

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3
CANADA



BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-99-95

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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 its 1996, 1997 and 1998 Revenue Requirements

BEFORE: M.K. Jaccard, Chairperson,)
L.R. Barr, Deputy Chairperson; and) November 27, 1995
F.C. Leighton, Commissioner)

O R D E R

WHEREAS:

- A. On July 4, 1995 BC Gas Utility Ltd. ("BC Gas") filed with the Commission an application based on a three-year test period to increase the rates of all customers in the Lower Mainland, Inland and Columbia Divisions, except those with negotiated rates, commencing January 1, 1996 and further increases effective January 1, 1997 and 1998 ("the Application") pursuant to Sections 64 and 101 of the Utilities Commission Act; and
- B. On July 20, 1995 the Commission held a Pre-hearing Conference, pursuant to Order No. G-54-95, to establish a timetable for the public review of the Application; and
- C. On July 25, 1995 the Commission issued Order No. G-60-95 which included a timetable for the public review of the Application and a Notice of Public Hearing to commence November 14, 1995; and
- D. Further information requests, educational workshops and pre-hearing conferences were conducted prior to negotiation dates which were held between October 11 and 19, 1995; and
- E. On October 27, 1995, a tentative negotiated settlement was reached among the participants and circulated to all Registered Intervenor and the Commission Panel; and
- F. At the public hearing held on November 14, 1995, the Commission explored the impacts of the proposed settlement with the participants and consequently approved the settlement proposal in its entirety.

NOW THEREFORE the Commission orders as follows:

1. BC Gas will file revised revenue requirement schedules to reflect approved hearing costs.
2. BC Gas will comply with all the terms and conditions as contained in the approved settlement (Exhibits 8 and 8A) as required by the Decision accompanying this Order.
3. The Commission as a whole will address, as soon as practicable, the procedures and the timing to resolve the issues identified as outstanding.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of November, 1995.

BY ORDER


Dr. Mark K. Jaccard
Chairperson

Attachment



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**BC GAS UTILITY LTD.
1996-98 REVENUE REQUIREMENTS APPLICATION
PUBLIC HEARING: NOVEMBER 14, 1995**

DECISION

I. APPLICATION

BC Gas Utility Ltd. ("BC Gas", "the utility", "the Company") is a regulated utility under the provisions of the Utilities Commission Act. On July 4, 1995, the utility filed an application ("the Application") for a three year test period which sought an increase in 1996 of 17.06% on the utility margin for all customers except those with negotiated rates. For 1997 and 1998, the Company sought further increases of 7.3% and 6.4% respectively on margin. The Company proposed to partially offset the increase to firm sales customers with gas cost revenues accumulated in the Gas Cost Reconciliation Account ("GCRA"). The Application also sought to have the Commission approve certain accounting changes, establish deferral accounts and resolve the Application by the use of a negotiated settlement process.

Pursuant to the terms of Order No. G-54-95, Commission staff held a pre-hearing conference for all potential participants to discuss preliminary issues, timing and the use of negotiations to deal with the Application. Based on participant input at the pre-hearing conference, the Commission issued Order No. G-60-95 with a timetable to establish key dates such as workshops, negotiation days and the public hearing.

On September 12, 1995, the first day of the workshops, BC Gas filed revisions to the Application (Exhibit 1A) which reduced the requested rate increase in 1996 for all customers to 10.73% on margin from the previous 17.06%, but for 1997 and 1998 revised the requested increase on margin upwards to 9.94% and 8.53% respectively. All of the above rate increases were exclusive of GCRA credits and were calculated on a rate of return on common equity of 12% and an equity component of 33%. The rate of return on equity is set annually in accordance with a methodology established by the Commission in 1994 for the major utilities under its jurisdiction.

II. NEGOTIATED SETTLEMENT PROCESS

In recent years the Commission has been supportive of utility requests to attempt negotiated settlement processes as a substitute for the bulk of the oral public hearing, recognizing that all settlements between utilities and intervenors require final approval of the Commission following an opportunity for public review. In this case, the negotiated settlement process was successful, and the settlement agreement was reviewed by the Commission at an oral hearing on November 14, 1995.

Prior to the hearing, as a result of the information requests, workshops and negotiations among participants, a document entitled "Terms Of A Settlement" (Exhibit 8) was circulated to all registered intervenors and the Commission panel on October 27, 1995. Further comments (Exhibit 9) were received from intervenors with respect to the above settlement proposal. In contrast to the 1994 negotiated settlement, in which the participants were able to settle only on the plant additions and O&M levels, this settlement proposal was a complete two-year package with certain provisions and conditions to deal with some unresolved issues such as IRP supply side management, a gas supply incentive and a 1996 BC Gas rate design filing.

The effect of the proposed settlement is that the firm sales customers will have no rate increases in 1996 after including off-setting gas cost revenues accumulated in the GCRA, but the other customers will have an increase in margin of 2.7% with an equivalent amount deferred for future determination. For 1997, the firm sales customer rates are projected to have a negligible increase depending on the actual GCRA off-sets; whereas the other customer rates will increase 9.58% on margin. All of the above rate impacts are based on a forecast rate of return on common equity of 11% and are subject to change due to the ROE determination mechanism and as a result of the forthcoming Mains Extensions hearing Decision.

The Commission acknowledged during the hearing that the "Terms Of A Settlement" (Exhibit 8), contains the following statement at page 3:

"The settlement is the culmination of negotiations among parties who have many diverse interests. The settlement represents numerous compromises among the parties and consists of a settlement package from which no part can be severed. The issues resolved in the settlement negotiations are numerous and complex. Taken as an integrated whole, the settlement represents a balance of interests and an overall consensus among the participating parties."

However, the Commission also stated that it has a statutory responsibility to ensure that the proposed rates to be charged are just and reasonable, that there is not undue discrimination, prejudice or disadvantage in respect of the rates or service and that the service is offered or furnished under substantially similar circumstances and conditions. The hearing provided the Commission the opportunity to review the settlement with all interested parties.

III. THE DECISION

The Commission accepts the settlement in its entirety. The Commission agrees with the consensus of parties, which it notes represent a broad range of interests, that the settlement package is in the public interest.

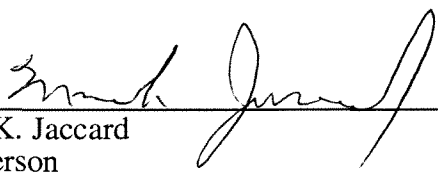
The Commission notes, in particular, that the settlement leads to stable rates for residential and commercial customers during a period in which a positive rate of inflation is forecast. The settlement also includes an ROE sharing incentive to motivate utility management to pursue even further efficiency gains in operating and maintenance costs that will ultimately benefit all customers. In the Commission's view this type of incentive is desirable since it aligns rate payer and Company shareholder interests in keeping rates low. At the same time it is important that customer service, reliability and safety not be compromised. The Commission accepts the Company's assurances in this regard and, on an ongoing basis, will review organizational changes at BC Gas directed at improving efficiency.

The Commission also notes that certain issues were excluded from the negotiated settlement. These include the use of an incentive for off-system activities related to the gas supply for firm sales customers, a demand-side management shareholder incentive, and a review of supply-side components of the integrated resource plan. The gas supply incentive is under review and the other matters will be scheduled for review as soon as practicable. All of these matters will be decided upon by the Commission as a whole, rather than by the Division formed to review this BC Gas application.

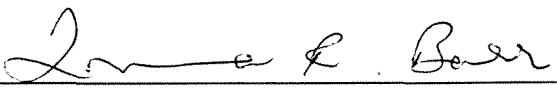
In the Commission's view, the negotiated settlement process is still in the early phase of development and has raised some interesting issues which will need further consideration. In particular, the Commission has concerns about its ability to determine the outcome for individual public interest issues which are part of a negotiated package. This concern might be addressed by introducing a preliminary review stage for the Commission panel to identify any issues which it

would prefer to review in a hearing and to agree to those other issues which are eligible for consideration in a negotiated settlement. This and other concerns will be explored further as the Commission develops and seek comments upon its guidelines for negotiated settlements.


DATED at the City of Vancouver, in the Province of British Columbia this 28th day of November, 1995.



Dr. M.K. Jaccard
Chairperson



L.R. Barr
Deputy Chairperson



F.C. Leighton, P. Eng.
Commissioner