



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

and

An Application by Pacific Northern Gas Ltd. and  
Pacific Northern Gas (N.E.) Ltd.  
for Reconsideration of Order No. G-56-02 and Order No. G-57-02

**BEFORE:** P. Ostergaard, Chair ) October 29, 2002  
N. Nicholls, Commissioner )

**O R D E R**

**WHEREAS:**

- A. On March 6, 2002, a public hearing commenced into the Pacific Northern Gas Ltd. ("PNG") November 30, 2001 application for approval of its 2002 revenue requirements pursuant to Sections 91 and 58 of the Utilities Commission Act (the "PNG Application" and the "Act"). The oral public hearing concluded on March 11, 2002, reconvened on May 27, 2002 to consider a Memorandum of Agreement ("MOA") entered into by PNG and Methanex Corporation on March 20, 2002, and was followed by written argument; and
- B. A written hearing into the Pacific Northern Gas (N.E.) Ltd. ["PNG (N.E.)"] November 30, 2001 application for approval of its 2002 revenue requirements [the "PNG (N.E.) Application"] took place in March and April 2002 and was concluded in June 2002; and
- C. By Order No. G-56-02 dated July 31, 2002, the Commission issued its Decision on the PNG Application, which included establishing gas consumption forecasts for the residential, commercial and small industrial sectors in the PNG service area that were higher than the forecasts applied for by PNG; and
- D. By Order No. G-57-02 dated July 31, 2002, the Commission issued its Decision on the PNG (N.E.) Application, which included establishing gas consumption forecasts for the residential and commercial sectors that were higher than the forecasts applied for by PNG (N.E.); and
- E. On August 22, 2002, PNG and PNG (N.E.) applied, pursuant to Section 99 of the Act, to have the Commission vary the Decisions in respect of the 2002 gas requirements forecasts for the residential and commercial customer classes for each service area (the "Reconsideration Application"); and

F. The Commission has considered the Reconsideration Application all as set forth in the Reasons issued concurrently with this Order, and attached as Appendix A.

**NOW THEREFORE** the Commission has determined that it will neither reconsider nor vary Order No. G-56-02 and Order No. G-57-02 and the Decisions that were issued concurrently with those Orders. The Reconsideration Application is denied.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 30<sup>th</sup> day of October 2002.

BY ORDER

*Original signed by:*

Peter Ostergaard  
Chair

Attachment

**Pacific Northern Gas Ltd. and  
Pacific Northern Gas (N.E.) Ltd.  
2002 Revenue Requirements Applications  
Reconsideration Application**

**REASONS FOR DECISION**

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**1.0 Background**

Pacific Northern Gas Ltd. (“PNG”) delivers natural gas to about 24,000 customers in 12 communities and to a number of industrial facilities, in a region extending west of Prince George to tidewater at Kitimat and Prince Rupert. In the northeast, its wholly-owned subsidiary Pacific Northern Gas (N.E.) Ltd. [“PNG (N.E.)”] provides gas distribution service in the Dawson Creek, Fort St. John and Tumbler Ridge areas.

On July 31, 2002, the Commission issued Decision and Order No. G-56-02, and Order No. G-57-02 with Reasons (respectively the “PNG Decision” and the “PNG (N.E.) Decision”; collectively the “Decisions”) which reduced the PNG and PNG (N.E.) [hereinafter “the Utilities”] revenue deficiencies that were used as a basis for setting the 2002 interim rates. One of the factors that contributed to the approved revenue deficiencies was the residential and commercial load forecasts that were higher than the forecasts applied for by the Utilities. In the PNG service area, the Commission rejected PNG’s proposed load forecasting methodology and agreed with the submissions of the Consumers Association of Canada (BC Branch) and others [CAC (BC) *et al.*] and of other parties that it should apply a regression analysis similar to that used by PNG in the past. In the PNG (N.E.) service areas, the Commission accepted the submission of CAC (BC) *et al.* which suggested the use historical averages or, where appropriate, the use of regression analysis for the different market segments, as the methodology.

On August 22, 2002 the Utilities applied, pursuant to Section 99 of the Utilities Commission Act, to have the Commission reconsider and vary the Decisions in respect of the 2002 gas requirements forecasts for the residential and commercial customer classes for each service area (the “Reconsideration Application”).

The Utilities allege that this aspect of the Decisions was based on an error in fact or law, or in the alternative, that there has been a fundamental change in circumstances or facts since the Decisions. The Utilities forecast that under-recovery of margins will be close to \$1.6 million for 2002 based on actual deliveries to July 31, 2002.

The Reconsideration Application argues that the Commission should adopt the residential and commercial forecasts in the original applications, even though, in the Utilities’ judgement, their forecasts will still exceed

actual consumption. The Utilities argue that it is a matter of fundamental fairness that the forecasts for gas consumption determined by the Commission in its Decisions should have an equal probability of being higher or lower than the actual amount ultimately consumed.

The Commission issued Letter No. L-31-02 which established the reconsideration process and provided opportunities for registered intervenors to comment on the Reconsideration Application and for the Utilities to reply to those written submissions. The process was limited to the first phase of reconsideration to determine if there are sufficient grounds to grant reconsideration.

Four submissions were received. None supported the Reconsideration Application.

The CAC (BC) *et al.* submission argues that actual January to July deliveries being lower than the forecasts is not a fundamental change in circumstances. According to CAC (BC) *et al.*, the Utilities could have applied for a BC Gas RSAM-type account to deal with forecasting error but chose not to. CAC (BC) *et al.* argues that if significant changes to forecast consumption can be grounds for reconsideration, any significant changes to forecast revenues or expenses would then become grounds for reconsideration.

The Methanex Corporation (“Methanex”) submission argues that the first three months’ actual deliveries being lower than the Commission’s determination in the PNG Decision cannot be considered an error of fact, only a reiteration of arguments. According to Methanex, the fact that the January to July deliveries would differ from forecasts could not be considered a new fact because it is simply an inevitable fact in forecasting. Methanex argues that should the Commission vary its decisions based on the Utilities’ reasons, this could lead utilities to ask for reconsideration of negative results while remaining silent and accepting the benefit of positive results. Methanex submits it was proper for the Commission to allow the Utilities to assume the risk and benefit associated with actual deviation from the forecast loads.

Alcan Primary Metal Group (“Alcan”) agrees with the submissions of CAC (BC) *et al.* and Methanex, and submits that there was reasonable evidence upon which the Commission based its forecasts. Alcan cautions against establishing an undesirable precedent by changing a decision because the passage of time shows that the Commission’s reasonable forecasts did not exactly mirror reality.

The Eurocan Pulp and Paper Ltd. (“Eurocan”) submission asserts that there cannot be an error of fact in forecasting because forecasting is an opinion, not a fact. It notes that PNG had, during the cross-examination, stated that it is dangerous to take a three month period and assume that one has a proxy for what is going to happen because it can go one way or another. Eurocan argues that refining the forecast based on actual results since the PNG Decision would destroy the concept of a forecast test year and would invite all utilities to apply for reconsideration if actual results turn out to be less favourable than forecast.

In reply, the Utilities state that the Reconsideration Application is based on just cause and material consequences. They submit that it was incorrect for parties to argue that the forecasts in the Decisions were based on reasonable evidence because the Commission had no evidence that the forecasts would be reasonable.

## **2.0 Decision**

The Utilities allege that, in one alternative, the Commission erred in fact or law by failing to give consideration to the actual deliveries in the first three months of 2002 and failing to set a forecast that has an equal probability of being higher or lower. The Reconsideration Application requires a review of what constitutes reasonable evidence and what constitutes evidence that would result in a reasonable forecast.

In any forecasting procedure, input variables undergo a process to produce output results. The probability of the output being met is inherently controlled by the probability of those input variables reaching their projected values. The probability of the forecast results being met cannot be determined unless the input values are accompanied by their probabilities. The Commission adopted the up-to-date market data supplied by the Utilities as input variables. It rejected the Utilities' proposed forecast methodology, noting that the Utilities in their applications had departed from their previous methodology. The Commission accepted the submission of CAC (BC) *et al.* and others and determined that a regression analysis approach was more appropriate in the PNG service area and that a historical average approach was more appropriate in some market segments in the PNG (N.E.) service areas. The Commission took into account all admissible and available evidence and its judgement was based on that evidence.

The Commission took notice of the January to March three month actual deliveries and the exchange between PNG and Eurocan in cross-examination during the oral PNG hearing. The Commission concluded that the three month actual data should be given little weight. It is evident that CAC (BC) *et al.* had used the data provided by PNG. The data sets containing historical price, average use per account, and weighted average customer counts for the test year 2002 were provided in the Utilities' response to Information Requests by CAC (BC) *et al.* and Commission staff (see examples in Exhibit 2, PNG Response to BCUC IR No. 1, Q. 5.5.2 and PNG Response to CAC (BC) *et al.* IR No. 1, Q. 4a). The Commission accepted a forecast methodology similar to PNG's past practices in using these data as inputs. The Utilities' assertion that CAC (BC) *et al.*'s approach contained no evidence that it would result in a reasonable forecast, if correct, would set the threshold for load forecasting unreasonably high.

In the alternative, the Utilities allege that there was a fundamental change in circumstances. The Utilities provided data for the January to July deliveries as evidence of the fundamental change. The Utilities assert that had the Commission been aware of this new fact, it would have come to a different conclusion.

Fundamental change in circumstances is normally interpreted to mean that circumstances or facts have been essentially or radically altered. The normal deviation of annual forecasts from actual data over a seven month period is an inevitable fact of forecasting, not a fundamental change. The Commission accepts the arguments of CAC (BC) *et al.* that if a deviation of forecast revenues from actual is grounds for variation, then any deviation between forecast and actual costs would be grounds for reconsideration. The Commission also agrees with the submissions of Eurocan and Methanex that refining the forecast after the hearing would invite all utilities to apply for reconsideration if actual results turn out to be less favourable than forecast, but to remain silent and accept the benefit of positive results. In the opinion of the Commission, all these arguments are relevant to the reconsideration process. In a forward test year, rate base, rate of return regulation model, it is unreasonable for the Utilities to request reconsideration when actual deliveries deviate from forecasts. The claim of error is not substantiated.

As the Commission has determined that the claim of error is not substantiated on a *prima facie* basis, it is not necessary to proceed to consider the issue of significant material implications. **The Reconsideration Application is therefore denied.**