



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 Rates for Rate Schedules 7, 10 and 14
and Approval of New Rate Schedules 10A and 14A
for the 2002/03 Gas Contract Year

BEFORE: P. Ostergaard, Chair)
P.G. Bradley, Commissioner)
R.D. Deane, Commissioner) April 25, 2002
K.L. Hall, Commissioner)

O R D E R

WHEREAS:

- A. By Commission Order No. G-67-01 dated June 28, 2001, the Commission approved market-based gas commodity rates, effective November 1, 2001, for BC Gas Utility Ltd. ("BC Gas") for Rate Schedule 7 – General Interruptible Service, Rate Schedule 10 – Large Volume Interruptible Sales, and Rate Schedule 14 – Term and Spot Gas Sales; and
- B. On March 14, 2002, BC Gas requested approval of market-based gas commodity rates, effective November 1, 2002, for Rate Schedules 7, 10 and 14 and approval of Rate Schedule 10A – Large Volume Interruptible Sales and Rate Schedule 14A – Term and Spot Sales (the "Application"). Rate Schedules 10A and 14A would apply when BC Gas provides group supply administration services; and
- C. BC Gas provided copies of the Application to interested parties and Commission staff requested parties to file comments on the Application by March 22, 2002. The date for interested parties to file comments was subsequently extended to April 12, 2002; and
- D. On March 21, 2002, R.T. O'Callaghan and Associates, Inc. submitted comments on behalf of B.C. Health Services supporting the Application; and
- E. On March 28, 2002, Avista Energy Canada Ltd. ("Avista") submitted questions and comments regarding the Application; and
- F. On March 28, 2002, counsel for Enbridge Business Services ("Enbridge") submitted comments regarding the Application; and
- G. On April 11, 2002, BC Gas responded to the submissions of Avista and Enbridge, and to a request from the Lower Mainland Large Gas Users Association ("Gas Association"), and proposed several revisions to the draft tariffs in the Application; and
- H. On April 12, 2002, counsel for the Gas Association submitted comments stating it was generally satisfied with the rate schedule amendments; and

- I. The Commission has considered the Application and the submissions and is satisfied that market-based pricing arrangements for Rate Schedules 7, 10, 14 and 14A should be approved for the 2002/03 gas contract year, as set out in 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, 2002:

1. The Commission approves the Rate Schedule 7 tariff, as set out in the Application, with commodity pricing as follows:

Daily Index Option: Daily Index price, plus the greater of \$0.05/GJ or cost.

Fixed Price Option: Rate Schedule 5 Gas Cost Recovery Charge plus Rate Schedule 5 Gas Cost Reconciliation Account rider.

2. The Commission approves the Rate Schedule 10 tariff, as set out in the Application, with 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 and 14A tariffs for firm term and spot sales, as set out in the Application, subject to the directions set out in this Order, with commodity pricing as follows:

Daily Index Option: Daily Index price, plus a Market Factor of the greater of \$0.05/GJ or cost.

Monthly Index Option: Monthly Index price, plus a Market Factor of the greater of \$0.05/GJ or cost, and a commitment by the customer to purchase a daily Contract Demand quantity.

Annual Fixed Price Option: Annualized price based on the Sumas monthly forward prices for physical purchases, including physical Market Factors and all transaction costs, that BC Gas fixes at approximately the time when the customer commits to the Annual Fixed Price Option for 2002/03, plus a Swing Premium of \$0.84/GJ.

Winter Fixed Price Option: Fixed price for a specified daily amount of gas for the November 2002 through March 2003 period that is BC Gas' cost of fixing the forward physical purchase price of the gas, including physical Market Factors and all transaction costs.

Spot Gas: Daily Index plus \$0.02/GJ to \$0.05/GJ, and not less than cost.

4. The Gas Management fee under Rate Schedule 14 will be maintained at \$0.02/GJ to \$0.08/GJ, and the Gas Management fee under Rate Schedule 14A will be \$0.04/GJ to \$0.08/GJ.

5. BC Gas will file a report for Rate Schedules 14 and 14A within 30 days of the end of each month that summarizes gas purchase and sale quantities and costs and revenue, for each price option for the month.
6. The request for approval of Rate Schedule 10A is denied.
7. The miscellaneous revisions, set out in Appendix B to this Order, must be made to the draft tariffs in the Application. The Commission will accept for BC Gas, subject to timely filing, Gas Tariff Rate Schedules in accordance with this Order.
8. BC Gas is to provide a copy of this Order and Reasons for Decision to all interested parties to the Application and to customers of the above noted Rate Schedules.

DATED at the City of Vancouver, in the Province of British Columbia, this 25th day of April 2002.

BY ORDER

Original signed by:

Peter Ostergaard
Chair

Attachments

BC GAS UTILITY LTD.

MARKET-BASED COMMODITY RATES FOR RATE SCHEDULES 7, 10 AND 14
NEW RATE SCHEDULES 10A AND 14A

REASONS FOR DECISION

1.0 BACKGROUND

In the February 21, 1992 BC Gas Inc. Phase A Rate Design Decision, the British Columbia 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 sells 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 until recently the gas provided a useful source of interruptible, but reasonably reliable, supply for on-system industrial customers. The gas markets at Huntingdon/Sumas and Duke Energy Gas Transmission Station Number 2 have become more liquid, with more marketers present and more supply options available. The increased market liquidity means industrial customers have more supply alternatives available to them. Also, BC Gas has reduced 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.

For 2000/01 the Commission, by Order No. G-83-00, approved significant changes to Rate Schedule 10 (“RS10”, Large Volume Interruptible Sales) to recognize the lower reliability of the supply. The Order also permitted BC Gas to offer firm gas supply under Rate Schedule 7 (“RS7”, General Interruptible Service) and Rate Schedule 14 (“RS14”, Term and Spot Gas Sales), with rates designed to recover the cost of the gas that BC Gas purchased to make these sales. Order No. G-67-01 permitted BC Gas to continue to offer these supply alternatives to customers, and approved an annual Fixed Price Option under RS14.

2.0 APPLICATION AND REVIEW PROCESS

On March 14, 2002, BC Gas requested approval of market-based commodity rates for 2002/03 for RS7, RS10 and RS14 in the form of previous annual filings, and proposed to add a Winter Fixed Price Option under RS14. BC Gas also requested approval of Rate Schedule 10A (“RS10A”, Large Volume Industrial Sales) and Rate Schedule 14A (“RS14A”, Term and Spot Gas Sales), which recognize BC Gas’ role when it

provides group supply administration services similar to those provided to a group of customers by a Shipper Agent (the “Application”).

BC Gas sent copies of the Application to active marketers with customers in its service area, certain large customers and the Consumers’ Association of Canada (B.C. Branch) et al. [“CAC (B.C.) et al.”]. Commission staff requested comments by March 22, 2002. The date for comments from interested parties was later extended to April 12, 2002.

R.T. O’Callaghan and Associates, Inc. on behalf of B.C. Health Services, Avista Energy Canada Ltd., counsel for Enbridge Business Services and counsel for the Lower Mainland Gas Users Association submitted comments on the Application. The comments raised certain questions about the Application regarding the calculation of costs and other matters, but otherwise supported or did not oppose the rate schedule amendments proposed by BC Gas. The Utility responded to the submissions on April 11, 2002, recommending several changes to the draft tariffs in the Application, which are to be incorporated into the tariffs, as referenced in Appendix B.

In past years, the Commission has generally reviewed and approved the annual applications for market-based commodity rates under Rate Schedules 7, 10 and 14 without a hearing. The proposed amendments for 2002/03 to RS7, RS10 and RS14 and the proposed new tariffs RS10A and RS14A are reasonably small changes that are well within the scope of changes that have been made to these Rate Schedules in the past. BC Gas filed its commodity rate proposals for 2002/03 earlier than in previous years in order to permit the filings to be reviewed and rates established before customers would need to make decisions involving these Rate Schedules. The Commission considers that interested parties have had a reasonable opportunity to review and comment on the proposed changes and believes it must act on the Application to accommodate the need of customers to finalize supply arrangements for 2002/03.

3.0 RATE SCHEDULE 7 - GENERAL INTERRUPTIBLE SERVICE

For 2002/03 BC Gas proposes no change to RS7. The Utility would continue to 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 would make an annual election of one of the following two pricing alternatives:

- | | |
|----------------------------|---|
| <u>Daily Index Option:</u> | Gas Daily Sumas midpoint price, plus a Market Factor of the greater of \$0.05/GJ or cost as the current cost premium for purchasing firm physical gas supplies. |
| <u>Fixed Price Option:</u> | Rate Schedule 5 (“RS5”, General Firm Service) Gas Cost Recovery Charge plus RS5 Gas Cost Reconciliation Account (“GCRA”) rider. |

RS7 sales currently average about 500 GJ per day.

The Commission considers that a reasonably reliable RS7 service should be maintained for the 2002/03 gas contract year, and anticipates that each of the pricing alternatives will recover the cost of providing the service. Although it is recognized that RS7 deliveries may be curtailed for capacity reasons on very cold days, including the GCRA rider will better align the rate with the cost of providing the gas. **The Commission approves the RS7 tariff for 2002/03 as applied for.**

4.0 RATE SCHEDULE 10 - LARGE VOLUME INTERRUPTIBLE SALES

BC Gas proposes no changes to RS10 for 2002/03 except for some housekeeping amendments to align the RS10 tariff with current business practices. The Monthly Index Option would be maintained with the three percent discount for November through March. 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. A RS10 customer would 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.

RS10 sales in November 2001 through February 2002 averaged 1,300 GJ/day, with 77 percent under the Daily Index Option. This indicates that the Daily Index option is the preferred pricing mechanism for RS10 gas, in recognition of the expected number of days of curtailment. The three percent winter discount for the Monthly Index Option has resulted from a largely trial and error process, and the optimal level is difficult to determine with any precision.

The Commission considers that the proposed pricing options each reasonably represent the competitive market value of the gas. **The Commission approves the RS10 tariff for 2002/03 as applied for.** When making its housekeeping changes, BC Gas should clarify that RS10 charges do not include delivery of the gas on the BC Gas system, and identify the charge that will apply if a customer does not take the daily Contract Demand under the Monthly Index Option. BC Gas should continue to report the Monthly Index Option price to the Commission each month.

5.0 RATE SCHEDULES 14 AND 14A - TERM AND SPOT GAS SALES

BC Gas proposes to continue to limit RS14 to term or spot firm sales and to add a Winter Fixed Price Option for 2002/03. Prior to the start of the gas year, a customer would need to select one of the following price options to buy term gas. Spot gas could be sold to any customer for a mutually-agreed period of time, and would generally be of interest if the customer's regular gas supply failed.

Daily Index Option: Gas Daily Sumas midpoint price, plus a Market Factor of the greater of \$0.05/GJ or cost.

Monthly Index Option: Inside FERC Sumas monthly price, plus a Market Factor of the greater of \$0.05 or cost, with a commitment by the customer to purchase a daily Contract Quantity.

Annual Fixed Price Option: Annualized price based on the Sumas monthly forward prices for physical purchases, including physical Market Factors and all transaction costs, that BC Gas fixes at approximately the time when the customer commits to the Annual Fixed Price Option for 2002/03, plus a Swing Premium of \$0.84/GJ.

Winter Fixed Price Option: Fixed price for a specified daily amount of gas for the November through March period, that is BC Gas' cost of fixing the forward physical purchase of the gas at Sumas, including the Market Factor for physical purchases and all transaction costs.

Spot Gas: Daily Index plus \$0.02/GJ to \$0.05/GJ, and not less than cost.

Daily and Monthly Index Options

The Commission anticipates that each of the indexed pricing alternatives will reasonably recover the cost of the gas. **The Commission approves the RS14 Daily and Monthly Index Option tariffs for 2002/03 as applied for.**

Annual Fixed Price Option

BC Gas contracts for physical supply to meet the Average Daily Consumption of the customers who elect this option, and financially fixes the price of the gas. Actual daily demands that are greater or less than the Average Daily Consumption are balanced using core market supply resources. A customer's Average Daily Consumption and take-or-pay Minimum Daily Consumption are based on historical consumption, subject to review by BC Gas if circumstances are unusual.

BC Gas proposes to continue this alternative, which is generally used by customers who are relatively small, and who want a fixed price for the year to accommodate their annual budgeting requirements. Deliveries under this system currently are about 3,000 GJ per day. In November 2001 through January 2002, the Swing Premium and relatively mild weather combined to provide a net gain to core customers of \$355,000 in return for providing access to core balancing resources and assuming some price risk.

BC Gas proposes to continue to limit the maximum participation amount under the Annual Fixed Price Option to 20,000 GJ per day, on a first-come, first-serve basis. The 20,000 GJ per day limit is not expected to require additional peaking supply resources or pose additional risk to core customers. The Commission accepts a limit of 20,000 GJ per day of average daily consumption under the Annual Fixed Price Option for RS14 and RS14A, on the condition that no additional storage, peaking or balancing resources will be required.

Swing Premiums for 2001/02 of \$1.50/GJ for the winter and \$0.90/GJ for the summer, were calculated to recognize the cost of core market storage and peaking assets that are used to handle daily volumes that are greater or less than the Average Daily Consumption. The calculation did not consider the risk assumed by other sales customers in order to offer a firm one-year price under RS14, but also did not recognize the balancing provisions that transportation customers receive through transportation service schedules. BC Gas filed information on a confidential basis to update the calculation for 2002/03 using forward prices from late February 2002 and other reasonably current cost information, estimating a Swing Premium for 2002/03 of \$0.84/GJ.

The Commission considers that the RS14 Annual Fixed Price Option is a worthwhile alternative. This service is viewed as discretionary because potential customers have other market options; therefore, protecting the interests of core market customers is a priority. The Commission recognizes that the Swing Premium calculated by BC Gas may overstate the cost of handling demand swings for high load factor RS14 customers, but considers that core market customers must also be compensated for the risks associated with a firm one-year price. Overall, considering the actual experience to date in 2001/02, some reduction in Swing Premium seems reasonable. The Commission accepts a Swing Premium of \$0.84/GJ for 2002/03. **The Commission approves the RS 14 Annual Fixed Price Option tariff for 2002/03 as applied for.**

Winter Fixed Price Option

The Winter Fixed Price Option is a refined form of an alternative that was offered in 2000/01 and discontinued because it required excessive administrative effort. The Application proposes that a customer could, by September 30, 2002, specify a uniform daily level of purchases at a fixed price for November 2002 through March 2003. The Utility would establish the fixed price using financial instruments, plus the Market

Factor for physical purchases and any transaction costs. The customer could also specify an incremental quantity to be purchased each month under the Monthly Index Option, and additional consumption would be at the Daily Index Option price. BC Gas would aggregate small customers into blocks of 1,000 GJ per day, and RS14 credit worthiness requirements would apply.

The customer would be responsible for any losses if fixed price volumes were sold at lower daily prices. If the daily price is higher than the fixed price, a customer could monetize the gain on up to 20 percent of the fixed price volume by reducing gas consumption. In BC Gas' view, this provision provides reasonable assurance that customers will continue to use natural gas during high price periods.

The Commission considers that this alternative addresses concerns about the earlier option that provided a customer with an option to swap indexed prices for fixed. It may be attractive to some customers, as the charges do not include a Swing Premium. The Winter Fixed Price Option charges will cover the cost of the block of fixed price gas, and so there is little risk to core customers of providing the option. **The Commission approves the RS14 Winter Fixed Price Option tariff for 2002/03 as applied for.**

Exclusivity

Rate Schedule 14 currently requires that RS14 customers or groups of customers purchase all their gas supply under RS14. BC Gas contends that this exclusivity provision is needed to prevent customers from combining RS14 supply with other gas supplies, and optimizing purchases from the two sources to the detriment of core customers.

The Application proposes to waive exclusivity with respect to purchases by customers under RS10. The rationale for this change is not clear. BC Gas may at times source surplus (valley) gas from its core supply pool to make RS14 sales, rather than sell such surplus core gas under RS10 or off-system. However, as RS10 prices are generally lower than those under RS14, permitting RS14 customers to buy RS10 gas would appear to reduce revenue for core customers. Also, waiving exclusivity only for RS10 may be discriminatory. **The Commission denies approval of the proposed amendment to Section 4.2, which would provide an exception to exclusivity requirements for purchases under RS10.**

Rate Schedule 14A

The Application requests approval of RS14A, which would apply when BC Gas groups several RS14 customers and performs the nominating and balancing functions that Shipper Agents typically perform. RS14A was closely patterned after RS14, except where changes were required to recognize BC Gas' group

administration role. RS14A provides that charges related to gas nominating and balancing activities, such as Unauthorized Overrun Charges, are the responsibility of the customers in the group.

The Commission considers that RS14A should be approved, to recognize BC Gas' role with some customer groups. Although the provisions of RS14 generally should apply, it seems appropriate that the range of Gas Management fees of \$0.02 to \$0.08/GJ under RS14 should be adjusted to recognize the additional services provided by BC Gas under RS14A. In the absence of detailed evidence on the matter, a doubling of the minimum fee seems reasonable. **The Commission approves RS14A for 2002/03 as set out in the Application, subject to the changes made to RS14, except that the Gas Management fee range will be \$0.04 to \$0.08/GJ.**

6.0 RATE SCHEDULE 10A

The Application requests approval of RS10A, a companion rate schedule to RS14A, where BC Gas provides group supply administration services. RS10A is closely patterned after RS10, and its provisions would be acceptable if it was evident that the additional rate schedule is needed. However, as discussed in the section on Exclusivity for RS14, RS14A customers should not be able to buy gas other than under RS14A. Consequently, there does not appear to be a need for RS10A. **The Commission denies the request for approval of RS10A.**

BC GAS UTILITY LTD.

Rate Schedules 7, 10, 14 and 14A
Miscellaneous Revisions to Draft Tariffs filed March 14, 2002

1. Changes identified in BC Gas' April 11, 2002 letter.
2. Rate Schedules 10, 14, and 14A Clarify that the charges for gas sold under these Rate Schedules cover the cost of delivering the gas to the BC Gas system, but not of delivering it on the BC Gas system.
3. Rate Schedule 10, Section 1.2 Add a sentence clarifying that, if less than the Contract Demand is taken on any Day, any positive difference that is calculated as the Monthly Index price less the Daily Index price will be charged to the customer.
4. Rate Schedules 14 and 14A Delete the proposed amendment that would provide an
Section 4.2 exception to exclusivity requirements for purchases made under Rate Schedule 10.
5. Rate Schedules 14 and 14A, Expand the section to describe how the Index Price Option
Appendix "A", Section 2.4 functions, and incorporate Section 2.8.
6. Rate Schedules 14 and 14A, Align the content of the section with the description of
Appendix "A", Section 2.5 Winter Fixed Price Option in the Application.