



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

and

BC Gas Utility Ltd.
2002 Revenue Requirements Application

BEFORE: P. Ostergaard, Chair)
K.L. Hall, Commissioner) November 20, 2001

O R D E R

WHEREAS:

- A. On August 24, 2001, BC Gas Utility Ltd. ("BC Gas") applied to the British Columbia Utilities Commission ("the Commission") for approval to increase rates for customers in the Lower Mainland, Inland and Columbia service areas effective January 1, 2002 ("the Application"), pursuant to Sections 58 and 61 of the Utilities Commission Act ("the Act"); and
- B. The Application sought to recover increased revenue requirements associated with delivering natural gas. An increase of about 7 percent would apply to rates for transportation service and to the distribution portion (excluding the commodity cost of gas) of rates for customers to whom BC Gas supplies the natural gas commodity. Expressed on a burnertip basis (including the current commodity cost of gas) the increase being sought would be about 2 percent; and
- C. The Commission, by Order No. G-98-01, held a Workshop and Pre-hearing Conference on September 25, 2001 to identify the issues and interests in a longer-term regulatory framework for BC Gas and to discuss procedural matters related to the Application. By Order No. G-103-01, the Commission established a regulatory timetable and scheduled a Negotiated Settlement Process for the BC Gas Application to commence on November 5, 2001; and
- D. On November 1, 2001, BC Gas filed notice that it was withdrawing its Application due to a number of factors and identified the proposed treatment of certain revenue and cost items; and
- E. By letter dated November 2, 2001, the Commission cancelled the negotiation sessions scheduled for November 5, 2001 and invited intervenor comments by November 9, 2001 on BC Gas' withdrawal of the Application; and

- F. On November 8, 2001, BC Gas held an information meeting for the participants that explained the effect of the withdrawal and, on November 9, 2001, provided additional information regarding the effects of the withdrawal. On November 9, 2001, the Commission received intervenor submissions and on November 13, 2001 BC Gas provided comments on the intervenor submissions; and
- G. The Commission has reviewed the submissions of BC Gas and the intervenors and finds that a withdrawal of the Application as proposed by BC Gas is in the public interest.

NOW THEREFORE pursuant to Section 58 of the Act, the Commission orders as follows:

1. The Commission approves the BC Gas withdrawal of its 2002 Revenue Requirements Application for the reasons provided in the Reasons for Decision attached as Appendix A to this Order.
2. BC Gas is directed to file its Revenue Requirements Application for 2003 by May 31, 2002, and to address in that application the matters that are raised in the attached Reasons for Decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of November 2001.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachment

BC GAS UTILITY LTD.
2002 REVENUE REQUIREMENTS APPLICATION
NOTICE OF WITHDRAWAL

REASONS FOR DECISION

1.0 BACKGROUND

1.1 BC Gas 2002 Revenue Requirements Application

On August 24, 2001 BC Gas Utility Ltd. (“BC Gas”, “the Utility”) applied to the British Columbia Utilities Commission (“the Commission”) for approval to increase rates for customers in the Lower Mainland, Inland and Columbia service areas, effective January 1, 2002 to recover increased revenue requirements of approximately \$32 million associated with delivering natural gas (the “Application”). An increase of about 7 percent would apply to rates for transportation service and to the distribution portion (excluding the commodity cost of gas) of rates for customers to whom BC Gas supplies the natural gas commodity. Expressed on a burnertip basis (including the current commodity cost of gas) the increase being sought was about 2 percent.

The Application did not deal with the gas commodity cost component of BC Gas’ rates, which may be adjusted quarterly by the Commission based on BC Gas’ forecasts of its commodity costs and revenues for the following 12 months.

The Application requested that the Commission determine the 2002 rates by way of the Commission’s Negotiated Settlement Process. The Application also requested that the Commission sponsor a workshop to identify the issues and interests relating to a comprehensive multi-year regulatory framework for BC Gas.

The Commission, by Order No. G-98-01, held a Workshop and Pre-hearing Conference on September 25, 2001. The participants to the Workshop and Pre-hearing Conference agreed to a review of the Application by way of a Negotiated Settlement Process to establish costs and revenues that could form the basis of longer-term incentive rates.

The Commission, by Order No. G-103-01, scheduled a Negotiated Settlement Process for the BC Gas Application to commence on November 5, 2001. The Order also established a timetable for the registration of intervenors and interested parties, and the issuance of information requests and replies.

On October 23, 2001, as part of the Commission's Negotiated Settlement Process, Commission staff met with the Commission to identify any issues of particular concern. By letter dated October 26, 2001, Commission staff informed the registered intervenors and BC Gas of the Commission's position that the establishment of base year utility costs and revenues be a first and discrete step in the development of a multi-year performance based rate ("PBR") setting agreement. The Commission expected BC Gas to use the results of the upcoming settlement negotiations or hearing determination for 2002, in filing a separate multi-year PBR application.

1.2 BC Gas Notice of Withdrawal

On November 1, 2001 BC Gas filed a notice that it was withdrawing its Application. BC Gas explained that the withdrawal of the Application was due to a number of factors including the recently announced acquisition of Centra Gas British Columbia Inc. ("Centra BC") and Centra Gas Whistler Inc. by BC Gas Inc.; queries from various parties regarding the intentions of BC Gas for Centra BC from a regulatory perspective and the implications of this transaction on the Application; the Commission's letter dated October 26, 2001; and the request of representatives of some customer groups for BC Gas to reconsider its revenue requirements. BC Gas included letters of support to its withdrawal from three registered intervenors. BC Gas stated that with the withdrawal of its Application, the negotiation sessions scheduled for November 5, 2001 were unnecessary and should be cancelled.

BC Gas clarified the effect of its withdrawal by identifying the proposed treatment of identified revenue and cost items. The utility stated that in all other respects BC Gas would operate with the revenues that are generated by the current base rates. The utility considered that there would be cost pressures for 2002 which BC Gas would absorb and equally any benefits arising in 2002 which enhance the BC Gas' return would be retained by the utility.

By letter dated November 2, 2001, the Commission cancelled the negotiation sessions scheduled for November 5, 2001 and invited the registered intervenors to provide the Commission with written comments by November 9, 2001 on the BC Gas withdrawal.

A number of intervenors informed the Commission, BC Gas and other intervenors that it appeared that BC Gas was proposing a conditional withdrawal of its Application. These intervenors stated that it was difficult to compare the impact of the conditional withdrawal with the Application's 7 percent rate increase.

BC Gas held an information meeting for the participants on November 8, 2001 and provided additional information that explained the effect of the withdrawal. By letter dated November 9, 2001, BC Gas filed a copy of the additional information with the Commission. On November 9, 2001 the Commission received intervenor submissions and on November 13, 2001 BC Gas provided comments on the submissions.

2.0 COMMISSION FINDINGS

The November 1, 2001 letter from BC Gas states that: "...it withdraws its 2002 Revenue Requirement Application filed August 24, 2001 with the Commission." However, the attachment to that letter identifies that BC Gas is "prepared to withdraw its Application" with nine specific consequences of the withdrawal. Others have viewed the BC Gas action as a proposed withdrawal with conditions or a settlement proposal. Irrespective of the terminology that may be applied to the BC Gas withdrawal or application to withdraw with conditions, the Commission agrees with the views expressed by the British Columbia Public Interest Advocacy Centre ("BCPIAC") that, absent an application by a utility, then pursuant to Section 58 of the Utilities Commission Act, a review of BC Gas' revenue requirements may only proceed on the Commission's own motion or on the complaint of another party if there is reason to believe that the Utility's rates are not just, reasonable or sufficient.

The withdrawal was supported by the B.C. Health Services Ltd., the Inland Industrial Group and the BCPIAC. Avista Energy Canada Ltd. and IGI Resources Inc. endorsed the BC Gas withdrawal of the Application, without such withdrawal being subject to any actual or implied conditions that are different from the regulatory and financial treatment that BC Gas has received in the past. Fording Coal Limited acknowledged that the BC Gas information supported a withdrawal of the Application, but that concerns remain related to deferral account treatment and other issues. The B.C. Hot House Growers Association took no position on the withdrawal and relied on the Commission to ensure that all participants received fair treatment.

The Lower Mainland Gas Users Association ("LMGUA") objected to the withdrawal, raising three issues and a number of technical points.

One issue relates to the proposed acquisition of Centra BC by BC Gas Inc. and the impact that transaction may have on the establishment of base-year revenue requirements, which in turn may form the basis of a multi-year PBR rate settlement. The Commission agrees that the impact of the Centra BC acquisition should be included in any base-year analysis and that those implications will not be known until later next year. In addition, BC Gas' application to create CustomerWorks through a joint venture with Enbridge and the outsourcing of call centre and customer information system activities of BC Gas will also be decided in the near future and could have significant impacts on base-year calculations. The Commission finds that it would be preferable to delay the determination of base-year costs for the purposes of developing a multi-year PBR until the implications of the proposed Centra BC acquisition and CustomerWorks are better understood.

The second issue revolves around the reasonableness of the current distribution margins as they would apply in 2002 and whether there is adequate justification to initiate a review of BC Gas' revenue requirements, recognizing the cost and inconvenience to all parties. The Commission shares some of the concerns raised

by the LMGUA that the information provided by BC Gas, including the November 9, 2001 submission, does not provide a detailed analysis of all potential impacts on customers from possible deficiencies in revenues or unforeseen benefits that will be achieved by BC Gas. However, the attachments to the November 9, 2001 BC Gas submission provide a prima facie case that the ratepayers are not disadvantaged and are likely to benefit from the withdrawal of the Application. After considering all of the submissions, the Commission finds that the withdrawal is in the interests of ratepayers, the Utility and the Utility shareholders.

The third broad concern that has been raised is that fundamental information with respect to the Utility will be lost if the existing revenue requirements review does not proceed: the conditional withdrawal will avoid a detailed scrutiny of BC Gas' operations and the prudence thereof. This concern has been expanded to include the potential difficulty in making an "apples to apples" assessment of BC Gas next year after the acquisition of Centra BC is complete. To avoid this concern, the Commission directs BC Gas to provide its Revenue Requirements Application for 2003 with sufficient information on a stand-alone basis to establish base year revenue requirements for a multi-year PBR rate setting. The information is to include the identification of services provided to Centra BC and the efficiencies which will accrue to BC Gas. These services would likely include head office support, gas supply, operational control, legal, engineering and other services. The information is to clearly identify costs and benefits associated with CustomerWorks, if approved.

The Commission finds that it is in the public interest to approve the withdrawal of the 2002 Revenue Requirements Application as proposed by BC Gas.

With this withdrawal, next year's revenue requirements review will need to be more thorough to account for the many changes to BC Gas operations over the past five years and the impact of the acquisition of Centra BC. BC Gas is directed to file its full Revenue Requirements Application for 2003 with the Commission by May 31, 2002. To ensure clarity with respect to the filing by BC Gas next year, the Commission has the following directions with respect to specific issues raised by intervenors:

1. The joint venture with Enbridge to create CustomerWorks will be reviewed in a separate process but intervenors will be invited to provide comments prior to the Commission's Decision. The potential benefits of the Joint Venture, if approved, for each of the years 2003 and beyond will be included in future revenue requirements applications.
2. The issue of the transfer of incremental bad debt expense to the Gas Cost Reconciliation Account will be addressed in the 2003 Revenue Requirements Application.
3. BC Gas is to continue its accounting for Southern Crossing Project ("SCP") third-party revenues as proposed in its withdrawal.

4. BC Gas' return on equity is not an issue for 2002, since the BC Gas delivery margins are to remain unchanged (except for approved rate design changes and rate riders) and the actual return on equity for BC Gas will be the residual of the costs and revenues for the year as proposed by BC Gas in its withdrawal.
5. BC Gas will not apply for rate changes due to changes in 2002 income taxes, corporation capital tax, or property taxes, and changes to property taxes in 2002 will not be recorded in the Property Tax Deferral Account. The Commission agrees to this tax treatment largely because BC Gas will not seek any increases in delivery margins due to rate base additions from regular capital and Certificates of Public Convenience and Necessity.
6. The Commission approves the maintenance of the Rate Stabilization Adjustment Mechanism ("RSAM") with its previously approved consumption expectations. The Commission believes that this process will be preferable to the suggestion that the RSAM deferral account be offset against the SCP third-party revenue deferral account. Since RSAM is a cost to residential and commercial customers and the SCP revenue is a benefit to a broader group of ratepayers, it would be inappropriate to offset the two deferral accounts.