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 Action on Complaints

BEFORE: J.G. McIntyre, Chairman; J.D.V. Newlands, Deputy Chairman; and N. Martin, Commissioner — March 8, 1988

ORDER

WHEREAS on April 3, 1987 the Commission received a written complaint pursuant to Section 98 of the Utilities Commission Act ("the Act") from Coast Pacific Management Inc. on behalf of their client Chatterton Petrochemical Corporation ("Chatterton"), a customer served by British Columbia Hydro and Power Authority Gas Operations ("B.C. Hydro") in the Lower Mainland of B.C.; and

WHEREAS pursuant to Sections 93, 98 and 124 of the Act, and Commission Order No. G-6-88, the Commission directed Mr. W.J. Grant, Director of Engineering for the Commission to inquire into and report on the matter of the Chatterton complaint as soon as possible; and

WHEREAS the inquiry into the complaint respecting interruptible transportation service to large industrial service customers on the B.C. Hydro system took place on February 17, 1988 in Vancouver; and

WHEREAS Mr. Grant submitted his report to the Commission on March 1, 1988; and

WHEREAS the Commission has reviewed the report and is satisfied that the recommendation is appropriate and in the public interest.

NOW THEREFORE the Commission Orders B.C. Hydro as follows:

1. Approval is granted to the Recommendation contained in the Report on the Inquiry into the complaint regarding B.C. Hydro Interruptible Gas Transportation Rates and Disposition of the Deferred Account. The Report is attached as Appendix A.

.../2

2. B.C. Hydro is ordered to close the deferred account pertaining to the Chatterton revenues and refund the amount to Chatterton, including interest at the average prime rate of the principal bank with which B.C. Hydro deals.

3. B.C. Hydro is ordered to make the required changes to its Gas Tariff Rate Schedules or Customer Transportation Service Agreements in accordance with the Recommendation contained in the Report, and to submit the appropriate revisions to the Commission for acceptance and filing no later than April 6, 1988.

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of March, 1988.

BY ORDER

John G. McIntyre
Chairman

Attachment

APPENDIX A

CHATTERTON PETROCHEMICAL CORPORATION

Inquiry into complaint regarding British Columbia Hydro and Power Authority Interruptible Gas Transportation Rates - Disposition of Deferred Account

W.J. Grant
March 1, 1988

TABLE OF CONTENTS

LIST OF ATTENDEES

NAME	FIRM
Harry Chivers Bob Green	Coast Pacific Management Inc.
Dennis Springle	Petro-Canada, Port Moody Refinery
Gordon Dittmer Stuart Proudfoot	Petro-Canada, Calgary
Terry Osadchuk	Canadian Occidental Petroleum
Arnold MacBurnie Robert Baird	Shell Canada Limited
Joseph Pelrine	Davis & Company for BCPC
Don Rawlyk	B.C. Petroleum Corporation
Jim Barnes	Central Heat Distribution Limited
Herb Hayward	B.C. Sugar
Ray Argamany	Mobil Oil Canada, Ltd.
Bill Bierlmeier Charlie Park	B.C. Hydro and Power Authority
Andrew Androsoff	Westcoast Transmission Company Limited
W.J. Grant P.H. Gronert	B.C. Utilities Commission

CHATTERTON PETROCHEMICAL CORPORATION

Inquiry into complaint regarding British Columbia Hydro and Power Authority Interruptible Gas Transportation Rates - Disposition of Deferred Account

A. Background

On April 3, 1987, Coast Pacific Management Inc. ("Coast Pacific") on behalf of Chatterton Petrochemical Corporation ("Chatterton") filed a complaint with the B.C. Utilities Commission relating to the indemnification clause contained in the B.C. Hydro and Power Authority ("B.C. Hydro") proforma interruptible transportation contract. B.C. Hydro and Coast Pacific attempted to resolve Chatterton's complaint through the summer of 1987. On September 9, 1987 the Commission determined that an inquiry under Section 93(2) of the Act should be made. The inquiry took place on September 24, 1987 and a report was sent to the Commission on September 30, 1987.

By letter dated October 20, 1987 the Commission advised B.C. Hydro that for the period from October 1, 1987 until the Commission ruled on the transportation tariffs of B.C. Hydro following a rate design hearing, the appropriate rate to use for indemnification under B.C. Hydro's indemnification clause was $.19/GJ. This revenue collected by B.C. Hydro was to be kept in a deferred account. Following the rate design hearing, the Commission would determine whether some portion of the $.19/GJ was to be refunded to Chatterton retroactive to October 1, 1987.

The Commission's establishment of a deferred account for payments under the indemnification clause of B.C. Hydro's interruptible transportation tariff reflected the view that the potential revenue lost to B.C. Hydro and the possible increased charges to Chatterton would logically be resolved in a rate design hearing. At that time B.C. Hydro had been expected to provide a rate design application by January, 1988.

On January 7, 1988, B.C. Hydro wrote to the Commission advising that several major interruptible customers were seriously considering purchasing their own natural gas supplies. That letter advised the Commission that B.C. Hydro intended to apply the same procedures outlined in the Commission's October 20, 1987 letter to any other customers who requested interruptible transportation service. In particular, B.C. Sugar, Shell and Petro-Canada had recorded their intention to obtain interruptible transportation services.

When it became clear that B.C. Hydro was no longer in a position to make a rate design application during the first half of 1988, the Commission determined that more definitive action should occur to specify the charges faced by interruptible customers in the B.C. Hydro transportation service tariffs. Resolution of the Chatterton deferred account was required not only for Chatterton's interest, but for the interest of the other large interruptible customers who were considering transportation service.

The Commission therefore ordered through Order No. G-6-88 that a second inquiry into the Chatterton complaint would be held to determine the disposition of the deferred account. While the Commission recognized that several of the issues involved in the rate setting of the interruptible transportation tariffs would better be determined in a rate design hearing, in the absence of that forum the Commission resolved that the deferred account should be addressed as a separate matter.

On January 29, 1988 a letter was sent to B.C. Hydro, Chatterton, Coast Pacific, and other interested parties advising that an inquiry would be held on February 17, 1988. The inquiry was limited to matters related to the deferred account and its disposition.

B. Discussion

The issues to be resolved by the Commission had not materially changed in the period from September 1987 to February 1988. Chatterton maintained that the

indemnification charges effectively imposed a "double demand charge" on the customer. This "double demand charge" reflected the fact that B.C. Hydro had structured its interruptible sales tariff to include charges for gathering and processing natural gas which roughly equated with the demand charges imposed on B.C. Hydro by Westcoast Transmission Company Limited ("Westcoast") for gathering and processing. In effect B.C. Hydro had determined as a matter of rate design to charge out Westcoast demand charges for gathering and processing to all gas sales by B.C. Hydro (including interruptible sales) as if the demand charges were commodity charges. This course of action was accepted by the Commission when B.C. Hydro applied in November 1986. At that time the Commission had been informed by B.C. Hydro that a rate design filing could be expected in February 1987. The Commission therefore viewed the proposed pricing methodology by B.C. Hydro in November 1986 as being interim in nature.

B.C. Hydro acknowledged that if interruptible customers no longer took sales gas from the utility, B.C. Hydro would have to maintain its current nomination with Westcoast. Since B.C. Hydro required that nomination to meet the peak requirements of its firm customers, B.C. Hydro would continue to face the same level of demand charges for gathering and processing as now occur. However, since these demand charges had been converted to a commodity charge in the B.C. Hydro tariff, the utility would not recover the full revenues required for the demand charges if interruptible customers left utility sales. B.C. Hydro maintained that the interruptible customers who moved from utility sales to transportation service should indemnify the utility for lost revenue so that the utility remained "revenue neutral." The alternatives would be that B.C. Hydro could apply to increase the rates of other sales customers or the utility could absorb the revenue loss.

The argument of Chatterton, supported by other interruptible customers, was that the indemnification by B.C. Hydro was inequitable. The inequity resulted from the effective double charging for natural gas gathering and processing.

If the industrial customer had to arrange for his own gathering and processing with Westcoast and also pay B.C. Hydro for gathering and processing that the customer was no longer using, his gathering and processing charges would escalate considerably. The customers argument was tempered to the extent that the $.19/GJ represented only a portion of the full demand charges paid by B.C. Hydro.

The method of revenue collection by Westcoast resulted in a complication in the resolution of this complaint. While Westcoast credits any shift from firm sales to firm transportation to the nomination of the respective local distribution company ("LDC"), Westcoast returns revenues collected from interruptible service in British Columbia to the LDC's on a pro rata basis of revenue collected from firm contracts. Therefore, while B.C. Hydro could lose approximately $.38/GJ from direct revenue generation, the utility would be credited with between 50 and 60% of the gathering and processing charges actually incurred by the customer who moved to transportation service. It was for this reason that the Commission had included only $.19/GJ in the deferred account.

C. Issues

Although the complexities of the contracts are difficult to follow, the issues related to the disposition of the Chatterton deferred account are relatively clear in theory. The argument by Chatterton that the customer is unfairly facing "double demand charges" has been addressed by the B.C. Utilities Commission and the National Energy Board. Double demand charges are not normally permitted.

In the Commission's resolution of the Inland Natural Gas Co. Ltd. ("Inland") rate design application the Commission addressed the matter of consistency of pricing in its June 17, 1987 Decision. On page 9 of that Decision the Commission states:

> "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."

One may view the B.C. Hydro action of charging interruptible sales customers for the full costs of gathering and processing as being consistent with the above-noted Commission views. The interruptible sales customer would be making use of gathering and processing facilities purchased on behalf of the firm customers. For the right to do so, B.C. Hydro is allocating those fixed costs to the interruptible customers as well as the firm customers.

In this regard B.C. Hydro and Inland differ in their philosophy for allocating demand charges from Westcoast to interruptible customers. Inland does not include these costs in its interruptible sales rates, so there is no need to seek indemnification when a customer moves to transportation service.

While the B.C. Hydro allocation of demand charges may be appropriate for B.C. Hydro's interruptible sales customers, it does not necessarily follow that a customer moving from utility sales to transportation service should indemnify B.C. Hydro for a revenue loss from unrecovered gathering and processing charges previously allocated by the utility. In assessing the equity in this indemnification the views of the Commission on pages 8 and 9 of the June 17, 1987 Decision are useful:

> "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.
>
> 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 an industrial customer damaged the overall load factor of the utility's 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."

Based on the above noted Commission views, B.C. Hydro should not be allowed to seek indemnification from the interruptible customers for the gathering and processing demand charges when the interruptible customer moves to transportation service. To do so would not only result in a "double demand charge" but B.C. Hydro would be seeking indemnification for a service no longer used by the interruptible customer and not nominated for by B.C. Hydro on his behalf. This then is another case where the interruptible customer was providing a benefit to the overall system when taking utility sales, but the interruptible customer should not be penalized for taking this benefit when moving to transportation service.

The impact of resolving the Chatterton deferred account disposition in favour of the customer is to leave B.C. Hydro with some unrecovered costs. B.C. Hydro has maintained that its intent in seeking the indemnification was only to ensure that the utility remained revenue neutral. Indeed when the utility was asked whether the indemnification was both revenue neutral and fair, no response to the fairness issue was received.

The loss of revenue to B.C. Hydro from Chatterton will be an amount less than $100,000 per year. The exact amount of lost revenue depends not only on the actual consumption of Chatterton, but on the allocation of interruptible revenues from Westcoast back to B.C. Hydro. In assessing the financial impact on B.C. Hydro we should also consider those other customers who are

considering a move to transportation service. Other estimates based on the potential exposure of B.C. Hydro are in the order of $600,000 per year. At some point B.C. Hydro may wish to recover this lost revenue through an application to increase its rates. An application based only on the lost revenue from interruptible sales customers moving to transportation service might be considered by the Commission as a pass-through item. However I am not sure that B.C. Hydro would wish to seek recovery in this manner for increases that would be less than $.01/GJ.

D. Recommendation

I recommend that the Chatterton deferred account be closed with all revenues from October 1, 1987 being returned to Chatterton. B.C. Hydro should be advised that the utility is not to seek indemnification of lost revenue related to gathering and processing demand charges included in the B.C. Hydro interruptible sales tariff when an interruptible customer chooses interruptible transportation service.