



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 Market-Based Commodity Prices for Rate Schedules 7, 10 and 14  
and Commodity-Related Charges in Rate Schedules 7, 22, 23, 25 and 27  
for the 2000/2001 Gas Contract Year

**BEFORE:** P. Ostergaard, Chair )  
B.L. Clemenhagen, Commissioner )  
K.L. Hall, Commissioner ) September 7, 2000  
N.F. Nicholls, Commissioner )

**O R D E R**

**WHEREAS:**

- A. On August 8, 2000, BC Gas Utility Ltd. ("BC Gas") applied to the Commission for approval of Market-Based Commodity Pricing for Rate Schedule 7 – General Interruptible Service, Rate Schedule 10 – Large Volume Interruptible Sales, and Rate Schedule 14 – Term and Spot Gas Sales, for the gas contract year commencing November 1, 2000 (the "Application"); and
- B. BC Gas also requested approval of changes to prices for balancing, backstopping and the first 5 percent of Unauthorized Overrun ("UOR") gas under Rate Schedules 7, 22, 23, 25 and 27, so that the prices would better reflect market value; and
- C. BC Gas expects that increased market liquidity and ongoing shaping of its gas supply portfolio will cause it to have much less surplus baseload gas to sell under Rate Schedules 7, 10 and 14, and anticipates it will need to purchase additional gas supplies to provide an acceptable quality of service; and
- D. BC Gas considers that a Daily Index price at Sumas, Washington is generally the most appropriate measure of market value for the gas commodity; and
- E. BC Gas has structured Rate Schedules 10 and 14 prices as gas commodity charges at the upstream point of delivery to the Westcoast Energy Inc. ("WEI") system, plus the cost of delivery on WEI; and
- F. The commodity pricing for Rate Schedule 14 provides a number of optional pricing arrangements; and

- G. BC Gas has included in Rate Schedule 14 a Gas Management Fee to cover the cost of administering price conversion options and the cost of gas nominating services; and
- H. BC Gas provided a copy of the Application to marketers who are active in its service area and to the Consumers' Association of Canada (B.C. Branch) et al., and sent a summary of the requested changes to all industrial customers; and
- I. By letter dated August 14, 2000, the Commission requested that interested parties submit written comments by August 22, 2000 and has received several submissions; and
- J. On September 5, 2000, BC Gas responded to the comments received from interested parties, withdrawing the requested changes to prices for balancing, backstopping and the first 5 percent of UOR gas under Rate Schedules 7, 22, 23, 25 and 27 and revising the Application in a number of ways (the "Revised Application"); and
- K. BC Gas intends to address revisions to balancing, backstopping and UOR charges in the 2001 rate design process. BC Gas' role regarding gas commodity sales to industrial customers and the rate schedules for such sales, can also be reviewed in the rate design proceeding; and
- L. The Commission has considered the Revised Application and the submissions, and is satisfied that the commodity-based pricing arrangements for Rate Schedules 7, 10 and 14 for 2000/01 should be approved, based on the Reasons for Decision attached as Appendix A to this Order.

**NOW THEREFORE** the Commission orders as follows for BC Gas for the gas contract year commencing November 1, 2000:

1. The Commission approves the Rate Schedule 7 tariff as set out in the Revised Application, with Market-Based Commodity Pricing as follows:

Fixed Price Option:           Rate Schedule 5 Gas Cost Recovery Charge

Index Price Option:         Daily Index price, plus \$0.09/GJ

2. The Commission approves the Rate Schedule 10 tariff as set out in the Revised Application, with Market-Based Commodity Pricing as follows:

Daily Index Option: Daily Index price

Monthly Index Option: Monthly Index price, including a 3 percent discount during November through March, and a commitment by the customer to purchase a daily Contract Demand quantity when gas is available.

3. The Commission approves the Rate Schedule 14 tariff for firm term and spot sales as set out in the Revised Application, including Market-Based Commodity Pricing and the pro forma Customer Term Sheet for such sales, except that the Gas Management Fee will continue to be \$0.02 to \$0.08/GJ and the description of Market Factor in subsection 2.2(vii) will be made consistent with the narrative material in the Revised Application.
4. The Commission's approval of Rate Schedule 14 is conditional upon BC Gas recovering the cost of gas sold under this Rate Schedule, and BC Gas will file a report within 30 days of the end of each month that summarizes costs and revenue related to Rate Schedule 14 sales and sets out the calculation of the Market Factor for the month.
5. The Commission directs BC Gas to submit on a quarterly basis and within 60 days from the end of the contract year quarter, a report of all Rate Schedule 14 transactions in the form currently used for reporting Rate Schedule 14 sales.
6. The Commission approves the revision to Section 9.2(a) of Rate Schedule 22 regarding the charge for balancing gas, as set out in the Revised Application.
7. The Commission will accept for BC Gas, subject to timely filing, Gas Tariff Rate Schedules in accordance with this Order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 12<sup>th</sup> day of September 2000.

BY ORDER

*Original signed by:*

Peter Ostergaard  
Chair

Attachment

BC GAS UTILITY LTD.  
MARKET-BASED COMMODITY PRICING UNDER RATE SCHEDULES 7, 10 AND 14

**REASONS FOR DECISION**

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**1.0 BACKGROUND**

In the February 21, 1992 BC Gas Inc. Phase A Rate Design Decision, the B.C. Utilities Commission (the “Commission”) anticipated that surplus or “valley” gas that is available under baseload contracts would be sold to interruptible customers, and stated that the interruptible sales should be priced in such a way as to maximize the benefit to the core market [i.e., BC Gas Utility Ltd. (“BC Gas”, “the Utility”) firm sales customers].

BC Gas has been selling valley gas that is surplus to the needs of its firm sales customers, to on-system and off-system interruptible customers. The revenue from these sales mitigates the demand charges paid by core customers, and the gas has provided a useful source of interruptible, but reasonably reliable, supply for on-system industrial customers. The gas markets at Huntingdon/Sumas and Westcoast Energy Inc. (“Westcoast”) Station Number 2 (“Station No. 2”) have become more liquid, with more marketers present and more supply options available. BC Gas has been reducing the amount of baseload gas it purchases in order to shape its supply portfolio to more closely match the demands of its firm sales customers at the lowest overall cost. Also, the increased market liquidity means industrial customers have more supply alternatives available to them. With the Southern Crossing Pipeline expected to be in service, BC Gas has further shaped its supply portfolio and expects it may need to interrupt interruptible sales for up to 60 days in the 2000/01 contract year.

On August 8, 2000, BC Gas applied to the Commission for approval of market-based commodity pricing for Rate Schedules 7, 10 and 14 (the “Application”). BC Gas was concerned that, with the potential level of supply curtailments for 2000/01, interruptible sales would not provide an acceptable quality of service for customers. Nevertheless, the Utility wanted to maintain a viable commodity offering for those customers that wish to buy gas from it for the 2000/01 contract year. BC Gas proposed to offer the available interruptible supply under Rate Schedule 10 (“RS10”, “Large Volume Interruptible Sales”), and to buy gas as needed to offer service under Rate Schedule 7 (“RS7”, “General Interruptible Service”) and Rate Schedule 14 (“RS14”, “Term and Spot Gas Sales”). Several changes to pricing were proposed in order to properly reflect market value for interruptible sales, to recover the cost of gas purchased to make the sales, and to maintain a level competitive footing with gas marketers.

## **2.0 REVIEW PROCESS**

In the past years, the Commission has generally reviewed and approved the annual applications for market-based commodity prices under Rate Schedules 7, 10 and 14, without a hearing. This has included the various indexed pricing options that have been introduced over time, as well as the pricing menu approach currently offered under RS14. However, due to the more significant changes anticipated for 2000/01 and in response to several concerns that have been raised about RS14, efforts were made to have the application for 2000/01 prices filed in time for public involvement in the review process.

BC Gas' annual Gas Contracting Plan was approved by Commission Letter No. L-32-00 dated July 5, 2000. After some discussions with customers and customer groups, BC Gas filed the Application for 2000/01 rates on August 8, 2000. BC Gas copied the Application to marketers that are active with customers in the area and The Consumers' Association of Canada (B.C. Branch) et al., and sent a letter describing it to all industrial customers.

On August 14, 2000, the Commission sent a letter to parties who had received a copy of the Application, and others who had expressed an interest in the matter, requesting comments by August 22, 2000. Several interested parties provided comments, and BC Gas replied to the comments in its September 5, 2000 filing. In response to comments from interested parties, BC Gas amended the Application in several ways (the "Revised Application").

### Views of Interested Parties

Several parties were concerned that BC Gas' Application removed supply options that many customers have found useful and competitive, particularly the Monthly Index Option under RS10 (and RS14). They were also concerned that customers were not advised about the proposed reduction in surplus gas availability in a timely fashion, and that they will not have sufficient time to fully canvass the other competitive supply alternatives prior to November 2000. One party expressed concern that market liquidity at Station No. 2 is not yet sufficient to provide supply alternatives for customers in the Inland Service Area.

Most parties commented that they had not had adequate time to prepare comments on the proposed tariff changes. Several parties requested that the current tariffs remain in place for 2000/01, and asked for a broad review of the Utility's role and responsibilities with regard to gas commodity sales to industrial customers.

### Commission Conclusions

The Commission acknowledges that some customers may need considerable lead time in order to restructure their supply arrangements, and considers that BC Gas' Revised Application generally maintains a good range of gas supply options for customers for 2000/01. At the same time, the regional gas market and the amount

of surplus gas that BC Gas has available are changing, and revisions to the tariffs are needed so that costs are fully recovered from the customers that use the service.

While several parties have requested a further opportunity to review and comment on the tariff changes, the changes for 2000/01 in the Revised Application are reasonably limited in scope and are well within the scope of changes that have been made to these Rate Schedules in the past. Considering the need to establish the conditions of BC Gas service in time for customers to finalize supply arrangements for 2000/01, the Commission will deal with the Revised Application without further review. The Commission recognizes that significant changes have occurred since the matter of gas sales to industrial customers was reviewed in the 1992 Rate Design Hearing, and accepts that a comprehensive review of BC Gas' role may be needed. In its 2001 Rate Design Application, BC Gas should set out the changes to commodity charges that it proposes for industrial sales and transportation tariffs for 2001/02. The Rate Design proceeding will provide a timely forum to review these matters.

### **3.0 RATE SCHEDULE 7 GENERAL INTERRUPTIBLE SERVICE**

In the Revised Application, BC Gas proposes to maintain RS7 burner-tip interruptible service. The Monthly Index Option, which currently is not widely used, would be replaced by a Daily Index Option. Prices for the Fixed Price Option for 2000/01 would be based on Rate Schedule 5 ("RS5", "General Firm Service") rates, and would change with RS5 rates. The Utility will supply and manage RS7 demands as part of its core market supply portfolio. RS7 customers would be curtailed for delivery system capacity reasons only. Each customer will make an annual election of one of the following two pricing alternatives:

Fixed Price Option: Rate Schedule 5 Gas Cost Recovery Charge

Index Price Option: Gas Daily Sumas midpoint price, plus a Market Factor of \$0.090/GJ as the current cost premium for purchasing firm physical gas supplies using the Daily Index.

Except for customers who have switched from a firm Rate Schedule, RS7 customers will not pay Gas Cost Reconciliation Account ("GCRA") riders.

#### Commission Conclusion

No interested party commented directly on the changes to RS7. The Commission considers that a reasonably reliable RS7 service should be maintained for the 2000/01 gas contract year. Each of the pricing alternatives is expected to recover the cost of providing the service. The Daily Index rate does not include a charge for balancing gas, but RS7 customers are subject to curtailment on very cold days. Similarly, the RS5 rate is for firm service, but the RS5 GCRA rider will not apply to RS7 customers. Therefore, the Commission approves the RS7 tariff for 2000/01 as proposed by BC Gas.

#### 4.0 RATE SCHEDULE 10 LARGE VOLUME INTERRUPTIBLE SALES

The Revised Application proposes to maintain RS10 for interruptible sales. A Daily Index Option price will be introduced. The Monthly Index Option would be maintained with the discount for November through March reduced from 5 percent to 3 percent. BC Gas considers a 3 percent discount is appropriate considering the current high gas prices and the market premium that is paid for firm gas purchases. Due to the reduced availability of surplus baseload gas, BC Gas expects this supply will mainly be of interest where such purchases form part of a marketer's supply portfolio. RS10 interruptible sales are an alternative to off-system sales by the Utility.

A RS10 customer will be able to select from the following price alternatives by providing BC Gas with written notification at least five business days prior to the start of a month:

Daily Index Option: Gas Daily Sumas midpoint price for the day.

Monthly Index Option: Inside FERC Sumas monthly price, less 3 percent in the winter and without a discount in the summer.

A customer selecting the Monthly Index Option will need to specify a daily Contract Demand and buy that amount each day that gas is available. The Daily Index price will apply to daily amounts in excess of the fixed volume commitment. Similar to RS14, for tax reasons, RS10 sales will be structured as a sale at the inlet to the Westcoast system, plus the Westcoast charge for moving the gas to the Sumas delivery point.

#### Views of Interested Parties

Several parties were concerned about the proposal in the Application to discontinue the monthly priced alternative under RS10. (This comment also applies to RS14, as BC Gas currently offers the RS10 price for interruptible sales under RS14.) Some also felt that the reduced reliability of supply for 2000/01 justified a winter discount from the Monthly Index that is greater than the current 5 percent. Moreover, BC Gas' ability to curtail RS10 deliveries during the gas day on two hours notice was felt to support a discount off the Daily Index price.

#### Commission Conclusions

The Commission considers that surplus gas supply should be made available to on-system interruptible customers in a way that is at least on a level footing with off-system customers, while continuing to recover the maximum value of the gas for core market customers. The gas sold under this Rate Schedule is surplus to the needs of core customers and BC Gas should not incur additional costs to enhance its availability. Warm weather during the past two winters may have masked the effect of BC Gas' portfolio shaping and may have left the impression that RS10 (and RS14) supply was more reliable than what would have been

experienced in a normal or colder winter. Customers that use RS10 service are cautioned that the supply probably will be considerably less reliable than in the past.

By continuing to offer a Monthly Index Option, BC Gas has dealt with a significant objection to the Application. In the past, the winter discount under this Option has ranged from 3 percent to 10 percent. The Reasons for Decision attached to Order No. G-98-96, which dealt with the BC Gas 1996 Rate Design and approved pricing for 1996/97, stated: "From the Commission's perspective, Schedule 10 pricing should be set at a level that recognizes market clearing prices and thereby optimizes the revenues returned to core market customers." In the absence of evidence that BC Gas will have difficulty selling its surplus gas, the Commission accepts BC Gas' proposal to reduce the winter discount to 3 percent. The requirement for customers to specify a Contract Demand quantity is also accepted.

The proposed pricing options each reasonably represent the competitive market value of the gas. Therefore, the Commission approves RS10 service as proposed by BC Gas. BC Gas should continue to report the Monthly Index Option price to the Commission each month.

## **5.0 RATE SCHEDULE 14 TERM AND SPOT GAS SALES**

In the Revised Application, BC Gas proposes to limit RS14 to firm sales, whether term or spot sales. To provide firm service, each month BC Gas will assess the amount of surplus supply available and will purchase additional supply as required to make the RS14 sales that it forecasts. Due to the difficulty of forecasting daily sales, BC Gas expects that occasionally it will need to access peaking supplies that have been contracted for the core market.

BC Gas intends to serve RS14 customers at cost, with minimal subsidization from other firm sales customers. The principal pricing mechanism under RS14 would be the Gas Daily Sumas midpoint price, plus a premium or Market Factor. The Market Factor would be calculated monthly and would include the market premium for commodity purchases for RS14, the cost of accessing core market peaking, and losses on the resale of gas purchased for RS14 sales. A customer will also be able to convert the Daily Index price to a fixed or Monthly Index price for a future period subject to paying costs that are specific to the transaction.

BC Gas has developed a pro forma Customer Term Sheet for RS14 (and RS10) sales and proposes that customers and customer groups provide written confirmation in advance of transactions on their behalf. It is expected that the Customer Term Sheet will be used to document all RS14 sales arrangements and that a daily Contract Demand quantity will be specified.

RS14 currently has a minimum gas management fee of \$0.02/GJ to recover BC Gas administrative costs related to offering price conversion options and for providing gas nominating services. BC Gas proposes to increase the minimum gas management fee to \$0.04/GJ to fully recover its costs with a customer base that is expected to shrink. The Utility states that the proposed fee is competitive with fees charged by marketers. Costs that are specific to a transaction carried out on a customer's behalf would be in addition to the gas management fee, and would be specified in the agreement with the customer. Also, the fee would apply to all quantities managed on the customer's behalf, including RS10 interruptible sales.

#### View of Interested Parties

Few comments were made about firm industrial sales, which BC Gas proposes will be the scope of RS14 sales. At this time of much higher gas prices, several parties felt the proposed increase in the minimum gas management fee was not warranted. Interested parties stated that staffing levels have fallen in the Industrial Services Department and that there is no evidence of a significant increase in administrative effort. There was also a suggestion that the fee should be split into two or more components as some RS14 customers may not use all of the services that the fee covers.

#### Commission Conclusions

The Commission considers it is necessary for 2000/01 that BC Gas offer industrial customers a gas sales service that is comparable to the generally reliable service provided in past years. Similar service is available from marketers, but there may not be sufficient time for customers to develop new supply arrangements for November 2000. At times BC Gas may need to purchase supply to make these sales, and must fully recover the cost of the sales from customers using the service. This should include compensation to other firm sales customers for the occasional use of peaking resources. The calculation of the Market Factor relative to the Daily Index price should confirm the full recovery of costs from RS14 customers, and BC Gas will be expected to report the Market Factor calculation to the Commission each month.

Restricting RS14 to firm term and spot sales will clarify the nature of the sales for all parties and will assist the Commission in its oversight of activities under the Rate Schedule. The pro forma Customer Term Sheet is expected to satisfy the need for better documentation.

The Commission accepts the proposed RS14 supply strategy for 2000/01, as it should reduce the amount of supply purchased to service RS14 and so the cost of RS14 sales. It should also maximize the amount of surplus baseload gas sold under RS14 and hence the revenue to firm sales customers from such sales. In recognition that core market peaking supplies are being used to provide lower prices for RS14 sales, the Commission expects that RS14 sales will be curtailed prior to core sales in the event of a supply shortage.

The Commission notes that BC Gas can negotiate the gas management fee within a narrow range and is concerned that the proposed minimum fee of \$0.04/GJ assumes a significant reduction in the number of customers. It is also possible that some RS14 customers will not use all the services that the fee covers. For this reason, the Commission directs BC Gas to maintain the minimum fee at \$0.02/GJ.

Subject to maintaining the gas management fee range at \$0.02 to \$0.08/GJ, the proposed RS14 tariff is expected to reasonably accommodate the needs of all parties that have an interest in the matter, and the Commission approves it on that basis.

**6.0 BALANCING, BACKSTOPPING AND  
FIRST 5 PERCENT UNAUTHORIZED OVERRUN (“UOR”) CHARGES**

In the Application, BC Gas proposed to have the commodity-related charges for balancing, backstopping and the first 5 percent of UOR gas in Rate Schedules 7, 22, 23, 25 and 27 better reflect market value for the gas. In response to comments from interested parties, BC Gas withdrew the proposal in the Application, and requested that the RS10 price that applies to Rate Schedule 22 balancing gas be the Daily Index Option price. BC Gas intends to address other revisions to these charges in the upcoming Rate Design process. The Commission recognizes that clarification of the tariff is needed and considers that the Daily Index Option price better reflects market value for balancing gas provided to Rate Schedule 22 customers. The wording changes are approved as applied for in the Revised Application.