



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

and

British Columbia Hydro and Power Authority  
Applications for Approval of Transportation Service Agreement and  
Peaking Agreement with Centra Gas British Columbia Inc. and Related Agreements

and

Centra Gas British Columbia Inc.  
Application to Approve Amended and Restated Transportation Service Agreement  
with the Island Cogeneration Limited Partnership

**BEFORE:** P. Ostergaard, Chair )  
K.L. Hall, Commissioner ) August 30, 2001  
R.D. Deane, Commissioner )

**O R D E R**

**WHEREAS:**

- A. The Commission, by Order No. G-61-00 dated June 21, 2000, approved the Transportation Service Agreement between Centra Gas British Columbia Inc. ("Centra Gas") and the Island Cogeneration Limited Partnership ("ICLP") for the transportation of natural gas to the Island Cogeneration Plant located at Elk Falls, B.C., subject to conditions. Thereafter, Centra Gas and ICLP entered into the First Amending Agreement, dated July 24, 2000, to incorporate the conditions into the Transportation Service Agreement (the Transportation Service Agreement and the First Amending Agreement being collectively, the "ICLP TSA"); and
- B. The Commission, by Order No. G-112-00 and Reasons for Decision, approved for Centra Gas the November 1, 2000 Second Amending Agreement to the ICLP TSA that extended the term of the ICLP TSA to the earlier of the Commercial Operation Date under the Agreement or March 31, 2001. Commission Orders No. G-34-01, G-43-01, G-71-01 and G-77-01 extended the term of the ICLP TSA, with Order No. G-77-01 extending the term to the earlier of the Commercial Operation Date or August 31, 2001; and
- C. On March 12, 2001, Centra Gas applied to the Commission for approval of a February 28, 2001 Amended and Restated Transportation Service Agreement (the "ARTSA") between Centra Gas and ICLP, which would restate the ICLP TSA effective April 1, 2001 so as to provide interruptible transportation service that would expire on the earlier of the Commercial Operation Date or July 1, 2002; and

- D. On April 2, 2001, the Vancouver Island Gas Joint Venture (“Joint Venture”) raised concerns related to the ARTSA and on April 10, 2001, Centra Gas responded to the Joint Venture’s submission; and
- E. On April 6, 2001, the British Columbia Hydro and Power Authority (“B.C. Hydro”) disputed certain matters contained in Centra Gas’ March 28, 2001 letter and applied for approval of a Transportation Service Agreement (“BCH TSA”) and Peaking Agreement (“BCH PA”) both dated March 7, 2001; and
- F. On April 10, 2001, the Joint Venture provided comments on B.C. Hydro’s April 6, 2001 application and suggested that Commission staff convene a meeting of interested parties, which was subsequently held on May 9, 2001; and
- G. On April 11 and 17, 2001, Counsel for Centra Gas, and Centra Gas respectively, both provided additional comments on B.C. Hydro’s application for approval of the BCH TSA and BCH PA, and on April 26, 2001 B.C. Hydro responded to the comments; and
- H. On May 4, 2001, B.C. Hydro applied for approval of a Capacity Assignment Agreement (“CAA”) dated March 7, 2001 between B.C. Hydro, Centra Gas and BC Gas Utility Ltd. (“BC Gas”); and
- I. On May 7, 2001, Centra Gas filed material supporting transportation service agreements to serve cogeneration loads on its transmission system; and
- J. Following the May 9, 2001 meeting convened by Commission staff, ICLP and Counsel for Centra Gas, on May 11, 2001, filed letters that supported a written hearing to deal with the proposed transportation agreements and Centra Gas’ system capacity and ability to meet its obligations to the Joint Venture, and proposed that the ICLP TSA remain in effect in the interim; and
- K. On May 11, 2001, Counsel for the Joint Venture filed a letter stating that the Joint Venture would prefer an oral public hearing into the availability of Centra Gas firm capacity and access by the Joint Venture to firm and interruptible capacity; and
- L. On May 11, 2001, B.C. Hydro filed letters that supported a written or oral hearing to deal with concerns regarding system capacity and impacts on the Joint Venture, and requested approval of the BCH TSA effective May 15, 2001; and

- M. On May 24, 2001 by Order No. G-53-01, the Commission convened a written public hearing into the application by Centra Gas for approval of the ARTSA and the B.C. Hydro applications for approval of the BCH TSA, BCH PA and CAA. Included with the Order was a Regulatory Agenda and Timetable; and
- N. The Commission, in response to submissions from ICLP and the Joint Venture, by Order No. G-75-01 dated July 6, 2001, extended by one week the filing dates in the Regulatory Timetable for the written hearing into the applications by Centra Gas and B.C. Hydro. Order No. G-75-01 established that Intervenor Evidence was to be filed by July 13, 2001, Information Requests to Intervenors by July 20, 2001, Intervenor Responses to Information Requests by July 27, 2001, Centra Gas Final Submission by August 3, 2001 and Intervenor Responses by August 10, 2001. Centra Gas' Reply Submission was filed on August 20, 2001; and
- O. The Commission has reviewed the applications and the evidence adduced thereon all set forth in the Reasons for Decision attached as Appendix A to this Order.

**NOW THEREFORE** the Commission orders as follows:

1. The Commission approves the ARTSA, subject to the agreement being amended to provide for a term commencing September 1, 2001 and ending on the day prior to the Commercial Operation Date ("COD") as defined under the Electricity Purchase Agreement ("EPA") between ICLP and B.C. Hydro dated September 29, 1998, or such other date as B.C. Hydro and ICLP agree upon. Service under the ARTSA will only be provided if the firm demand of the Joint Venture is being met, and Centra Gas is not requesting peaking gas under the Peaking Gas Management Agreement ("PGMA") between the Joint Venture, Centra Gas and Squamish Gas Co. Ltd., dated December 14, 1995. The rate under the ARTSA will be equal to the Joint Venture's interruptible rate.
2. The Commission approves the BCH TSA, subject to the agreement being amended so that it goes into effect on the COD as defined under the EPA, or such other date as B.C. Hydro and ICLP agree upon. Service under the BCH TSA will only be provided if the firm demand of the Joint Venture is being met, and Centra Gas is not requesting peaking gas under the PGMA.
3. The Commission approves the BCH PA.

4. The Commission approves the CAA, subject to amendment of the agreement to provide B.C. Hydro with an option to place the agreement into effect prior to the commencement of service under the BCH TSA on the basis that no charges will be payable by Centra Gas under the CAA prior to the commencement of service under the BCH TSA.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 30<sup>th</sup> day of August 2001.

BY ORDER

*Original signed by:*

Peter Ostergaard  
Chair

Attachment

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY  
APPLICATIONS FOR APPROVAL OF TRANSPORTATION SERVICE AGREEMENT AND  
PEAKING AGREEMENT WITH CENTRA GAS BRITISH COLUMBIA INC. AND RELATED AGREEMENTS

AND

CENTRA GAS BRITISH COLUMBIA INC.  
APPLICATION TO APPROVE AMENDED AND RESTATED TRANSPORTATION SERVICE AGREEMENT  
WITH THE ISLAND COGENERATION LIMITED PARTNERSHIP

**REASONS FOR DECISION**

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**1.0 BACKGROUND**

**1.1 Vancouver Island Pipeline**

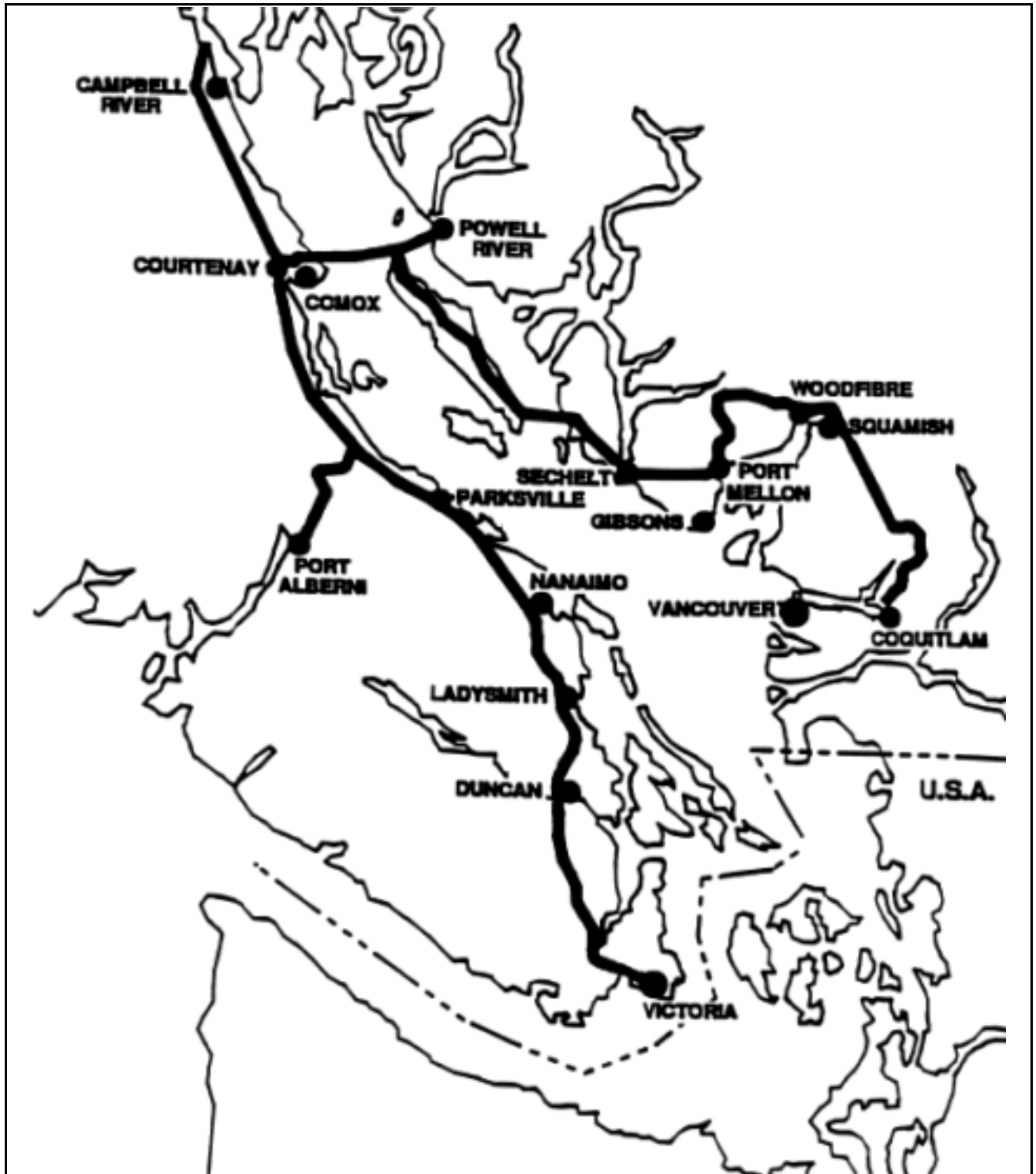
The Vancouver Island Pipeline or high pressure transmission system (“HPTS”) opened for the delivery of natural gas service in November, 1991 with the financial support of both the Federal and Provincial governments. The stated objective included the provision of natural gas to Vancouver Island and a reduction in the amount of fuel oil that was transported along the west coast. The general assumption on which it was based provided that the pulp and paper mills it served would not pay any more for natural gas than they would pay for fuel oil. It allowed natural gas purchased in northeastern British Columbia to be carried along the Westcoast Energy Inc. (“Westcoast”) transmission system, wheeled through the BC Gas Utility Ltd.’s (“BC Gas”) network and transported along the HPTS.

The HPTS route begins at Coquitlam and terminates in Campbell River, Port Alberni and Victoria, as shown on the attached map. The seven pulp and paper mills represented by the Vancouver Island Gas Joint Venture (“Joint Venture” or “VIGJV”) continue to be important customers, while the residential and commercial (“core market”) load served by Centra Gas British Columbia Inc. (“Centra Gas”) has grown steadily.

Pacific Coast Energy Corporation, which originally built the HPTS, was a distinct entity from the lower pressure distribution system provider. This changed in 1995 when Westcoast renegotiated major agreements that underpinned the project. Centra Gas became the owner of both the HPTS and distribution systems. It became the holder of a Peaking Gas Management Agreement (“PGMA”) with the Joint Venture and Squamish Gas Co. Ltd. (“Squamish Gas”) and a Transportation Service Agreement with the Joint Venture.

Two orders of the Lieutenant Governor in Council provided “Special Direction” to the Commission in its regulation of the project. Special Direction No. 5 (Order in Council 990 dated July 11, 1991) set the financial parameters on which the project was to be initially financially supported and the role of the Commission in reviewing that process. In 1995, the Vancouver Island Pipeline Special Direction (Order in Council 1510 dated December 13, 1995) replaced the earlier Special Direction and established a different

## VANCOUVER ISLAND PIPELINE



financial structure and role for the Commission. It made particular provisions with respect to gas supply to the Joint Venture.

## **1.2 Island Cogeneration Plant**

On May 8, 2000, Centra Gas applied to the Commission for approval of a Transportation Service Agreement (“TSA”) with Island Cogeneration Limited Partnership (“ICLP”) for its Island Cogeneration Plant (the “ICLP Plant” or “ICP”) near Campbell River, B.C. The ICLP Plant will supply electricity to British Columbia Hydro and Power Authority (“B.C. Hydro”) under an Electricity Purchase Agreement (“EPA”) and steam to the adjacent pulp and paper mill. The ICLP TSA provided the terms and conditions of transporting natural gas on the HPTS for commissioning and start-up preceding the commercial operation of the ICLP Plant. The term of the TSA was from April 7, 2000 to the earlier of the Commercial Operation Date or December 31, 2000.

The Joint Venture opposed the ICLP TSA on the basis that Centra Gas did not have sufficient surplus firm capacity on the HPTS. The Commission approved the ICLP TSA in Order No. G-61-00 subject to an amendment. Firm service was to be provided to the ICLP only if the firm requirement demanded by the Joint Venture at that time was met, and Centra Gas was not requesting peaking gas from the Joint Venture.

Interruptible service was to be available to the ICLP and the Joint Venture on a pro rata basis. The Commission extended the term of the ICLP TSA in Orders No. G-112-00, G-34-01, G-43-01, G-71-01, and most recently by Order No. G-77-01 to August 31, 2001.

## **1.3 Applications**

On March 12, 2001, Centra Gas applied for approval of an Amended and Restated Transportation Service Agreement (“ARTSA”) with ICLP. This would replace the ICLP TSA and would provide interruptible transmission service to the ICLP Plant. The ARTSA was to become effective April 1, 2001 and to expire on the earlier of the Commercial Operation Date as specified in a notice from ICLP, or July 1, 2002.

On April 6, 2001, B.C. Hydro applied for approval of a Transportation Service Agreement (“BCH TSA”) and Peaking Agreement (“BCH PA”). The BCH TSA will provide firm and interruptible transportation service over the Centra Gas system to the ICLP Plant until the proposed Georgia Strait Crossing Pipeline is completed, now scheduled for late 2003. The BCH PA will provide system peaking capacity and gas commodity to Centra Gas by means of reducing transportation supply to the ICLP Plant. B.C. Hydro applied to the Commission on May 4, 2001 for approval of the Capacity Assignment Agreement (“CAA”) between B.C. Hydro, Centra Gas and BC Gas dated March 7, 2001.

On April 10, 2001, the Joint Venture provided comments on B.C. Hydro's application and suggested that Commission staff convene a meeting of interested parties. Centra Gas provided material in support of the application on May 7, 2001 and stated that, aside from the issue related to potential overlapping of service under the ARTSA and the BCH TSA, " ... the BCH TSA and the BCH PA represent fair and reasonable contracts that enable the maximum firm demand commitment to the ICP while respecting Centra Gas' other system commitments, including the VIGJV contract for firm service."

In order to provide increased transmission capacity on HPTS to the ICLP Plant, Centra Gas applied on June 11, 2001 to the Commission for a Certificate of Public Convenience and Necessity ("CPCN") to build and operate a natural gas compressor on Texada Island. After reviewing costs, timing and justification, the Commission approved the CPCN with Order No. C-6-01 dated July 25, 2001. The compressor is scheduled to be in service by December 1, 2001, and will provide an additional 21 TJ/d of natural gas throughput capacity. Order No. C-6-01 also approved the Compressor Facility Agreement ("CFA") between B.C. Hydro and Centra Gas. Under the CFA, B.C. Hydro is responsible for the capital cost of the new compressor facility and must issue an authorization notice before Centra Gas can operate the new compressor.

The BCH TSA, BCH PA, CAA and CFA together comprise B.C. Hydro's "Agreement Package". Also, as part of the CPCN application, B.C. Hydro filed a "Side Letter". The Side Letter provides that Centra Gas and B.C. Hydro will negotiate amendments to the BCH TSA, the BCH PA, and the CAA. It would increase the contract demand under the BCH TSA from 28 TJ/day to 38 TJ/day.

#### **1.4 Written Hearing**

Commission staff held a meeting with all interested parties on May 9, 2001. A number of participants expressed concern in several areas. The definition of the Commercial Operation Date ("COD") under the EPA between B.C. Hydro and ICLP was in dispute but it was considered to be beyond the Commission's jurisdiction. A 1998 Minister's Order (No. M-22-9801) exempted this contract from Commission review.

The Joint Venture indicated that it was doubtful whether sufficient capacity existed on the Centra Gas HPTS to provide service to the ICLP Plant. It argued that if the BCH TSA was approved there would be a degradation of the quality of service to mills on the system. In the Joint Venture's view, Centra Gas was actually relying on the Georgia Strait Crossing to ultimately provide sufficient capacity.

On May 24, 2001 by Order No. G-53-01, the Commission convened a written public hearing into the applications relating to ARTSA, the BCH TSA, the BCH PA, and the CAA. The Commission ordered that the issues to be considered would include:

1. the capacity of the Centra Gas system and possible increases resulting from additional compression;



2. the impact of Centra Gas contracting additional firm service to B.C. Hydro on the rights of the Joint Venture; and
3. whether the Joint Venture has preferential rights to interruptible service.

The filing dates for the written hearing process were extended by Order No. G-77-01. Intervenor evidence from ICLP, BCH and the Joint Venture was filed by July 13, 2001. A further round of information requests and responses from Intervenor followed. Centra Gas made a final submission on August 3, 2001. Intervenor were to reply on August 10, 2001 and Centra Gas' reply submission was filed on August 20, 2001.

## **2.0 CAPACITY OF THE CENTRA GAS TRANSMISSION SYSTEM**

The addition of a major new customer on a pipeline system requires a review of the system's capacity to serve the load. The Joint Venture expressed concern that Centra Gas is overselling its firm capacity, and is reclassifying as firm, service that is subject to interruption. It opposed approval of the BCH TSA to the extent that the firm transmission service provided to B.C. Hydro exceeds the incremental capacity that results from additions to the capacity of the HPTS. The Joint Venture requested that its firm service should not be curtailed under the PGMA or otherwise if service is being provided to the ICLP Plant, and that it should have fair and equitable access to all available interruptible capacity.

### **2.1 System Capacity and Firm Loads**

Centra Gas calculated the 2002/03 hydraulic capacity of its existing HPTS as 134.2 TJ/d, net of fuel gas. On days when the Centra Gas Distribution System ("CDS") load is less than the design day load, the capacity of the system increases slightly, as less gas must be transported to the end of the pipeline at Victoria. Commission Order No. C-6-01 approved the Texada Island compressor, which is scheduled to be in service by December 1, 2001 and is expected to increase HPTS capacity to 155.1 TJ/d.

These capacities assume the minimum receipt pressure at Coquitlam under the BC Gas Wheeling Agreement, which transports gas from Huntingdon to the interconnect with the Centra Gas system. Receipt pressures are not critical currently as Centra Gas' compression at Coquitlam is not fully utilized, but will be critical to achieving 155.1 TJ/d with the Texada Island compressor. As the minimum receipt pressure under the Wheeling Agreement declines after 2002/03, the capacity of the HPTS will also be reduced (Centra Gas response to BCUC IR 3.1, 3.2, 4.1 and 4.2). This may be a concern in the event the term of the Agreement Package is extended.

The amount of firm wheeling capacity over the BC Gas system that is available to Centra Gas for 2002/03 under the Wheeling Agreement is 116.5 TJ/d, net of fuel. The CAA would assign to Centra Gas a further

30 TJ/d of wheeling capacity and the Side Letter between Centra Gas and B.C. Hydro, dated May 28, 2001, anticipates this will increase to 45 TJ/d.

Centra Gas provided the following firm load forecast for customers other than B.C. Hydro:

**Design Day Firm Load (TJ/d)**

	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>
Joint Venture	37.6	37.6	37.6
Squamish Gas	4.3	4.5	4.6
Centra Gas Distribution System	90.3	93.0	95.8
Whistler	0	0	6.8*

\* The earliest possible in-service date for a gas pipeline from Squamish to Whistler is 2003/04.

The Joint Venture and B.C. Hydro generally used Centra Gas' projections of pipeline capacity and firm load. No issues were identified with respect to this information.

## **2.2 Firm Capacity**

Although Centra Gas' projections of HPTS capacity and load were generally accepted, the parties differed in their assessment of Centra Gas' ability to contract 28 TJ/d or more of firm capacity to B.C. Hydro. Centra Gas took the position that the amount of HPTS capacity related to CDS customers is the amount remaining after its other firm commitments. A system capacity of 116.5 TJ/d less 37.6 TJ/d for the Joint Venture and 4.5 TJ/d for Squamish Gas, leaves 74.4 TJ/d available for the CDS for 2002/03 (Centra Gas Evidence dated June 8, 2001, p. 3; Centra Gas response to BCUC IR 5.5). This amount is generally consistent with approximately 70 TJ/d of off-system gas commodity supply that Centra Gas has contracted for 2001/02 (Centra Gas response to BCUC IR 8.1). Centra Gas would also use 18.8 TJ/d of PGMA peaking plus potentially small amounts of spot purchases to meet the 93 TJ/d demand of the CDS.

B.C. Hydro compared system capacity and demand assuming that Centra Gas' peaking contracts have the effect of reducing the CDS' peak day requirement. This gave a generally similar result to Centra Gas' method.

The Joint Venture took the view that Centra Gas must be able to meet the full contract demand of all firm customers, including the CDS. It considered that peaking supplies under the PGMA and BCH PA do not serve to reduce the requirement of the CDS for firm HPTS capacity. In particular, the Joint Venture stated that the PGMA is for gas delivered to Centra Gas at Huntingdon, and does not reduce the need for HPTS capacity (Joint Venture response to BCUC IR 3.1). The Joint Venture also questioned the effect on the capacity of the Centra Gas system of the additional BC Gas wheeling provided by the CAA.

The Joint Venture took the position that existing customers have rights that prospective customers do not have, and that they have a fundamental right not to have the quality of their service degraded or put at risk. The Commission generally accepts this position with respect to firm service.

The Commission considers that the critical question is whether, with the B.C. Hydro Agreement Package, Centra Gas has sufficient firm capacity available to contract 28 TJ/d to B.C. Hydro. With respect to the Joint Venture's question whether Centra Gas has sufficient HPTS capacity to offer firm service to B.C. Hydro, the Agreement Package will provide the BC Gas wheeling capacity needed to fully utilize the hydraulic capacity of the HPTS.

Centra Gas identified that in 1995/96 it relied on peaking gas under the PGMA to deal with a shortfall in HPTS capacity (Centra Gas response to BCUC IR 13.1). The Commission accepts that the purchase of on-system peaking gas to reduce the requirement of the CDS for HPTS capacity is a cost-effective and appropriate means to reduce costs and increase system utilization. Therefore, the Commission does not accept the Joint Venture's position that Centra Gas is reclassifying interruptible service as firm.

With the Agreement Package, design day capacity and loads for 2002/03 are as set out in the following table. Two Base Case scenarios are shown. One assumes that the firm capacity of the Centra Gas system is currently limited to 116.5 TJ/d by the amount of firm BC Gas wheeling that Centra Gas has contracted. The other scenario is based on the hydraulic capacity of the HPTS of 134.2 TJ/d.

**2002/03 Design Day Firm Capacity and Loads**

	<u>Base Case (Current System)</u>		<u>B.C. Hydro at 28 TJ/d</u>	<u>B.C. Hydro at 38 TJ/d</u>
HPTS System Capacity	116.5	134.2	134.2	155.1*
Joint Venture Load TJ/d	37.6	37.6	37.6	37.6
Squamish Gas Load TJ/d	4.5	4.5	4.5	4.5
Centra Gas CDS Load TJ/d	93.0	93.0	93.0	93.0
BCH TSA Load TJ/d			28.0	38.0
BCH PA Peaking TJ/d	0	0	(28.0)	(18.0)
Joint Venture PGMA Peaking TJ/d	<u>(18.6)</u>	<u>(0.9)</u>	<u>(0.9)</u>	<u>0</u>
Deficiency	0	0	0	0
Annual peaking required, TJ per year	46.8	Minimal	205.0	62.7
BCH PA peaking available, TJ per year	0	0	280	380
PGMA peaking available, TJ per year	94	94	94	94

\* Texada Island Compressor in Service

Reference: Centra Gas Evidence dated June 8, 2001

Centra Gas confirmed that BCH PA peaking will be used before PGMA peaking is called upon. The foregoing information indicates that the PGMA would, at most, be called upon to a very limited extent (0.9 TJ/d) on a design day under the B.C. Hydro 28 TJ/d case. B.C. Hydro confirmed that it did not expect that the 280 TJ per year curtailment limit in the BCH PA would be reached, and did not have concerns about a greater level of interruption (B.C. Hydro response to BCUC IR 5.4).

Assuming the Texada Island compressor is available and operates to specifications, the B.C. Hydro 38 TJ/d case improves the reliability of Joint Venture firm supply and will eliminate the need for PGMA peaking. Without the compressor, notwithstanding that 380 TJ per year of BCH PA peaking will be available, it is not clear whether some PGMA peaking may be needed. This uncertainty is a concern since the BCH TSA is not conditional on the availability of the compressor, or the other agreements in the Agreement Package.

The Commission is well aware that the Joint Venture was the anchor customer of the Vancouver Island pipeline, and acknowledges the important contribution that the Joint Venture made and continues to make to the economic viability of the pipeline. Member companies of the Joint Venture are under considerable financial strain and the Commission is concerned that their interests not be harmed. The Commission considers that the Joint Venture's right to firm capacity (including a reduction in the obligation to provide peaking under the PGMA) is likely to be enhanced under the BCH TSA. Nevertheless, unexpected events in the future should impact service under the BCH TSA prior to firm Joint Venture service.

The Commission also notes that Centra Gas identified a circumstance when it would provide interruptible service while it is taking peaking gas under the PGMA (Centra Gas response to BCUC IR 1.0 and 10.1). This would apply to interruptible deliveries under the ARTSA as well as the BCH TSA, unless the firm requirements of the Joint Venture take precedence.

**The Commission concludes that Centra Gas has sufficient firm capacity to contract 28 TJ/d with B.C. Hydro under the terms of the Agreement Package and, with the Texada Island compressor in operation, will be able to contract 38 TJ/d. The Commission determines that any approvals of the ARTSA and the BCH TSA must be subject to a condition that service under the agreements will only be provided if the firm demand of the Joint Venture is being met, and Centra Gas is not requesting peaking gas under the PGMA.**

### **2.3 Interruptible Capacity**

The CDS load is mainly for space heating, with a very high peak on the relatively few cold days each winter and lower consumption during the rest of the year. On most days, the CDS load is considerably less than the amount of HPTS capacity that is set aside for CDS use, resulting in large amounts of capacity being available on an interruptible basis.

Centra Gas estimated that the amount of available interruptible capacity would increase slightly under the B.C. Hydro 28 TJ/d and 38 TJ/d cases, to approximately 17,000 TJ per year (Centra Gas response to Joint Venture IR 2.2). This increase is despite the additional B.C. Hydro deliveries, and is based on a Base Case HPTS capacity of 116.5 TJ/d. Centra Gas anticipated that the HPTS load factor would increase from the current level of 60 to 65 percent, to 70 to 75 percent under the B.C. Hydro 38 TJ/d case, indicating that significant amounts of interruptible capacity would continue to be available.

Centra Gas took the position that the Joint Venture's rights to interruptible service are contained entirely in the Joint Venture service agreement and Centra Gas' General Terms and Conditions. Centra Gas submitted that there would be no impact on the rights of the Joint Venture to interruptible service as a result of providing firm service to B.C. Hydro, and that the amount of interruptible capacity available to the Joint Venture would not be significantly reduced.

The Joint Venture's use of interruptible gas has ranged from 856 to 3,987 TJ per year over the past three years (Joint Venture response to B.C. Hydro IR 1.1). The Joint Venture asserted that the approval of firm service to the ICLP Plant would result in a material reduction in the availability of interruptible capacity and its entitlement to use interruptible capacity. The Joint Venture's transportation service agreement (the "Joint Venture TSA") permits it to record volumes of Interruptible Offset Gas, under certain circumstances when its firm contract demand cannot be fully utilized. The Joint Venture was particularly concerned about its ability to recover these volumes. The Interruptible Offset Account balance was 270.5 TJ to the end of June 2001 and the Joint Venture expected this to increase over the rest of the year. The Vancouver Island Natural Gas Pipeline Special Direction stated that the Commission shall not make changes to the Joint Venture TSA or the General Terms and Conditions relating to the service agreement, if the change would alter the quantity of Interruptible Offset Gas that the Joint Venture is entitled to receive.

The Joint Venture stated a belief that certain past representations regarding both firm and interruptible transportation have not been fulfilled, but it did not propose that other customers should be prejudiced as a consequence. It felt that gas deliveries to the ICLP Plant should be interruptible service, and that available interruptible capacity should be allocated based on nominations up to the maximum ability to take gas. The Joint Venture did not object to the ARTSA, but requested that B.C. Hydro not be provided with preferential access to available interruptible capacity on the basis that the BCH TSA provides firm service (Joint Venture response to BCUC IR 4.1, 4.2, 4.3 and 4.4). The Joint Venture did not appear to recommend changes to Centra Gas' procedures for interruptible capacity, which allocates available interruptible capacity pro rata based on nominations for interruptible service. It provided tables and graphs illustrating the amount of interruptible capacity shortfall under several scenarios.

B.C. Hydro submitted that the rights of the Joint Venture to interruptible capacity and to Interruptible Offset Gas would be unaltered by the Agreement Package. B.C. Hydro interpreted the Joint Venture's evidence to

show that interruptible service availability with the ARTSA (using a HPTS capacity of 115.4 TJ/d) would be less than under the Agreement Package (using a HPTS capacity of 155.1 TJ/d). B.C. Hydro estimated that the load factor for the Centra Gas system under the ARTSA probably would be in excess of 90 percent.

B.C. Hydro took the position that interruptible service is a residual service that is available if, as and when unutilized firm capacity occurs. It considered there should be no regard for the loss of availability of interruptible service if that loss is offset by a service paying a higher toll. B.C. Hydro also stated that in preparing the Agreement Package, it relied on Centra Gas' General Terms and Conditions.

The Commission understands the Joint Venture's main concern to be equitable access to interruptible capacity, and that the Joint Venture accepts that it may have less interruptible capacity available to it on a particular day. The availability of interruptible service may be somewhat reduced under the ARTSA and the BCH TSA if the Texada Island compressor and additional BC Gas wheeling are not available. Based on the current small balance in the Interruptible Offset Account at the end of June 2001 and the Joint Venture use over the past three years of 856 to 3,987 TJ per year, compared to the 17,000 TJ per year of interruptible capacity that Centra Gas estimates will be available, the Commission considers that the Joint Venture's ability to recover Interruptible Offset Gas is unlikely to be materially affected. Nevertheless, the Commission is concerned that the interests of the Joint Venture not be harmed, and encourages the parties to take steps to increase the capacity of the Centra Gas system.

In the preceding section, the Commission concluded that Centra Gas will have sufficient firm capacity for its service contract with B.C. Hydro. The Commission considers that it must resolve issues related to interruptible capacity based on documented agreements and tariffs, and non-discriminatory treatment of all parties. Interruptible service is residual to a transporter's opportunities to contract firm service at higher rates, and the amount available will change from time to time. **The Commission determines that the Joint Venture's rights to interruptible service will not be impacted by approval of the BCH TSA, and that the terms of the Special Direction with respect to Interruptible Offset Gas will not be breached by approval of the agreement.**

### **3.0 AMENDED AND RESTATED TRANSPORTATION SERVICE AGREEMENT**

On February 28, 2001, Centra Gas entered into the ARTSA with ICLP to provide transportation service effective April 1, 2001 to the ICLP until the Service Expiry Date. This is defined as the earlier of the Commercial Operation Date of the cogeneration facility or July 1, 2002. In Section 3.2 of the contract, ICLP is to give notice to Centra Gas of the Commercial Operation Date at which time ICLP anticipates that the ICLP Plant will achieve commercial operation.

The interruptible toll in the period April 1, 2001 to December 31, 2001 is set in the ARTSA as filed at \$0.685/GJ. In the period January 1, 2002 to and including the Service Expiry Date, the toll is set equal to the level in the Joint Venture TSA. It was intended that the tolls to be charged for interruptible service provided to the ICLP would be the same as those charged to the Joint Venture for interruptible service. This is set at \$0.686/GJ for 2001. ICLP stated that it “... would consent to the ARTSA being amended to reflect the \$0.686/GJ toll for service provided in 2001.” (ICLP response to BCUC IR 4.1).

The ARTSA only provides for interruptible transportation service. Firm transportation service would be authorized first up to the contract demand before interruptible transportation service is provided to ICLP. Interruptible transportation service would then be allocated pro rata to the Joint Venture and ICLP on the basis of nominations given to Centra Gas on any day in which there is insufficient capacity available to satisfy both nominations. Nevertheless, since the Joint Venture TSA considered the HPTS and the CDS to be separate, it would be possible for Centra Gas to curtail the Joint Venture under the PGMA while providing service to interruptible customers such as ICLP.

ICLP indicated that it did not require firm service transmission capability for the commissioning of the plant. It advised that, “Prior to COD, ICLP is satisfied with the interruptible service available on the existing pipeline system.” (ICLP response to BCUC IR 3.2).

**ARTSA – Terms and Conditions of Service**

Receipt Point	Huntingdon Receipt Point into the BC Gas System
Delivery Point	Island Cogeneration Plant at Elk Falls
Toll	Same as the Joint Venture interruptible toll
From Term Start	1-Apr-01
To Term End	Earlier of Commercial Operation Date or July 1, 2002

**Except for the determination of the Commercial Operation Date and subject to changes identified in Chapters 2 and 5, the Commission finds the terms and conditions of service of the ARTSA are acceptable. The rate is to be equal to the interruptible rate in the Joint Venture TSA.**

**4.0 B. C. HYDRO AGREEMENT PACKAGE**

The Agreement Package secures firm gas transportation capacity for B.C. Hydro in order to supply fuel to the ICLP Plant. It provides sufficient volumes to enable the ICLP Plant to generate electric power to meet the supply deficit on Vancouver Island. B.C. Hydro requests that the Agreement Package be approved in its entirety. It is made up of the following elements:

1. B.C. Hydro Transportation Service Agreement;
2. Capacity Assignment Agreement;
3. B.C. Hydro Peaking Agreement; and
4. Compressor Facility Agreement.

#### **4.1. B.C. Hydro Transportation Service Agreement**

The BCH TSA provides for interim firm and interruptible transportation service from the Commercial Operation Date to October 31, 2003, or until the agreement is replaced by a long term firm transportation service agreement. The level of contracted firm is 28 TJ/day but the Side Letter anticipates this will increase to 38 TJ/day. B.C. Hydro's stated minimum acceptable operating level for the ICLP Plant is 28 TJ/day.

The Commercial Operation Date is the date B.C. Hydro anticipates that the ICLP Plant will achieve commercial operation. B.C. Hydro is to give notice to Centra Gas when the ICLP Plant will achieve commercial operation.

##### **BCH TSA – Terms and Conditions of Service**

Firm Contract Demand	28,000 GJ/d
Receipt point	Huntingdon Receipt Point into the BC Gas System
Delivery point	Island Cogeneration Plant at Elk Falls
Alternate Delivery Point	Any Delivery Point on the Centra Gas system under conditions of a Forced Outage, Planned Outage or Maintenance Outage
Interim Tolls	Same as the Joint Venture Firm and Interruptible Tolls
Final Tolls	To be determined by Rate Design
Term Start	Commercial Operation Date in Notice from B.C. Hydro
Term End	Earlier of the start date for Long Term TSA or October 31, 2003

#### **4.2 Capacity Assignment Agreement**

This agreement is for the assignment from B.C. Hydro to Centra Gas of 30 TJ/d of transportation service for wheeling gas from Huntington to Coquitlam, held by B.C. Hydro on the BC Gas system. The Side Letter anticipates that the amount of wheeling assigned will increase from 30 to 45 TJ/d.

##### **CAA – Terms and Conditions of Service**

Service	Firm Transportation Service on the BC Gas system
Term	Coincident with the BCH TSA
Assigned Capacity	30,000 GJ/d
Demand Toll	\$0.0173/GJ/d
Commodity Toll	\$0.005/GJ plus odorant costs



### **4.3 B.C. Hydro Peaking Agreement**

B.C. Hydro is to provide system peaking to Centra Gas when required under the BCH PA. The BCH PA provides Centra Gas the ability to call on volumes up to the full 28 TJ/d of the B.C. Hydro contracted transportation service. This would occur during periods when it has exhausted all other basic supply agreements excluding the supply available from the PGMA. All interruptible transportation service must be curtailed before Centra Gas can access the BCH PA.

Centra Gas can nominate under the BCH PA to effectively curtail firm service under the BCH TSA up to 100 percent of the contract demand. This would occur prior to other firm service curtailments or a call on gas supply under the PGMA. This has the effect of removing from B.C. Hydro the benefit of proportional curtailment of firm service provided for under Centra Gas' Gas Tariff. The result is that other firm shippers would receive the firm service they would have otherwise received while B.C. Hydro's firm service is curtailed under the BCH PA.

The BCH PA provides two separate levels of peaking service. The first level of service of 4,700 GJ/d is priced at the daily spot market and enables B.C. Hydro to continue operations at a minimum level for 20 hours of the day. Centra Gas will also be able to purchase only capacity rather than gas commodity supply from B.C. Hydro and Centra Gas can then make alternative supply arrangements if it can secure a lower price.

The second level of peaking (from 4,700 GJ/d to 28,000 GJ/d) combines supply with capacity. It is priced on the higher of the average monthly gas price paid by B.C. Hydro and Powerex combined or the price of the distillate used as an alternative fuel source at the ICLP Plant. When Centra Gas calls on a portion of B.C. Hydro supply under the level two option, B.C. Hydro can "put" the remaining supply to Centra Gas if B.C. Hydro is unable to use the supply for its own purposes. Centra Gas anticipates that it could resell any of this "put" gas back into the market and offset much of the cost if it cannot be fully utilized. B.C. Hydro will also provide gas to Centra Gas on short notice in an emergency.

### **BCH PA – Terms and Conditions of Service**

Term	Coincident with BCH TSA
Contract Amount	Maximum of 280,000 GJ in any 12-month period
Peaking Rights	<div>Level 1 4,700 GJ/d of capacity at Centra Gas Toll 4,700 GJ/d of supply at Sumas Daily Index</div> <div>Level 2 23,300 GJ/d of supply and capacity at the Centra Gas Toll plus the higher of the combined monthly gas price paid by B.C. Hydro and Powerex at Sumas or the price of Distillate.</div>
Put Rights	B.C. Hydro will have the right to put an amount of capacity and supply to Centra Gas equal to the difference between 28,000 GJ and any amount called upon by Centra Gas if Centra Gas utilizes peaking rights in excess of 4,700 GJ but less than 28,000 GJ.
Price Paid by Centra Gas Under the Put Rights	
Put Capacity Right	50% of any positive difference between Distillate less the Sumas Monthly Index on days the ICLP Plant is not fuel switched
Put Commodity Right	The lesser of the Sumas Monthly Index price and the Distillate price on days the ICLP Plant is fuel switched. The Sumas Daily Index price on days the ICLP Plant is not fuel switched.

#### **4.4 The Compressor Facility Agreement**

The CFA was approved by Order No. C-6-01.

**Except for the determination of the Commercial Operation Date and subject to changes identified in Chapters 2 and 5, the Commission finds the rates and terms and conditions of service of the BCH TSA, BCH PA and CAA are acceptable.**

#### **5.0 COMMERCIAL OPERATION DATE**

B.C. Hydro and ICLP entered into the EPA which determines how electricity produced at the ICLP Plant is sold to B.C. Hydro. The EPA provides for a declaration of the Commercial Operation Date (“COD”) for the plant. ICLP supplies gas to the ICLP Plant prior to the declaration of COD. To date, Centra Gas has provided interruptible gas transportation service to the ICLP Plant under the ICLP TSA. The service expiry date in the ICLP TSA is defined as the earlier of the Commercial Operation Date or the extended term to August 31, 2001. Starting September 1, 2001, ICLP intends to supply gas to the ICLP Plant under the ARTSA, which would stay in effect until the earlier of the Commercial Operation Date or July 1, 2002. The Commercial Operation Date under ARTSA is the date specified in a notice to be given by ICLP to Centra Gas pursuant to ARTSA Section 3.2. ICLP submitted that this date was intended to be coincident with the occurrence of COD under the EPA.

After the declaration of COD, gas is to be supplied to the ICLP Plant by B.C. Hydro. The BCH TSA is an agreement under which Centra Gas would supply both firm and interruptible transportation service. The service commencement date is to be on or within three days of the Commercial Operation Date as defined in Section 3.2 of the BCH TSA. This Commercial Operation Date is the date that B.C. Hydro identifies in a notice to Centra Gas as the date it anticipates the ICLP Plant will achieve commercial operation.

The issue of COD under the EPA is in dispute between ICLP and B.C. Hydro. B.C. Hydro takes the view that COD has been triggered, while ICLP believes that it may not complete the requirements to declare COD until as late as July 2002. The issue of COD has been taken to arbitration but there is concern that a resolution may not occur until next year.

Both ICLP and B.C. Hydro argued that the Commission has no jurisdiction to resolve disputes under the EPA. However, the determination of COD is important to Centra Gas for administration of the transportation service agreements between Centra Gas and ICLP and Centra Gas and B.C. Hydro, since service is to continue under ARTSA until COD and then service is to be initiated under the BCH TSA after COD.

Centra Gas proposed that both the ARTSA and the BCH TSA should be approved on the basis that service should commence under the ARTSA on September 1, 2001 and should remain in effect until the issue of COD has been resolved between B.C. Hydro and ICLP. Thereafter, service should commence under the BCH TSA. Centra Gas recognized that the commercial dispute between B.C. Hydro and ICLP is beyond Centra Gas' control, and Centra Gas encouraged B.C. Hydro and ICLP to agree to an arrangement for the delivery of gas to the ICLP Plant pending resolution of the COD issue under the EPA.

B.C. Hydro argued that the Commission should approve the Agreement Package, including the BCH TSA, but not the ARTSA. In support of its proposal, B.C. Hydro stated that if both agreements are approved without conditions, the result could put Centra Gas in the middle of a commercial dispute between ICLP and B.C. Hydro as to whom is entitled to nominate gas for delivery to the plant. As long as ICLP continues to nominate for interruptible gas under the ICLP TSA or the ARTSA, the transportation service to the ICLP Plant would be inferior to the service under the BCH TSA, which in turn would limit the reliability of electric energy supply to Vancouver Island. B.C. Hydro stated that only the BCH TSA (and the other associated agreements in the Agreement Package) would provide the needed firm transportation capacity in order to preserve and enhance the quality of firm service to other gas users and to avoid potential material adverse impacts on the industrial electricity customers on Vancouver Island. B.C. Hydro encouraged the Commission to take a broad view of the public interest in determining that the BCH TSA is superior to the ARTSA.

ICLP opposed the BCH TSA on the basis that B.C. Hydro has neither the obligation nor the right to supply gas to the ICLP Plant until COD occurs in accordance with the EPA. ICLP supported approval of the ARTSA

until the occurrence of COD, and the BCH TSA from that date. ICLP argued that, if ARTSA is not approved, its ability to meet its gas supply obligations pre-COD will be compromised and the Commission would be drawn into a commercial dispute over which it has no jurisdiction.

The Joint Venture requested that the application for approval of the BCH TSA be denied, largely as a result of its concerns regarding Centra Gas' transmission capacity and Centra Gas taking on additional firm service obligations. The Joint Venture did not comment on the COD issue.

The Commission accepts that it does not have jurisdiction over the EPA and hence the determination of COD. However, the Commission believes that the wording that triggers the termination date of ARTSA and the commencement date of BCH TSA should be identical, so as to avoid disagreements on which transportation agreement applies at any point in time. The Commercial Operation Date in each agreement should be defined as the COD in the EPA. With this consistency in termination of ARTSA and initiation of BCH TSA, the Commission believes that both agreements should be approved.

There may well continue to be disputes between ICLP and B.C. Hydro with respect to the determination of COD. To avoid Centra Gas becoming embroiled in such disputes, the Commission strongly encourages ICLP and B.C. Hydro to come to an arrangement for the delivery of gas to the ICLP Plant pending resolution of the COD issue under the EPA. If conflicts ensue and Centra Gas must make a determination between transportation service under the ARTSA and the BCH TSA, the Commission believes that the Utility has a responsibility to its other ratepayers and shareholders to deliver gas to the higher value contract, provided that the gas can actually be delivered to the intended end-use consumer.

B.C. Hydro's concern regarding reliability of electricity supply to Vancouver Island could continue this winter if gas supply to the ICLP Plant remains interruptible. ICLP and B.C. Hydro expect that the plant will be able to run on an alternative fuel supply by the 2002/03 winter. However, interruptions in gas supply in the 2001/02 winter could threaten firm electricity supply on Vancouver Island if B.C. Hydro's other contingency plans prove insufficient. While B.C. Hydro is simply a transportation customer on the Centra Gas system, it has responsibility to ensure continued safe and reliable electricity supply to Vancouver Island. B.C. Hydro may wish to seek other methods to firm up the gas supply this winter. For example, the Joint Venture has indicated that it would be prepared to negotiate interruptions of its firm gas supply in a separate agreement with B.C. Hydro.

In the event B.C. Hydro is unable to reach agreement with ICLP or the Joint Venture, the electricity load on Vancouver Island may nevertheless necessitate actions toward enabling as much gas as possible to be delivered to the ICLP Plant. After the Texada Island compressor has been commissioned, B.C. Hydro can give notice under the CFA authorizing Centra Gas to put it into operation. Similarly, the Commission considers that B.C. Hydro should be able to assign additional BC Gas wheeling prior to the commencement

date of the BCH TSA. The Commission recognizes that this amendment will require the agreement of BC Gas as well as Centra Gas and B.C. Hydro. Also, the CAA specifies demand charge payments from Centra Gas to B.C. Hydro of \$15,786 per month for 30 TJ/d of wheeling. In the event B.C. Hydro exercises the option to assign wheeling service before the BCH TSA comes into effect, no charges under the CAA should apply to Centra Gas prior to the commencement of service under the BCH TSA.

**The Commission approves the ARTSA, subject to the agreement being amended to provide for a term commencing September 1, 2001 and ending on the day prior to the COD as defined under the EPA, or such other date as B.C. Hydro and ICLP agree upon. Service under the ARTSA will only be provided if the firm demand of the Joint Venture is being met, and Centra Gas is not requesting peaking gas under the PGMA. The rate will be equal to the interruptible rate in the Joint Venture TSA.**

**The Commission approves the BCH TSA, subject to the agreement being amended so that it goes into effect on the COD as defined under the EPA, or such other date as B.C. Hydro and ICLP agree upon. Service under the BCH TSA will only be provided if the firm demand of the Joint Venture is being met, and Centra Gas is not requesting peaking gas under the PGMA. The Commission approves the BCH PA.**

**The Commission approves the CAA, subject to amendment of the agreement to provide B.C. Hydro with an option to place the agreement into effect prior to the commencement of service under the BCH TSA, on the basis that no charges will be payable by Centra Gas under the CAA prior to the commencement of service under the BCH TSA.**