due to possible changes in the capital costs of these customers' bypass alternative, the first year rates in the

Applications be approved and the base rates for the second year and beyond be subject to the decision of the National Energy Board regarding the responsibility for costs on Westcoast's system.

Through the Rate Design Hearing and the information filed with these Applications, the Commission is familiar with the negotiations which have taken place between Inland and PGPP and Husky respectively. In addition it is aware of the circumstances of these customer's bypass options and continued service from Inland, Inland's costs of serving these customers and the effect that approval of the proposed rates will have on Inland's other customers. Under these circumstances, the Commission approves the first year rates proposed for service on the Inland system contained under Appendix "A" (revised) of the PGPP and Husky Applications respectively. The Commission agrees with Inland that base rates for the second year and beyond should await the revisions referred to in the October 8, 1987 revision letter. The Commission accepts the general principle, however, that future rates should continue to reflect the cost that each individual customer would incur if it went to bypass, including valuation of additional benefits from staying on the Inland system provided that those rates result in a positive contribution to other Inland customers.

With respect to this approval, Inland should not regard either the materials filed in these Applications nor the approval process undertaken as establishing a precedent for future approvals. The appropriate materials to be filed and procedure to be followed for future approvals, including whether a public hearing will take place, will depend on the individual circumstances of each case.

In addition to the above, the Commission wishes to indicate that, at this time, it generally approves of the terms and conditions set forth in the respective Applications, including the long term nature of the proposed agreements, with the following two exceptions. Firstly, the Commission does not believe that any future rate changes should or can, under the Act, be determined solely by the surcharge provision contained in paragraph 2 on page 2 of the Letters of Intent. As mentioned above, it is the Commission's ongoing duty under the Act to ensure that Inland's rates are just, reasonable and not unduly discriminatory. Under Sections 64 and 70 of the Act the Commission may be asked at any time to determine this. Although the Commission believes that the proposed Rates, Terms and Conditions meet this standard at this time, the Commission cannot fetter its discretion to revisit this question at some time in the future. Therefore, the Commission cannot answer the question whether any adjustments to the rates under the proposed surcharge clause will be accepted as just, reasonable and not unduly discriminatory until such adjustments are filed. Further, the Commission cannot say that, given changing circumstances, the proposed rates will remain just, reasonable and not unduly discriminatory. Inland's October 8, 1987 letter of revision, outlining a significant change, is an example of just one of these changing circumstances.

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Secondly, the Commission notes that the Husky Application does not contain the same paragraph on page 4 dealing with franchise fees as the PGPP Application. We would ask that Inland confirm that it is Husky's intention to indemnify Inland for any franchise fees found to be payable in the future.

As a final matter the Commission wishes to remind the parties of conditions contained in it's June 17, 1987 Decision (Commission Order No. G-37-87) that a re-entry fee may be considered in certain circumstances and that Transportation Service customers wishing to return to sales service at a future date may be exposed to gas commodity prices available at that time.

Yours very truly,

Marie Taylor
Chairman

265A/20
WJG/cms

Davis & Company

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REPLY ATTENTION OF: R. Brian Wallace

OUR FILE NO.:

DIRECT LINE:

October 16, 1987

British Columbia Utilities Commission
4th Floor
800 Smithe Street
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V6Z 2E1

Attention: J.M. Bogyo, Acting Commission Secretary

Dear Sirs:

Re: Applications for Approval of Letters of Intent between Inland Natural Gas Co. Ltd. ("Inland") and Prince George Pulp and Paper Limited ("PGPP") and Husky Oil Operations Ltd. ("Husky"), respectively

We refer to the Commission's letter of October 9, 1987, to Mr. Don Fairbairn of Inland Natural Gas setting out the Commission's decision with respect to the above-captioned matters.

We are writing on behalf of our clients, PGPP and Husky, who have requested that we seek clarification of some matters contained in the Commission's decision, in order that this matter may be finalized. As the Commission is aware, and as is reflected in the Commission's decision, PGPP and Husky do have a realistic bypass option which forms a truly competitive alternative to service with Inland. This competitive alternative formed the basis of the negotiations between Inland and PGPP and Husky leading to their agreement filed with the Commission on August 21, 1987. Clearly, the rates and the terms and conditions contained in that agreement were structured to meet perceived advantages of bypass, not just now, but into the future indefinitely while at the same time returning significant benefits to Inland.

It is clear to us in reviewing the Commission's letter of October 9, 1987, that the Commission has recognized the bypass as a realistic and competitive alternative and further that it has endorsed the concept of a negotiating process to meet that competitive alternative. What is not clear to us, and to our clients, is whether the Commission has recognized as reasonable the concept that the negotiated contracts with Inland should be longterm, with price escalations limited to those that a company would experience were it to have taken up its bypass alternative or if the Commission felt future price adjustments should be set on some other basis. This concern arises principally out of the Commission's comments with respect to future price increases which the Commission states it does not believe "should or can, under the Act, be determined solely by the surcharge provision contained in Paragraph 2 of Page 2 of the Letters of Intent." This is extremely important to our clients as a large portion of the price reduction sought will be achieved in the second and subsequent years and further, the future cost security to be found in the fixed costs of a company-owned pipeline form one of the principal attractions of the bypass alternative.

In order that there be no confusion as to the clarification sought, we request that the Commission answer the following questions concerning the letter of October 9, 1987, recognizing that the positions set forward in response are the positions of this Commission, at this time, and cannot at law bind any future Commission from exercising its statutory discretion in these matters.

1. Does this Commission, in approving the Inland agreements, accept the principle that the rates negotiated by Inland should be based on the bypass costs in 1987/88, being the time the bypass line would have been constructed were that alternative taken, and not subject to revision from time to time?

2. Does this Commission accept the principle that incremental rate adjustments through the years should be based upon the cost increments that PGPP and Husky would have experienced over time had they constructed a bypass pipelines in 1987/88?

We would appreciate an early response to these inquiries.

Yours very truly,

BULL, HOUSSER & TUPPER

Per:

R. Brian Wallace

RBW:mp

cc: Mr. David Rice
Lawson Lundell

cc: Mr. C.B. Johnson
Russell & DuMoulin

bcc: Chairman
Commissioners
V. Millard
W.J. Grant
J. Grunau
R.J. Fletcher
S.S. Wong
A.C. Michelson

B.C. UTILITIES COMMISSION

October 20, 1987

Mr. R.B. Wallace
Bull, Housser & Tupper
Barristers & Solicitors
3000 Royal Centre
P.O. Box 11130
1055 West Georgia Street
Vancouver, B.C.
V6E 3R3

Dear Mr. Wallace:

Re: Applications for Approval of Letters of Intent between Inland Natural Gas Co. Ltd. ("Inland") and Prince George Pulp and Paper Limited ("PGPP") and Husky Oil Operations Ltd. ("Husky")

With respect to your letter seeking clarification dated October 16, 1987 the Commission wishes to advise you that within the restriction of the Act, which we explained in our October 9, 1987 letter, the Commission accepts at this time the negotiated rates and surcharge mechanism for year one and years two through ten, subject to the clarification of the Westcoast charges for tap and metering facilities.

Within the restrictions of the Act the Commission panel hereby responds in the affirmative to each of the two questions contained on page 2 of your letter as outlined in our previous correspondence. This affirmation represents the Commission's views at this time to the effect that the proposed rates are just, reasonable and not unduly discriminatory.

Yours truly,

A.C. Michelson
Commission Secretary

ACM:ac
cc: D.L. Rice, Lawson, Lundell, Lawson & McIntosh
C.B. Johnson, Russell & DuMoulin
R.J. Gathercole, B.C. Public Interest Advocacy Centre

bcc: Chairman
Commissioners
V. Millard
W.J. Grant
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R.J. Fletcher
S.S. Wong
A.C. Michelson

October 20, 1987

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Bull, Housser & Tupper
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3000 Royal Centre
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Yours truly,

A.C. Michelson
Commission Secretary

ACM:ac
cc: D.L. Rice, Lawson, Lundell, Lawson & McIntosh
C.B. Johnson, Russell & DuMoulin
R.J. Gathercole, B.C. Public Interest Advocacy Centre

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-71-87

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission Act, S.B.C. 1980, c. 60 as amended

and

IN THE MATTER OF an Application by Inland Natural Gas Co. Ltd.

BEFORE:	J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	November 4, 1987

O R D E R

WHEREAS on October 30, 1987 Inland Natural Gas Co. Ltd. ("Inland") applied for Commission approval and acceptance for filing of an interim agreement dated October 30, 1987 between Inland and Prince George Pulp and Paper Limited ("PGPP"); and

WHEREAS the interim agreement negotiated by the two parties is long-term in nature, with rates contained therein to be applicable for the gas contract year commencing November 1, 1987; and

WHEREAS the Commission has considered the Application and supporting documents and is satisfied that the rates proposed are appropriate and properly conserve the public interest.

NOW THEREFORE the Commission hereby approves and accepts for filing effective November 1, 1987 as interim firm the Demand and Commodity rates proposed, it being understood that upon delivery to the Commission of a completed contract that document will be considered to be a Tariff Supplement. It is further understood that the proposed rates may be adjusted to incorporate certain Westcoast charges amended in accordance with the determination of the National Energy Board.

.../2

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-71-87

DATED at the City of Vancouver, in the Province of British Columbia, this 6th day of November, 1987.

BY ORDER

Deputy Chairman

BRITISH COLUMBIA UTILITIES COMMISSION

UTILITIES COMMISSION

415

ORDER NUMBER G-72-87

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission Act, S.B.C. 1980, c. 60 as amended

and

IN THE MATTER OF an Application by Inland Natural Gas Co. Ltd.

BEFORE:	J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	November 4, 1987

O R D E R

WHEREAS on October 30, 1987 Inland Natural Gas Co. Ltd. ("Inland") applied for Commission approval and acceptance for filing of an interim agreement dated October 30, 1987 between Inland and Husky Oil Operations Ltd. ("Husky"); and

WHEREAS the interim agreement negotiated by the two parties is long-term in nature, with rates contained therein to be applicable for the gas contract year commencing November 1, 1987; and

WHEREAS the Commission has considered the Application and supporting documents and is satisfied that the rates proposed are appropriate and properly conserve the public interest.

NOW THEREFORE the Commission hereby approves and accepts for filing effective November 1, 1987 as interim firm the Demand and Commodity rates proposed, it being understood that upon delivery to the Commission of a completed contract that document will be considered to be a Tariff Supplement. It is further understood that the proposed rates may be adjusted to incorporate certain Westcoast charges amended in accordance with the determination of the National Energy Board.

.../2

FOURTH FLOOR, 800 SMITHE STREET, VANCOUVER, B.C. V6Z 2E1 CANADA
TELEPHONE: (604) 660-4700. TELEX: 04-54536. RAPICOM: 120 (604) 660-1102

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-72-87

DATED at the City of Vancouver, in the Province of British Columbia, this 6th day of November, 1987.

BY ORDER

Deputy Chairman

7.0 RECOMMENDATIONS

Having regard for the evidence presented, the Commission recommends as follows:

1. An Energy Project Certificate not be granted to Northwood, providing that Inland promptly offers Northwood a transportation contract with the rates and conditions specified in Section 6 of the report. The appropriate rates are $.20/GJ in 1987/88 and $.06/GJ for years two through ten, depending on final Westcoast costs and tax treatment thereon.

2. The bypass policy be modified to refer to "the reasonably competitive rate of bypass" rather than "the true cost of service"; and

3. A dispute resolution process through the B.C. Utilities Commission be instituted to assist negotiations and try to avoid divisive, costly hearings.

BYPASS RATE DETERMINATION FACTOR INPUTS

This Appendix provides further reasoning for the Commission's determination of those factors which were used in the computer models by Northwood and Inland to determine the appropriate bypass rate. A summary of the factors is displayed in the text on Table 6.3.1.

A. Gas Volume

In determining the gas volume used by Northwood, both Inland and Northwood used a volume of 3,032,900 GJ. This volume of gas represents the forecast of firm and interruptible consumption by Northwood during the last fiscal year of Inland. The trend in gas consumption by Northwood has been decreasing for several years.

During the hearing proceedings Northwood revised its estimate of gas consumption to 3,500,000 GJ. The Company identified that actual consumption of both firm and interruptible gas in a recent period justified this increased volume.

The Commission recognizes that the earlier volume used by Inland and Northwood represents a normal consumption forecast extendable to future years. Also, Northwood gave evidence that the current value of the Canadian dollar against other world currencies provided for buoyant markets for Northwood's products at this time. The Commission therefore determines that the more appropriate volume to use is that volume which Inland and Northwood had previously agreed upon. Therefore, the Commission model run uses a volume of 3,032,900 GJ.

B. Capital Cost

Northwood estimated the capital cost of the construction of its pipeline and regulating facility at $648,000. In examination, Northwood conceded that the regulating facility would not provide for metering of the natural gas. Northwood had also not provided for a separate check valve at the commencement of its pipeline and block valves were not provided for by the company at either end of the Fraser River bridge crossing.

Inland provided a separate estimate of the pipeline regulating and meter facilities which Northwood should put in place. The Inland estimate totalled $742,000 which was later revised to $734,000. For negotiating purposes Inland used a capital cost of $700,000. These costs included metering facilities.

The Commission has determined that the cost of construction will likely exceed the Northwood estimate. At present one can anticipate winter construction which has been valued by Northwood at an additional $25,000. Northwood had not included costs which it had expended for the services of Opportunity Resources before that consulting company was replaced by Novacorp. Also, Inland gave evidence that the basic cost (before extras) for construction it had undertaken this year was equivalent to the total provision for construction costs allowed for by Northwood. To adjust for these additional costs the Commission has used a capital cost of $700,000 in its computer run.

Westcoast estimated its tap and meter facility would cost $400,000 assuming no telemetering equipment and no AFUDC. Northwood planned to reduce this cost in half by integrating its regulating station with Westcoast's meter station. The Northwood plan has not yet been clarified and Westcoast has not agreed that it would take part in the integration. Until the cost savings are demonstrated to the Commission the higher value of $400,000 will be used as an increment to be added to the capital cost of $700,000.

C. Operating and Maintenance Costs

In its first Application Northwood provided a cost of $32,000 for annual maintenance and operating expenditures. The company later reduced that number to $24,600.

Inland had an estimate of $33,500 which it later revised to $30,500. For negotiating purposes Inland used a value of $30,000.

The Commission has chosen an annual maintenance and operating expense of $30,000. This expenditure will provide for odorant of the natural gas. Northwood had expected that Westcoast would provide this service, but Westcoast testified that it historically had not provided odorizing facilities.

D. Residual Value

Northwood included a value in the 20th year of its model for the undepreciated capital cost of its pipeline. That valuation was $267,000.

Inland did not provide any residual value for the pipeline, arguing that any such value would be determined by CCA allocations in the years 21 and beyond. That value would be insignificant. The Commission agrees with Inland on this matter.

E. Debt Repayment Term

Northwood provided for debt repayment over an assumed 20-year project life. Inland also assumed a 20-year project life but required debt repayment over ten years. The Commission believes that the debt repayment should be made over 20 years as this is not uncommon practice in project evaluations.

F. Investment Tax Credits

Northwood testified that it would be allowed investment tax credits on its investment. Inland did not provide for these investment tax credits but the Commission concurs with Northwood that if the company is allowed the investment tax credits then it should be deducted to provide a representative stand-alone cost of the facility.

G. Debts/Equity Ratio

Northwood assumed that the project would be supported by debt only. The accounting arguments made by Northwood failed to recognize that even if short-term debt is used for this project the project is supported by the resources of the company, including the equity in the company. The position of Northwood was in conflict with Northwood Counsel's argument on page 1578 of the transcript where he argued that the shareholders of Northwood would be willing to forego dividends to see this project go ahead.

Inland assumed a debt/equity ratio of 40/60. This is essentially the same ratio used in its successful negotiations with Prince George Pulp and Husky. However, the evidence of Northwood is that the company does not currently have 50% equity, but the attainment of 50% equity was a realistic goal. For this reason the Commission has chosen to use a 50% debt and 50% equity financing of the project.

H. Interest Rate

Both Northwood and Inland assumed a 10% interest rate, and the Commission concurs.

I. Discount Rate

Northwood did not assume a return on equity due to the financing it had chosen. However, Inland assumed a return on equity or discount rate of 15%. The Commission believes that 15% is a fair value to use for this discount rate.

J. Phase-In Period

Northwood assumed that whatever rate it determined from its model would be put in place effective with the start-up of its operations. Inland provided for a phase-in so that the initial year rate would be approximately $.20/GJ and the rate in years two and beyond would be that rate which would equate in a discounted analysis with the levelized rate over the full life of the project. The effect of Inland's calculation is to provide a rate in year two and beyond that is less then the levelized rate.

K. Inland Benefits

Inland argued that the ability of the utility to provide monthly balancing of gas purchases and the provision of utility sales of interruptible gas (AOR sales) were both benefits to a potential bypass customer which should be valued. Inland continued to provide valuation of the monthly balancing benefit, but in later runs Inland removed any value for AOR sales. Northwood argued that it did not intend choosing a transportation schedule with monthly balancing and that the company would not use AOR sales since it would cause the utility to incur higher charges for its direct sales gas purchases. The logic of the company is that a greater volume at a higher load factor will attract lower offer prices from producers.

The Commission believes that benefits that the utility can provide should be valued if the company intends to avail itself of those benefits. Therefore the Commission has provided no value for monthly balancing and AOR sales at this time. In future, if Northwood were to choose monthly balancing schedules or AOR sales then an increment should be added to the rate to reflect this.

L. Northwood Bypass Benefits

Neither of the companies provided for quantifiable benefits that Northwood would experience if it were to bypass the utility. The only benefit which was identified in a way which could be valued related to the reduction in hearing cost expenses that Northwood would experience at B.C. Utilities Commission hearings. The Commission notes that although Northwood has been active in the recent rate design hearing of Inland, the company has not been active at previous hearings of the utility. Any expenses that Northwood incurred as a supporter of the COFI representations to the Commission have been modest. Therefore the Commission provides no value for Northwood bypass benefits in its model run.

M. Westcoast Charges

Inland and Northwood had different estimates of Westcoast charges applicable to the transportation of gas by Northwood under Schedule 21 or by a bypass customer. This issue was resolved by Westcoast when Mr. Edgeworth provided calculations that the estimated charge would be the same for each case. The value provided by Westcoast was $.263/GJ, subject to change for recent NEB Decisions. The Commission notes that provided the same cost is used for the two cases the costs will offset each other in the rate determination model.

$1,100,000 INVESTMENT
PAGE 1

BYPASS ANALYSIS
$1,100,000 NORTHWOOD PULP

REVENUE - REDUCED GAS PURCHASE COSTS

Line No.	Particulars		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Total
1	SALES VOLUMES - GJ		3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	30,329,000
2	Less - Strike												0
3	adjustment	0.0%	0	0	0	0	0	0	0	0	0	0	0
4													
5													
6													
7	NET SALES VOLUMES - GJ		3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	30,329,000
8													
9													
10													
11													
12	AVOIDED COSTS $/GJ - ING		$0.2020	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	
13	- WCT		0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	
14													
15													
16			0.4650	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	
17	COST INCURRED - WCT		(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	
18													
19													
20			$0.2020	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	
21													
22													
23													
24													
25	REDUCED PURCHASE COSTS												
26													
27	Avoided costs		$1,410,299	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$10,192,022
28													
29	Cost incurred		(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(7,976,530)
30													
31													
32	Total		$612,646	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$2,215,492
33													
34													

$1,100,000 INVESTMENT
PAGE 2

BYPASS ANALYSIS
$1,100,000 NORTHWOOD PULP

REVENUE - REDUCED GAS PURCHASE COSTS

Line No.	Particulars	Bal.Fwd.	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
1	SALES VOLUMES - GJ	30,329,000	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	63,690,900
2	Less - Strike													
3	adjustment 0.0%	0	0	0	0	0	0	0	0	0	0	0	0	0
7	NET SALES VOLUMES - GJ	30,329,000	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	3,032,900	63,690,900
12	AVOIDED COST $/GJ - ING		$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	
13	- WCT		0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	0.2630	
16			0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	0.3217	
17	COST INCURRED - WCT		(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	(0.2630)	
20			$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	$0.0587	
25	REDUCED PURCHASE COSTS													
27	Avoided costs	$10,192,022	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$20,925,239
29	Cost incurred	(7,976,530)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(16,750,713)
32	Total	$2,215,492	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$178,094	$4,174,526

BYPASS ANALYSIS
$1,100,000 NORTHWOOD PULP
SUMMARY

$1,100,000 INVESTMENT
PAGE 3

Line No.	Particulars		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Total
1	Avoided Inland/WCT costs		$1,410,299	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$10,192,022
3	Incurred WCTL costs		(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(7,976,530)
6	Total available		612,646	178,094	178,094	178,094	178,094	178,094	178,094	178,094	178,094	178,094	2,215,492
8	Operating & maintenance		(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(300,000)
10	Property taxes		(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(82,690)
12	Income before tax		574,377	139,825	139,825	139,825	139,825	139,825	139,825	139,825	139,825	139,825	1,832,802
14	Interest		(55,000)	(52,250)	(49,500)	(46,750)	(44,000)	(41,250)	(38,500)	(35,750)	(33,000)	(30,250)	(426,250)
18	Taxable Income		519,377	87,575	90,325	93,075	95,825	98,575	101,325	104,075	106,825	109,575	1,406,552
19	Capital Cost Allowance		(20,900)	(40,964)	(39,325)	(37,752)	(36,242)	(34,793)	(33,401)	(32,065)	(30,782)	(29,551)	
20	Income Tax		(163,682)	(19,488)	(20,558)	(21,709)	(22,767)	(24,039)	(25,601)	(27,141)	(28,661)	(30,161)	(383,807)
22	Operating cash flow		355,695	68,087	69,767	71,366	73,058	74,536	75,724	76,934	78,164	79,414	1,022,745
23	Equity		(550,000)										(550,000)
24	Debt repayment		(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(275,000)
26	Net cash flow		(221,805)	40,587	42,267	43,866	45,558	47,036	48,224	49,434	50,664	51,914	197,745
29	Income tax rate - current		43.870%	41.810%	40.310%	39.240%	38.210%	37.690%	37.690%	37.690%	37.690%	37.690%	
31	Debt repayment & interest												
32	Debt - B.O.Y.	50.00%	550,000	522,500	495,000	467,500	440,000	412,500	385,000	357,500	330,000	302,500	
33	Repayment over 20 years		(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	
35	Debt - E.O.Y.		522,500	495,000	467,500	440,000	412,500	385,000	357,500	330,000	302,500	275,000	
38	Interest @ 10%	10.00%	55,000	52,250	49,500	46,750	44,000	41,250	38,500	35,750	33,000	30,250	

BYPASS ANALYSIS
$1,100,000 NORTHWOOD PULP
SUMMARY

Line No.	Particulars	Bal.Fwd.	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total
1	Avoided Inland/WCT costs	$10,192,022	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$975,747	$20,925,239
3	Incurred WCTL costs	(7,976,530)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(797,653)	(16,750,713)
6	Total available	2,215,492	178,094	178,094	178,094	178,094	178,094	178,094	178,094	178,094	178,094	178,094	178,094	4,174,526
8	Operating & maintenance	(300,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(630,000)
10	Property taxes	(82,690)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(8,269)	(173,649)
12	Income before tax	1,832,802	139,825	139,825	139,825	139,825	139,825	139,825	139,825	139,825	139,825	139,825	139,825	3,370,877
14	Interest	(426,250)	(27,500)	(24,750)	(22,000)	(19,250)	(16,500)	(13,750)	(11,000)	(8,250)	(5,500)	(2,750)	0	(577,500)
18	Taxable Income	1,406,552	112,325	115,075	117,825	120,575	123,325	126,075	128,825	131,575	134,325	137,075	139,825	2,793,377
19	Capital Cost Allowance		(28,369)	(27,234)	(26,145)	(25,099)	(24,095)	(23,131)	(22,206)	(21,318)	(20,465)	(19,647)	(18,861)	
20	Income Tax	(383,807)	(31,643)	(33,107)	(34,554)	(35,985)	(37,400)	(38,800)	(40,185)	(41,556)	(42,914)	(44,259)	(45,591)	(809,801)
22	Operating cash flow	1,022,745	80,682	81,968	83,271	84,590	85,925	87,275	88,640	90,019	91,411	92,816	94,234	1,983,576
23	Equity	(550,000)											0	(550,000)
24	Debt repayment	(275,000)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	0	(550,000)
26	Net cash flow	197,745	53,182	54,468	55,771	57,090	58,425	59,775	61,140	62,519	63,911	65,316	94,234	883,576
29	Income tax rate - current		37.690%	37.690%	37.690%	37.690%	37.690%	37.690%	37.690%	37.690%	37.690%	37.690%	37.690%	
31	Debt repayment & interest													
32	Debt - B.O.Y.		275,000	247,500	220,000	192,500	165,000	137,500	110,000	82,500	55,000	27,500	0	
33	Repayment over 10 years		(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	(27,500)	0	
35	Debt - E.O.Y.		247,500	220,000	192,500	165,000	137,500	110,000	82,500	55,000	27,600	0	0	
38	Interest @ 10.00%		27,500	24,750	22,000	19,250	16,500	13,750	11,000	8,250	5,500	2,750	0	
41	NPV of cash flow 1987 to 2007 @	15.000%	$0											

A COMPARISON OF THE APRIL 1, 1987 RATES AND PROPOSED RATE STRUCTURES

RATE SCHEDULE	APRIL 1, 1987*	PROPOSED RATE STRUCTURES (for illustration only)
1	**RESIDENTIAL SERVICE**	
	Option A	Option A
	Identical to Option B but with promotional incentive added.	
	Minimum monthly bill - \$5.82 plus \$1.24 times the amount of the promotional incentive divided by \$100	Monthly customer charge - \$3.90 plus \$1.24 times the amount of the promotional incentive divided by \$100.
	Option B	Option B
	First 1 GJ or less @ \$5.82 Next 9.5 GJ @ \$4.623/GJ Excess over 10.5 GJ @ \$4.113/GJ	First 10.5 GJ or less @ \$4.539/GJ Excess over 10.5GJ @ \$4.029/GJ
	Minimum monthly bill - \$5.82	Monthly customer charge - \$3.90
2	**GENERAL SERVICE**	
	First 1 GJ or less @ \$5.76 Next 5.0 GJ @ \$5.283 Next 99.5 GJ @ \$4.623 Excess over 105.5 @ \$4.023	First 6.0 GJ @ \$5.20/GJ Next 99.5 GJ @ \$4.540/GJ Excess over 105.5 @ \$3.940/GJ
	Minimum monthly bill - \$5.76	Monthly customer charge - \$15.25
4	**DUAL FUEL SERVICE**	
	First 211 GJ or less @ \$630.98 Next 844 GJ @ \$2.564/GJ Excess over 1055 GJ @ \$2.517/GJ	First 1055 GJ @ \$2.553/GJ Excess over 1055 GJ @ \$2.506/GJ
	Minimum monthly bill - \$630.98	Monthly customer charge - \$325.00

RATE SCHEDULE	APRIL 1, 1987 RATE*	PROPOSED RATE STRUCTURES
5	**LARGE FIRM SERVICE - INDUSTRIAL**	
	First 21 GJ @ $99.60 Excess over 21 GJ @ $3.258	First 500 GJ @ $4.250/GJ Excess over 500 GJ @ $3.110/GJ
	Minimum monthly bill - $99.60	Monthly customer charge - $500.00
5X	N/A	First 21 GJ @ $4.25 Excess Over 21 GJ @ $3.20
		Monthly customer charge - $150.00
5A	Applicable to buyers who have consumed or have contracted to consume a quantity of gas in excess of 360,000 G.J.	Customers consuming 800,000 m^3/mo. (TR 5260)
	First 21 GJ or less @ $89.45 Excess over 21 GJ @ $2.775/GJ	
	Minimum monthly bill - $89.45	
6	**LARGE FIRM SERVICE - NEGOTIATED RATE**	
	N/A	Exhibit #109 - Customers transferring from Rate Schedule 5 may negotiate a suitable rate level

10 **GAS ENGINE SERVICE**

	Peak (Nov.-Mar.)	Off-Peak (Apr.-Oct.)
First 21 GJ	$94.56	$94.56
All excess	$3.161	$3.019
Minimum Monthly bill	$94.56	$94.56

Proposed: Schedule to be discontinued and customers moved to Rate Schedule 2

RATE SCHEDULE	APRIL 1, 1987 RATE*	PROPOSED RATE STRUCTURES
11	LARGE VOLUME FIRM SERVICE	(Exhibit 116)
	November 1 to March 1 (peak mos.) $2.059/GJ March 1 to Nov. 1 (off-peak mos.) $2.011/GJ	Two level demand/commodity rate Curtailable to 50% of contract demand
	Interim Rate Changes Incl. Above	Interruptible - AOR Sales and
	1. Increased after July 1/86 = $0.071/GJ, subject to refund with interest following BCUC Decision 2. Cost of Gas increase Jan. 1/87 - March 31/87 = $0.009/GJ 3. Cost of Gas decrease Apr. 1/87 onwards = $0.02	*Two Rate groups captive and non-captive. Negotiated rate for non-captive
		Category A - Captive Customers B.C. Forest Products Ltd. Cominco Ltd. Consumers Packaging Ltd. Finlay Forest Products Ltd. Celgar Pulp Ltd. Weyerhaeuser Ltd.
		Category B - Non-captive Customers Cariboo Pulp Ltd. Husky Oil Ltd. Northwood Pulp Ltd. Prince George Pulp Ltd. Quesnel River Pulp Ltd.

RATE SCHEDULE	APRIL 1, 1987 RATE*	PROPOSED RATE STRUCTURES
12	LARGE VOLUME INTERRUPTIBLE SERVICE	
		Schedule 12A, Exhibit 116
		Interruptible Rate
	November 1 to March 1 (peak mos.) $1.715/GJ March 1 to Nov. 1 (off-peak mos.) $1.665/GJ	*Two rate groups captive and non-captive
	Interim Rate Changes Incl. Above 1. Increased after July 1, 1986 = $0.066/GJ, subject to refund 2. Cost of Gas decrease Jan. 1/87 - March 31/87 = 0.006/GJ 3. Cost of Gas decrease Apr. 1/87 onwards = $0.007/GJ	
13	INDUSTRIAL PEAKING SERVICE	
		No proposed changes to current schedule
14	NATURAL GAS VEHICLE FUEL SERVICE	
		No proposed changes to current schedule
15	FIRM TRANSPORTATION SERVICE	
(a)	Peak (Nov.-Feb.) $0.772/GJ Off-Peak (Mar.-Oct.) $0.676/GJ	(Exhibit 116) Two Level Command/Commodity Rate Interruptible - AOR Sales
(b)	Non-Peaking/Authorized Overrun $1.721/GJ $1.671/GJ	*Two rate groups captive and and non-captive
(c)	Peaking/Authorized Overrun Peak $3.00/GJ Off-Peak $3.00/GJ	

RATE SCHEDULE	APRIL 1, 1987 RATE*	PROPOSED RATE STRUCTURES
16	TRANSPORTATION SERVICE - INTERRUPTIBLE	
		Interruptible Rate as per Schedule 12. less the cost of gas
17	TRANSPORTATION SERVICE	
		Two Level Demand/Commodity Rate Demand based on 100% of MDTV Interruptible - AOR Sales
18	FIRM TRANSPORTATION SERVICE	
		Two Level Demand/Commodity Rate Interruptible - Schedule 19
19	INTERRUPTIBLE TRANSPORTATION SERVICE	
		Direct sale interruptible gas with Schedule 18 Firm Service.
20	TRANSPORTATION SERVICE - FIRM AND INTERRUPTIBLE INLAND SYSTEM	
		Matches Schedule 17 except that customer holds the Westcoast contract No curtailment
21	TRANSPORTATION SERVICE - FIRM AND INTERRUPTIBLE INLAND SYSTEM	
		Matches Schedules 18 and 19 except that customer holds the Westcoast contract
22	TRANSPORTATION SERVICE	
		Matches Schedule 15 except that customer holds Westcoast contract Interruptible - AOR Sales

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* Authorized Rates - Rates shown include the following adjustments:

1. Interim increase to all rate schedules (except Rate Schedule 14 - NGV Fuel Service) ranging from 10.4¢/GJ for Rate Schedule 1 - Residential Service to 6.6¢/GJ for Rate Schedule 12 - Large Volume Interruptible Service and Rate Schedule 13 - Industrial Peaking Service, all subject to refund following Decision (B.C. Utilities Commission Decision and Order No. G-52-87, effective September 1, 1987).

2. Cost of gas rate changes, effective for period January 1-March 31, 1987 and April 1, 1987 onwards. As of the date of this Decision there has yet to be a final determination on cost of gas rates for Westcoast Transmission, the Company's supplier, by the National Energy Board.

UTILITIES COMMISSION

ORDER NUMBER G-69-87

PROVINCE OF BRITISH COLUMBIA

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF the Utilities Commission Act, S.B.C. 1980, c. 60 as amended

and

IN THE MATTER OF Inland Natural Gas Co. Ltd. Rate Considerations

BEFORE:	J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner	October 29, 1987

O R D E R

WHEREAS by letter dated October 29, 1987 Inland requested the Commission to consider that a deferral account be established to defer revenue shifts that arise from movement to negotiated rates for non-captive Industrials and the movement of North Central Plywood ("NCP") from Rate 5 to a captive rate; to permit flowthrough of changes in the commodity cost of gas and retroactive changes in Westcoast Tolls on a "go-forward" or prospective basis; and

WHEREAS the Commission has considered these matters and concurs that it is in the public interest for an interim measure to be in place which will provide an adequate safeguard for Inland and its customers.

NOW THEREFORE the Commission approves the following:

1. Inland is authorized to establish effective November 1, 1987 a deferred account in which it will record the revenues lost to Inland as a result of negotiated agreements concluded with its Industrial customers and approved by the Commission in accordance with the requirements of deregulation and the emergence of competitive principles; rate reductions arising from the movement of North Central Plywood ("NCP") from Rate Schedule 5 to Large Industrial status; the flow-through of changes in the commodity cost of gas and retroactive changes in Westcoast Tolls beyond the control of Inland on a "go-forward" or prospective basis.

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UTILITIES COMMISSION

ORDER NUMBER G-69-87

2. Rate Changes applicable to the core customers will occur as a single rate change at a future date such that collection of any deferred revenue shifts coincides with the flow-through of changes in the commodity cost of gas and Westcoast tolls.

DATED at the City of Vancouver, in the Province of British Columbia, this 30th day of October, 1987.

BY ORDER

Deputy Chairman