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CANADA



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-91-94

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

and

An Application by BC Gas Utility Ltd.
for Approval of Buy/Sell Reference Prices - 1994/95 Gas Contract Year

BEFORE: M.K. Jaccard, Chairperson; and)
K.L. Hall, Commissioner) November 24, 1994

O R D E R

WHEREAS:

- A. On October 20, 1993 the Commission issued Order No. G-99-93 which approved the BC Gas Utility Ltd. ("BC Gas") methodology for calculating core market buy/sell reference prices for the 1993/94 gas contract year; and
- B. On June 22, 1994 the Commission issued Order No. G-42-94 which directed local distribution companies to file reference prices for the 1994/95 gas contract year as early as possible and no later than October 1, 1994; and
- C. BC Gas provided an estimate of its reference prices for 1994/95 on September 30, 1994 and on October 19, 1994 applied to the Commission for approval of final price factors and reference prices for the 1994/95 gas contract year ("the Application"); and
- D. The Commission has reviewed the Application and is satisfied that approval is necessary and in the public interest.


NOW THEREFORE the Commission orders as follows:

- 1. The Commission approves for BC Gas the reference price Unit Fixed Charges and Unit Commodity Charges for the 1994/95 gas contract year as set out in the October 19, 1994 Application attached as Appendix A to this Order.

2. The Commission approves the price adjustment proposed by BC Gas, such that if the 100 percent load factor reference price (excluding Westcoast Energy Inc. charges) for the year that is recalculated in April differs from the approved price by more than 2 percent, then BC Gas will request approval effective April 1, 1995 of the recalculated price factors.
3. The Commission directs BC Gas to use a 95 percent load factor in the calculation of Daily Contract Quantity under buy/sell gas purchase contracts, subject to future review by the Commission relative to historical load factors under the utility's baseload contracts.
4. The Commission directs BC Gas, in the event that it exercises the option under the Option, Assignment and Novation Agreement that forms Schedule "C" to a buy/sell gas purchase contract, to incorporate into the contract as of the date when the option is effective, a Gas Inventory Charge provision that is consistent with those in its baseload contracts.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of November, 1994.

BY ORDER


Dr. Mark K. Jaccard
Chairperson

BC Gas Utility Ltd.
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David M. Masuhara
Vice President
Legal and Regulatory Affairs



October 19, 1994

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. R.J. Pellatt
Commission Secretary

Dear Sirs:

Re: Direct Purchase Reference Prices and Price Factors

B.C. UTILITIES COMMISSION	
RECEIVED & ACKNOWLEDGED	
OCT 21 1994	
<input checked="" type="checkbox"/>	FOR STAFF REVIEW RESPONSE
<input type="checkbox"/>	FOR RESOURCE ROOM
<input type="checkbox"/>	INFO. TO BE FILED

Please find enclosed fifteen (15) copies of BC Gas Utility Ltd.'s ("BC Gas") application respecting the reference price and price factors to be effective November 1st, 1994. This application includes the information requested in the Commission Staff Information Request #1 dated October 11th, 1994.

BC Gas is hereby applying, pursuant to Section 67 of the Utilities Commission Act, for the Commission's approval of the price factors and reference prices.

**1. REFERENCE PRICE AND PRICE FACTORS:
EFFECTIVE NOVEMBER 1ST, 1994**

BC Gas estimates the following Price Factors for the contract year commencing November 1st, 1994. The terms coincide with those in the Gas Purchase Contract used by BC Gas for its purchases of Buy/Sell (direct) baseload gas supplies.

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Price Factor	Huntingdon ⁽¹⁾ (\$/GJ)	Savona ⁽²⁾ (\$/GJ)	Station #2 ⁽³⁾ (\$/GJ)
Reference Price ⁽⁴⁾⁽⁵⁾	2.386	2.307	2.189
Unit Fixed Charge ⁽⁵⁾⁽⁶⁾	1.057	0.987	0.884
Unit Commodity Charge ⁽⁷⁾	1.182	1.182	1.182
Fixed Charge Credit	0.509	0.509	0.509
Daily Demand Charge ⁽⁸⁾	0.582	0.512	0.409
Westcoast Commodity Tolls ⁽⁹⁾	0.012	0.008	0.003
Westcoast Raw to Residue Ratio ⁽¹⁰⁾	1.139	1.139	1.139

- (1) Deliveries for Lower Mainland (Coastal Division) and Squamish customers. In the case of Squamish Gas, additional approvals concerning the Rate Stabilization Fund will be necessary from the Province in order to ensure all of the costs are recovered.
- (2) Deliveries for Interior Division customers.
- (3) Independent of customer location excluding the size of the requirement for fuel gas.
- (4) Average price assuming a forecasted annual load factor of 88%, but excludes fuel costs and commodity tolls (which vary monthly).
- (5) Assume an average heat content of 38.7 MJ/m³.
- (6) Paid per unit of the Daily Contract Quantity (DCQ).
- (7) Paid for each unit of gas delivered to BC Gas plus any units delivered to Westcoast for fuel gas; excludes Westcoast commodity tolls.
- (8) Identified in Schedule "A" to the gas purchase contract.
- (9) Based on average tolls.
- (10) Based on the BC Gas average; used in commodity toll calculation.

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2. PRICING PARAMETERS

The Price Factors have been calculated using the procedure identified by BC Gas during the BCUC hearing into the Domestic Natural Gas Supply Rules. The key assumptions are as follows:

a) Gas Prices

The Reference Price incorporates the gas prices for baseload supply purchased off the Westcoast system.

The fixed price contracts with a DCQ of 350 TJ/D have an average price of \$1.72/GJ at 100 % L.F. (\$0.52/GJ Demand - \$1.20/GJ Commodity).

The indexed price contracts with a DCQ of 151 TJ/D have an estimated average price of \$1.62/GJ at 100 % L.F. (\$0.49/GJ Demand - \$1.13/GJ Commodity). The indexed prices were estimated based on the September/94 NYMEX 12 month strip.

b) Westcoast Tolls

The data contained herein utilizes the 1994 NEB-approved Westcoast tolls. Westcoast commodity tolls will be incurred at the tariff rates using a heat content of 38.7 MJ/m³ (adjusted annually). Westcoast fuel gas volumes will be purchased as required by Westcoast at the Unit Commodity Charge.

c) VIA and Cost of Service Credits

The fixed costs are net of forecasted VIA credits (\$5.3 Million) and Cost of Service Credits (\$0.9 Million). These credits are built into the baseload contracts purchased off the Westcoast system.

These Price Factors exclude any Schedule 10 or other on-system or off-system interruptible sales credits.

d) Contract Load Factor

The Price factors assume a forecast annual load factor of 88%. This is based on the BC Gas budget volume assumptions of 10 PJ for off-system sales and 20 PJ for Burrard Thermal valley sales in a normal year. Although BC Gas has been able to operate its baseload contracts at over 95 % for the 1993/94

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contract year due mainly to high Burrard Thermal (28 PJ) and off-system sales volumes (12 PJ), we cannot assume that these high load factors can be maintained. Any purchases of Buy/Sell gas will also tend to lower the average baseload contract load factor.

3. PRICE ADJUSTMENTS

(a) Westcoast Tolls

Should the NEB-approved Westcoast tolls change any time over the 1994/95 contract year, those changes will be flowed through the Reference Prices as they occur.

(b) Indexed Pricing - Recommendation

For the 1994/95 contract year, approximately 30% of the BC Gas baseload portfolio incorporates indexed pricing. The Reference Prices in this submission are based on a forecast of indexed pricing. The actual 1994/95 gas costs may differ from this forecast.

BC Gas proposes the following method for price adjustments:

1. Fix the Reference Price for the winter months (November to March).
2. In April, compare the actual average winter price to the forecasted winter price (net of any Westcoast toll changes).
3. If the difference is more than 2%, adjust the price (up or down) effective April 1st by the difference between the actual and forecast winter prices for the remainder of the contract year.
4. If the difference is less than 2%, retain the existing Reference Price.

This price adjustment method will be reviewed at the end of the 1994/95 contract year to determine its effectiveness.

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c) **Indexed Pricing - Discussion**

Several alternative approaches for price adjustments were examined. These were:

i) *Monthly Adjustments*

Although this price adjustment method would allow the Reference Price to track actual prices, it involves additional administrative complexity and cost compared to the recommended approach. Since the bulk (70 %) of baseload contract volume is purchased at a fixed price, the Reference Price is not expected to fluctuate greatly from month to month. Therefore, monthly adjustments may not be necessary.

ii) *Fixed Price without Adjustment*

This is the simplest method, however, it might be considered unfair if the actual price were to deviate greatly from the fixed price. The Buy/Sell customers would lose in a rising market and the system-supply core customers would lose in a falling price market.

iii) *Fixed Price with Year-end Retroactive Adjustment*

This is a relatively simple administrative approach. The main drawback of this method is the uncertainty it creates with its retroactive adjustment. Buy/Sell customers cannot be sure that they will receive a rebate since, in a declining price market, the year-end adjustment may offset any expected savings. Buy/Sell brokers will likely be reluctant to contract for gas with this price uncertainty.

iv) *Fixed Price with Year-end Prospective Adjustment*

This simple approach differs from the above in that the year-end adjustment is applied to the following year's reference price i.e. any loss or gain in Reference Price is carried forward. While this method avoids the uncertainty issue resulting from retroactivity, it creates a potential problem of compound price adjustments in

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future years. For example, if prices have fallen 10% over the first year, then the second year price which was already lower due to price negotiations or indexing would be further reduced by 10%.

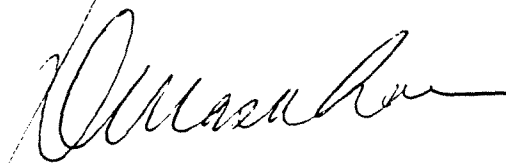
4. EXCESS VOLUME PURCHASES

Since a Buy/Sell contract DCQ is based on an 88% load factor, there may be supply available in excess of the Buy/Sell customers' annual requirements. BC Gas is prepared to negotiate with direct purchase suppliers to purchase this excess gas, as long as we can make incremental economically favourable interruptible sales i.e. these purchases do not negatively impact other existing sales. BC Gas will not purchase this gas in preference to equivalently priced system supply volumes.

All of the above is respectfully submitted this 19th day of October 1994.

Yours very truly,

BC GAS UTILITY LTD.



David M. Masuhara
Vice President, Legal and Regulatory
and Secretary

JKT/DMM/cd