



IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by BC Gas Utility Ltd.
for Approval of Rate Changes effective September 1, 1999

BEFORE: P. Ostergaard, Chair)
B. Clemenhagen, Commissioner) August 19, 1999
K.L. Hall, Commissioner)
F.C. Leighton, Commissioner)

O R D E R

WHEREAS:

- A. The Commission, by Order No. G-115-98, approved natural gas rates effective January 1, 1999 which included Gas Cost Recovery Factors that were based on BC Gas' "Low Case" gas cost scenario, and which increased the annual bill of a typical residential customer by 10 percent and the annual bills of commercial and general service customers by 9 to 15 percent; and
- B. On August 3, 1999, BC Gas applied for approval to flow through higher gas purchase costs under its approved gas supply portfolio for the Lower Mainland, Inland and Columbia Divisions ("the Application") effective September 1, 1999. The Application provided an analysis of BC Gas' projected gas costs, and indicated approximately a 14 percent increase in typical residential annual bills, and 16 to 17 percent increases for commercial and general service rate classes; and
- C. The Application also provided sensitivity cases for rate increases that would increase the annual bills of residential customers by 10 or 12 percent; and
- D. The Commission recognizes that there is considerable uncertainty with respect to forecasts of gas prices, and is concerned about the effect of large rate increases and volatile gas rates on consumers; and
- E. The difference between the gas cost forecast upon which rates are based and the actual cost of gas will accumulate in the Gas Cost Reconciliation Account; and
- F. The Commission has reviewed the Application and is satisfied that approval of the rates set out under Tab 3, Table C, of the Application is necessary and in the public interest. The new rates will increase the

annual bills of residential customers by 10 percent and will cause corresponding increases to the annual bills of other rate classes.

NOW THEREFORE the Commission orders as follows:

1. Changes to BC Gas' Gas Tariff Rate Schedules, to reflect the rates set out in Tab 3, Table C of the August 3, 1999 Application are approved effective September 1, 1999.
2. BC Gas, by way of a Customer Notice, is to provide all affected customers with an explanation of the rate changes. BC Gas is directed to review its communication plan, advertisements and bill inserts related to the increase with Commission staff prior to release.
3. The Commission will accept, subject to timely filing, amended Gas Tariff Rate Schedules in accordance with the terms of this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 19th day of August 1999.

BY ORDER

Original signed by:

Peter Ostergaard
Chair



NEWS RELEASE

**For release at 10:00 a.m.
August 20, 1999**

BCUC Approves a Rate Increase of 10 Percent for BC Gas Residential Customers

Vancouver – The B.C. Utilities Commission has approved a rate increase for BC Gas customers in the Lower Mainland and the Interior of the Province starting September 1, 1999. The rate increase is limited to a 10 percent bill impact for residential customers, with increases of 11 to 13 percent for commercial customers and general service customers. Residential customers in the Lower Mainland will pay about \$74 per year more for gas, while those in the Interior will pay \$63 to 70 more.

On August 3, 1999 BC Gas applied to the Commission for increases effective September 1, 1999 to recover the higher cost of gas commodity purchases. The applied-for residential rate increase was 16 percent on the variable cost component of a customer's bill or approximately 14 percent on the overall bill. If approved, typical commercial and general service (small industrial) customers would have faced bill increases in the 16 to 17 percent range.

Natural gas commodity prices have risen dramatically throughout the past year. BC Gas purchases natural gas from producers and marketers and passes on the cost, without markup, to customers. For January 1999 BC Gas applied for a 14 percent increase in residential rates, mostly attributable to the gas commodity cost increase. At that time the Commission was concerned over the impact that such a large increase would have on customers, and the Commission limited the increase to 10 percent. The Commission had hoped that prices throughout 1999 would not be as high as forecast so that the rate increase would fully recover the cost of gas. Any increase or decrease in costs is carried in a separate account to either be credited to customers if gas prices fall, or recovered at a future date from customers if gas prices turn out to be higher than forecast.

North American natural gas prices have continued to rise even higher than those forecast by BC Gas in late 1998. These additional costs have been accumulating for future recovery from customers.

In reducing BC Gas' requested September 1, 1999 increase, the B.C. Utilities Commission felt that these rapid rises in natural gas commodity costs should be tempered to reduce the impact on customers. However, the Commission finds it necessary to increase the residential bills by 10 percent to recognize the likely cost of gas for the remainder of 1999. If current forecasts of natural gas prices hold, the 10 percent increase will not recover all of the gas costs which BC Gas will be paying to producers and marketers on the customers' behalf. The "Gas Cost Reconciliation Account", which calculates the difference between the forecast gas price in the rates and the actual gas cost, is anticipated to be nearly \$50 million by the end of this year. This account will be recovered from all affected customers over the following three years. A rate increase in January 2000 of approximately 2 percent may be required solely for the purpose of initiating the recovery of this balancing account. In addition, rates in January may be adjusted both for utility costs related to the transportation and delivery of natural gas to customers and for natural gas commodity price forecasts for the following 12 months.

Customers should therefore recognize that the Commission has approved rate increases in 1999 which do not enable BC Gas to fully recover its actual cost of gas this year. This unprecedented rise in natural gas prices may moderate in the near future, but if commodity costs continue to increase, customers may be faced with a further significant increase for 2000.

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For further information:

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