



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 Cost Allocation for the Southern Crossing Pipeline

**BEFORE:** P. Ostergaard, Chair )  
L.R. Barr, Deputy Chair )  
B.L. Clemenhagen, Commissioner ) July 27, 2000  
K.L. Hall, Commissioner )  
N.F. Nicholls, Commissioner )

**O R D E R**

**WHEREAS:**

- A. On April 3, 2000, BC Gas Utility Ltd. ("BC Gas") applied to the Commission for approval of the allocation of costs arising from the Southern Crossing Pipeline ("SCP") project ("the Application"). BC Gas sought the requisite authorization and orders from the Commission to implement rates as proposed in the Application, effective January 1, 2001; and
- B. BC Gas proposed that the Application be Phase I of a two-phase process. Phase I would establish a cost allocation method for the incremental SCP cost of service and determine the proportion of SCP costs to be recovered in the delivery margin. BC Gas proposed that broader rate design issues such as the absolute and relative level of rates and rate structures, revenue to cost ratios, and modifications to its terms and conditions of service would be addressed in a second rate design application to be filed in early 2001; and
- C. On April 14, 2000, the Commission, by Order No. G-42-00, established a Workshop and Pre-hearing Conference on May 10, 2000 to address procedural matters including the scope of the Application, the process for reviewing the Application and the timing of the review; and
- D. The Commission reviewed the Application and considered the concerns of affected parties expressed at the Workshop and Pre-hearing Conference; and
- E. On May 19, 2000 and by Order No. G-53-00, the Commission established a two-part process for dealing with BC Gas' Phase I Application. The Part 1 proceeding was to deal with third party-access to SCP capacity and the related issue of what proportion of SCP costs would be placed into delivery margin versus commodity cost. The Part 1 process consisted of a Negotiated Settlement Process ("NSP") commencing June 27, 2000. The Part 2 proceeding was to deal with the allocation of SCP costs among customer classes and the integration of SCP costs into BC Gas' rate schedules. The Part 2 proceeding was scheduled to proceed by Oral Public Hearing commencing September 18, 2000; and
- F. The Part 1 NSP participants reached a Settlement Agreement Proposal; and
- G. In a letter dated July 7, 2000, Commission staff circulated the Settlement Agreement Proposal to NSP participants asking each participant to provide a letter of endorsement or dissent; and

- H. Participants responded by July 19, 2000 with letters endorsing the Settlement Agreement Proposal. The endorsement letters of two participants, representing the Inland Industrials and the Lower Mainland Large Gas Users, requested that the Part 2 Oral Public Hearing, established in Order No. G-53-00, be adjourned. Rather, they proposed dealing with Part 2 issues in combination with the broader rate design issues in a single comprehensive rate design proceeding in early 2001. The Inland Industrials suggested that the Commission should implement the equal percentage increase to delivery margins proposed by BC Gas on an interim basis effective from January 1, 2001, and the Lower Mainland Large Gas Users stated that BC Gas' rates should be made interim effective January 1, 2001; and
- I. In a letter dated July 19, 2000, Commission staff circulated the Settlement Agreement Proposal to all Intervenor and Interested Parties registered with the Commission with respect to the Application. The July 19, 2000 letter also asked for comments on the proposal to adjourn the Part 2 Oral Public Hearing and implement interim rate increases based on the equal percentage increase to delivery margins proposed by BC Gas; and
- J. BC Gas and the Consumers' Association of Canada (B.C. Branch) et al., supported the proposal to adjourn the Part 2 Oral Public Hearing and to implement an equal percentage increase effective January 1, 2001. BC Gas indicated that it was opposed to interim rates and did not want the rates effective January 1, 2001 to be subjected to retroactive adjustment after the general rate design proceeding next year; and
- K. The Commission has considered the Application, the letters of endorsement, and other submissions related to the proposal to adjourn the Part 2 Oral Public Hearing and implement interim rate increases based on the equal percentage increase to delivery margins.

**NOW THEREFORE** the Commission, for reasons stated in the Reasons for Decision attached as Appendix A to this Order, directs as follows:

- 1. The Part 2 Oral Public Hearing for the BC Gas SCP Cost Allocation Application established in Order No. G-53-00 is hereby adjourned, and the Regulatory Timetable for the filing of Information Requests, Written Submissions and Intervenor Evidence is cancelled. The Commission will establish a new regulatory timetable that includes an Oral Public Hearing upon receipt of BC Gas' application referred to in Paragraph 6 below.
- 2. Issues related to the allocation of SCP costs among customer classes and the integration of SCP costs into BC Gas' rate schedules will be dealt with in combination with the broader rate design issues, including the absolute and relative level of rates and rate structures, revenue to cost ratios, and modifications to the terms and conditions of service, in a comprehensive proceeding in early 2001.
- 3. The delivery margins for all non-bypass and non-special contract customers, except those in the Fort Nelson Service Area and those in the Columbia Service Area transporting gas under Rate Schedule 22B, are to be increased on an interim basis to include costs related to the SCP. The interim rate increases will be effective January 1, 2001, subject to refund or recovery with interest. The new rates are to include the equal percentage increase to delivery margins for applicable customer groups as proposed by BC Gas in the Application.
- 4. BC Gas is directed to incorporate the interim rate increases in its 2000 Annual Review filing and to file gas tariff rate schedules implementing the interim increase in delivery margins in a timely fashion and in any case prior to January 1, 2001.
- 5. BC Gas is to inform all affected customers of the interim rate increase by way of a customer notice, to be submitted to the Commission in draft form prior to its release.

BRITISH COLUMBIA  
UTILITIES COMMISSION

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6. BC Gas is directed to file a comprehensive application, including the allocation of SCP costs among customer classes, the integration of SCP costs into BC Gas' rate schedules, and the broader rate design issues as soon as feasible, but no later than the end of January 2001.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 4<sup>th</sup> day of August 2000.

BY ORDER

*Original Signed by:*

Lorna Barr  
Deputy Chair

Attachment

BC Gas Utility Ltd.  
Southern Crossing Pipeline (“SCP”) Cost Allocation Application  
Adjournment of Part 2 Oral Public Hearing and Implementation of Interim Rate Increases

**REASONS FOR DECISION**

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**1.0 Background**

On April 3, 2000, BC Gas Utility Ltd. (“BC Gas”) submitted a Cost Allocation Application (“the Application”) to the B.C. Utilities Commission (“the Commission”) related to the allocation of costs for the SCP project. The Application proposed that a uniform increase of approximately 11.7% be applied to the delivery margins of all applicable customer classes.

BC Gas proposed that the Application be Phase 1 of a two-phase review process. Phase 1 would have proceeded this year and dealt with how SCP costs should be allocated among customer classes and integrated into BC Gas’ rates. Phase 2 would have proceeded in 2001 and dealt with broader rate design issues.

In the Commission's May 1999 Certificate of Public Convenience and Necessity (CPCN) decision for SCP, the Commission gave BC Gas the option of completing SCP in November 2000 or the following year. BC Gas was to advise the Commission of its intended date of completion. At the time of the Cost Allocation Application, BC Gas had not decided whether it would build SCP in 2000 or in 2001. Following a Workshop and Pre-hearing Conference held on May 10, 2000, BC Gas announced that construction of the SCP would proceed in 2000 and that the SCP was expected to come into service in November 2000.

Having received approval for a CPCN to build the pipeline, BC Gas is entitled to include the prudently incurred capital costs in its rate base. As expenditures related to large capital projects are to be incorporated into the rate base on January 1 of the year following the in service date, the Commission determined that a SCP cost allocation was necessary in 2000 so that SCP costs would reflect the increase in rate base effective January 1, 2001. Since BC Gas indicated that its cost of service study could not be completed in time for a single comprehensive rate design in 2000, the Commission agreed that a process involving at least two phases was required.

The Commission was aware of the desire of BC Gas, gas marketers, industrial customers and other parties to determine the proportion of SCP costs to be recovered in the delivery margin and to determine third party access to the SCP. The Commission therefore established a Negotiated Settlement Process (“NSP”) to deal with these two issues in a timely fashion. The Commission was concerned, however, that a NSP fails to

provide an adequate public record for the rate base increase and that some customer classes would not be well represented at the NSP. As a result, the Commission decided to resolve issues related to the allocation of SCP costs among customer classes and the integration of SCP costs into BC Gas' rate schedules at a subsequent Oral Public Hearing in September 2000.

The two-part process to review the Application and the timetables for the Part 1 NSP and the Part 2 Oral Public Hearing were established by the Commission in Order No. G-53-00. Commission Order No. G-53-00 also indicated that broader rate design issues including the absolute and relative level of rates and rate structures, revenue to cost ratios and modifications to the terms and conditions of service would be addressed in a separate rate design application to be filed by BC Gas for review in 2001.

The Part 1 NSP commenced on June 27, 2000. The NSP participants reached a Settlement Agreement Proposal and participants provided Commission staff with letters of endorsement by July 19, 2000. By Order No. G-74-00, the Commission approved the Settlement Agreement. The Settlement Agreement determined the principles for third party access to the SCP and, pending further review, established that SCP costs will be placed into the delivery margin.

## **2.0 Adjournment of the Part 2 Oral Public Hearing**

The endorsement letters of the Inland Industrials and the Lower Mainland Large Gas Users requested that the Part 2 Oral Public Hearing established in Order No. G-53-00 be adjourned and proposed that the SCP Part 2 issues be combined with the broader rate design issues in a single comprehensive proceeding in early 2001. These parties suggested that the SCP Part 2 issues involve general principles that are best dealt with once the full cost allocation study is completed, and that one comprehensive proceeding next year would be the most efficient use of the resources of the Commission and of the participants. The Inland Industrials suggested that the Commission should implement the equal percentage increase to delivery margins proposed by BC Gas on an interim basis effective from January 1, 2001. The Lower Mainland Large Gas Users stated that BC Gas' rates should be made interim effective January 1, 2001.

In a letter dated July 19, 2000, Commission staff asked other participants, Registered Intervenors and Interested Parties to provide their comments on the merits of the proposal to postpone resolution of Part 2 issues until the general rate design early next year. The representative for the CAC (B.C.) et al. responded in favour of postponing resolution of Part 2 issues and indicated that it is highly unlikely that much could be accomplished at the Fall hearing given the positions taken by parties at the Part 1 proceeding. BC Gas also responded and indicated that it supported postponing the Part 2 proceeding.

Several interior and northern local governments have expressed concern about the allocation of SCP costs to customers in their communities. The Commission notes that the Part 2 Oral Public Hearing was to be of

relatively narrow scope and would not have included debate on BC Gas' zonal rate divisions. This issue would be dealt with in the broader proceeding early next year.

The Commission is persuaded that allocating SCP costs requires establishing principles that are better dealt with in the context of the full rate design proceeding, as long as the additional delay is not substantial. Since a single comprehensive proceeding early next year has the support of the parties to this proceeding and would also be a more efficient use of the resources of the Commission and the participants, the Commission hereby adjourns the Part 2 Oral Public Hearing to the comprehensive proceeding in early 2001 and issues Order No. G-75-00 to this effect.

### **3.0 Interim Rates Implemented Effective January 1, 2001**

Despite the adjournment of the Part 2 Oral Public Hearing, the Commission is of the view that costs related to SCP should still be included in rates effective January 1, 2001. The endorsement letter from the Inland Industrials proposed to adjourn the Part 2 Oral Public Hearing and indicated that the Inland Industrials were willing to accept the equal percentage increase to the delivery margins proposed by BC Gas on an interim basis. The endorsement letter of the Lower Mainland Large Gas Users also supported adjourning the Part 2 Public Hearing and establishing interim rates effective January 1, 2001. The CAC (B.C.) et al. supported an equal percentage increase effective January 1, 2001, but did not comment on whether the rates should be interim or permanent. BC Gas indicated its preference that rates put in place for January 1, 2001 not be subject to retroactive adjustment after the comprehensive rate design proceeding. The Commission is of the view that it should not adopt BC Gas' position by establishing permanent rates effective January 1, 2001 without further public process.

The Commission has examined BC Gas' Application and the Pre-Hearing Conference material and compared the BC Gas' proposed uniform increase to the cost allocations resulting from the three other methods examined by BC Gas. In its Application, BC Gas suggests that rate impacts for most customers based on a uniform 11.7% delivery margin increase are similar to other cost allocation methods considered. Because customers' bills include charges related to the gas commodity as well as the delivery margin, the resulting increase to the bills of BC Gas' sales customers would generally be less than 11.7%. For a residential customer consuming 120 GJ per year, BC Gas' proposal would increase the total gas bill by about \$44.40 annually, or about \$3.70 per month. Even though BC Gas supports a permanent uniform rate increase, the Commission does not wish to preclude other options for recovering the costs of SCP, which may come forth during the proceeding next year.

The Commission directs BC Gas to incorporate the uniform interim rate increases in its 2000 Annual Review filing and to file tariffs implementing the uniform percentage increase to delivery margins prior to January 1, 2001. The Commission also directs BC Gas to inform all affected customers of the interim rate increase by way of a customer notice.

Given the adjournment of the Part 2 Oral Public Hearing, the rates to be put in place effective January 1, 2001 will be interim and may be subject to retroactive adjustment following the comprehensive rate design proceeding early next year. The interim nature of the rates preserves the rights of the parties to comment on proposed rate changes.

#### **4.0 Timing of Comprehensive Rate Design Proceeding**

The Commission wishes to provide customers with certainty regarding future permanent rates. The Commission also recognizes that several municipalities have requested that the comprehensive rate design review be held soon. Although the Commission would like to deal with the general rate design for BC Gas as soon as possible, BC Gas has previously indicated that the full cost allocation study necessary for the comprehensive rate design will not be completed until early 2001. The Commission is concerned that significantly accelerating the process may be difficult for BC Gas and could compromise the quality of the full cost allocation study currently being undertaken. Nonetheless, the Commission is of the view that the adjournment of the Part 2 Oral Public Hearing should release some of the resources of BC Gas and its consultants, and that these resources could be put towards completion of the full cost allocation study. Taking all of this into consideration, the Commission directs BC Gas to file an application for a comprehensive proceeding, including the allocation of SCP costs among customer classes, as soon as feasible, but no later than the end of January 2001.