BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-17-04

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

and

An Application by Terasen Gas Inc.
(Fort Nelson Service Area)
for Approval to Amend its Schedule of Rates

BEFORE:	L.A. Boychuk, Commissioner	)	February 5, 2004
	L.F. Kelsey, Commissioner	)	

O R D E R

WHEREAS:

A. On October 10, 2003, Terasen Gas Inc. Fort Nelson Service Area ("Terasen Fort Nelson" or "Utility") filed for approval of its 2004 Revenue Requirement Application ("the Application") to amend its Schedule of Rates effective January 1, 2004, pursuant to Sections 58 and 61 of the Utilities Commission Act ("the Act"); and

B. Subsequently, on October 21, 2003, Terasen Fort Nelson filed an addendum to the Application requesting approval to implement interim rates effective January 1, 2004, pending the Commission's Decision on the Application. In regard to the interim rates, Terasen Fort Nelson requested similar treatment to that approved by Commission Order No. G-90-02 and the February 4, 2003 Commission Decision, page 54 for the Lower Mainland, Inland and Columbia Service Areas of Terasen Gas Inc. In accordance with this treatment Terasen Fort Nelson requests that its existing 2003 permanent rates be declared as interim rates effective January 1, 2004 and that the foregone increase, if any, for the period from January 1, 2004 to the effective date of the 2004 permanent rates, be recovered through the use of a rider in 2004; and

C. The Application proposed an increase of 1.96 percent on total revenues (equivalent to a 7.45 percent increase on gas delivery margin) to all customers as a result of increases in the cost of service. The Utility filed its Final Written Argument on January 5, 2004 and at the same time reduced the proposed increase to 1.08 percent on total revenue or 4.1 percent as a percentage on gas delivery margin; and

D. The last amendment to Terasen Fort Nelson's gas delivery rates was approved by Commission Order No. G-2-95, effective January 1, 1995; and

E. The Commission issued Order No. G-68-03, dated October 23, 2003, which declared Terasen Fort Nelson's existing rates as interim, effective January 1, 2004, and set down a written hearing process to deal with the Utility's Application. As part of this process, the Commission invited parties to register as Intervenors or Interested Parties. No registrations were received; and

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F. The Commission has reviewed the Application and the evidence adduced thereon, all as set forth in the Reasons for Decision attached as Appendix A.

NOW THEREFORE the Commission orders as follows:

1. The Commission approves for 2004 an increase of approximately $49,000 in revenue requirements as detailed in its Reasons for Decision dated February 5, 2004 attached as Appendix A to this Order.

2. Terasen Fort Nelson is to comply with all the approvals and directions contained in the attached Reasons for Decision.

3. The Commission will accept, subject to timely filing by Terasen Fort Nelson, amended Gas Tariff Rate Schedules in accordance with the terms of this Order and the Reasons for Decision.

4. Terasen Fort Nelson is to provide all affected customers with notification of the final rates. Terasen Fort Nelson is to provide the Commission with a draft copy of the bill message in advance of its distribution to customers.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of February 2004.

BY ORDER

Original signed by:

Lori Ann Boychuk
Commissioner

Attachment

TERASEN GAS INC.
Fort Nelson Service Area
2004 Revenue Requirements Application

REASONS FOR DECISION

1.0 INTRODUCTION

1.1 Background

Terasen Gas Inc. - Fort Nelson Service Area ("Fort Nelson" or "Utility") is part of Terasen Gas Inc. ("Terasen") which is the largest natural gas distribution utility in British Columbia. Terasen provides sales and transportation services to more than 765,000 residential, commercial and industrial customers in over 100 communities throughout the Province. Terasen's distribution network delivers gas to approximately 90 percent of the natural gas customers in British Columbia.

Fort Nelson's service area consists of the Fort Nelson and Prophet River areas of northeastern B.C. where Fort Nelson provides sales and transportation service to approximately 2,100 customers.

Fort Nelson was acquired in 1985 as Fort Nelson Gas Ltd. by Inland Natural Gas Ltd., a predecessor company now part of Terasen. Fort Nelson Gas Ltd. was amalgamated in 1989 with Inland Natural Gas Ltd., Columbia Natural Gas Ltd. and the Lower Mainland Gas Division of British Columbia Hydro and Power Authority to form BC Gas Inc. (later BC Gas Utility Ltd.) and ceased to be a separate legal entity at that time.

Rates have been set separately for Fort Nelson from the date of acquisition to the present. Terasen (as BC Gas) sought regulatory consolidation of Fort Nelson with the remainder of Terasen in its 1992 Revenue Requirement Application but this was denied by the British Columbia Utilities Commission ("BCUC" or "Commission") in its Decision dated August 5, 1992. Since then Fort Nelson has been excluded from Terasen's general revenue requirement applications and Performance Based Ratemaking plans.

The last revenue requirement change affecting Fort Nelson's rates for delivery service was approved by Commission Order No. G-2-95 and allowed a decrease of 15.04 percent, effective January 1, 1995. Prior to this rate decrease the delivery rates had been unchanged since 1985.

1.2 The Application

On October 10, 2003, Fort Nelson applied to the Commission for approval to amend its rate schedules, effective January 1, 2004 on a permanent basis ("Application"). In its Application (subsequently amended on January 5, 2004), Fort Nelson applied to recover an additional $89,000 in annual revenue, or 1.96 percent as a function of overall revenue. As a percentage of delivery margin, the increase being sought is 7.45 percent.

The proposed rate increase is primarily driven by increases in operating and maintenance expenses and additions to gas plant in service.

Subsequent to the above filing it became apparent that a regulatory process and a Commission decision for the Application could not be completed in time for the January 1, 2004 permanent rate change. Consequently, Fort Nelson applied on October 21, 2003 for Commission approval to implement interim rates effective January 1, 2004 pending the Commission's Decision on the Application. In regard to the interim rates, Fort Nelson sought similar treatment to that approved in the BCUC Decision dated February 4, 2003 ("2003 Decision") for Terasen in 2003. Commission Order No. G-68-03 approved Fort Nelson's request and declared the existing Schedule of Rates as interim, effective January 1, 2004 and directed that the foregone increase, if any, for the period from January 1, 2004 to the effective date of the 2004 permanent rates be recovered through the use of a rate rider in 2004.

The Application seeks Commission approval for the establishment of a Rate Stabilization Adjustment Mechanism ("RSAM") account to function in the same manner as the RSAM approved for Terasen. In contrast to Terasen however, Fort Nelson also seeks to include its Rate 25 industrial customers in the proposed RSAM.

In addition to RSAM, the Application seeks approval for deferral accounts to record variances for property taxes and utility interest expense.

Approval is also sought for the same depreciation rate changes as approved for Terasen by the 2003 Decision for meters, regulators and meter installations and miscellaneous computer software.

The Application also seeks confirmation that the Overheads Capitalization rate of 16 percent of gross operating and maintenance expenses, as approved by the 2003 Decision for Terasen, is applicable for Fort Nelson.

Fort Nelson filed its Written Final Argument on January 5, 2004 and made significant adjustments to its revenue deficiency for 2004 by reducing the original amount of $89,000 to $49,000 (Final Argument, p. 3). The most significant adjustment is a reduction of depreciation expense for 2004. The revised revenue deficiency translates into an increase of 1.08 percent (reduced from 1.96 percent) based on overall revenue or 4.1 percent (reduced from 7.45 percent) as a percentage of delivery margin.

1.3 The Written Hearing Process

Commission Order No. G-68-03 directed that the Application be examined in a written Public Hearing Process and also set out a Regulatory Agenda. The latter allowed for Information Requests and Responses, Written Submissions from Intervenors and Final Argument from Fort Nelson. No interventions were registered and consequently no Intervenor Information Requests and/or Written Submissions were received by the Commission. Fort Nelson responded to the Commission's Information Requests on December 5, 2003 and filed a Written Final Argument on January 5, 2004.

2.0 RATE STABILIZATION ADJUSTMENT MECHANISM

In the Application, Fort Nelson seeks approval of a RSAM account to capture variations in the delivery margin. For the weather sensitive residential and commercial customers, variations in delivery margin arising from higher or lower use per customer than forecast would be placed in a deferral account. For industrial (Rate 25) customers, the RSAM would place margin variations arising from the difference between forecast and actual deliveries. Fort Nelson submits that including Rate 25 customers in the RSAM is appropriate because of the high proportion of total load (approximately 30 percent) flowing to industrial customers; the industrial rate structure which causes revenue collection to be entirely volumetric; and the lack of diversity in the Fort Nelson industrial load (Application, p. A-3; Tab 7, pp. 2-3).

Amounts deferred would be amortized over the subsequent three-years for recovery from, or refunded to customers by way of a positive or negative rider on rates. Fort Nelson also asks to record interest on variances from the forecast RSAM balance at its short-term interest rate and to debit or credit the interest (as appropriate) against the RSAM account (Application, Tab 7, p. 3).

Fort Nelson submits that adoption of a RSAM is consistent with the allowed Return on Equity ("ROE") for an established low-risk utility because Terasen has an approved RSAM for its other service areas, which have greater customer diversity and the same ROE (Final Argument, p. 4). Fort Nelson also submits that the adoption of a RSAM will mitigate the risk of achieving less than its allowed ROE (Application, Tab 7, p. 3, Response to BCUC Staff IR No. 1, questions 7.1 and 7.2).

Fort Nelson argues that its proposed RSAM is consistent with the RSAM applied to Terasen's other service areas, with the one difference being the inclusion in the Fort Nelson RSAM of variances in industrial delivery margins. Fort Nelson is not opposed to a class-specific RSAM and rate rider for Rate 25 customers, but argues that a single RSAM is consistent with past Commission determinations that rate increases arising from decreased demand from specific classes should not be "streamed back" to those classes (Final Argument, p. 4; Response to BCUC Staff IR No. 1, question 7.4).

The Commission approves the implementation of the RSAM account as applied for by Fort Nelson.

3.0 LOAD FORECAST

Fort Nelson is forecasting a 13 TJ/year increase in energy deliveries for the service area (from 970 TJ/year for 2003 to 983 TJ/year in 2004). This is comprised of a 1 TJ/year increase in residential consumption, a 10 TJ/year increase in commercial consumption and a 2 TJ/year increase in industrial consumption (Application, Tab 6, p. 6).

The Fort Nelson forecast assumes relatively modest growth based on current economic conditions nationally and locally. It anticipates adding 18 residential customers and one commercial customer in 2004. There are currently two industrial customers in the service area and Fort Nelson expects no additions in 2004 (Application, Tab 6, pp. 3-4).

Residential use per account has not shown a clear trend since 1995. Fort Nelson has forecast a residential use per account of 157.6 GJ/year, which is slightly lower than the projected 2003 value of 158.7 GJ/year and is also lower than the average use per account for the nine years since 1995, which was 159.1 GJ/year (Response to BCUC Staff IR No. 1, question 5.1). Total residential demand is expected to increase to 278 TJ/year, an increase over the 2003 projection of less than 1 percent.

The use per account for large commercial customers has shown a marked declining trend since about 1998 and projections for 2003 indicate a continuation of the decreasing trend. Small commercial use per account declined through 2002, but projections for the small customer class for 2003 show a slight increase. Fort Nelson has stated that much of the variation in the commercial use per account is a result of customer migration between the large and small commercial rate classes (Application, Tab 6, p. 4). For 2004, Fort Nelson has forecast that commercial use per account for large and small customers combined will grow by approximately 3.2 percent above that projected for 2003. Overall, Fort Nelson forecasts that total commercial demand will increase by approximately 3.5 percent, from a projected demand of 283 TJ for 2003 to 293 TJ for 2004 (Response to BCUC Staff IR No. 1, questions 6.1.1 and 6.1.2).

Gas Use in 2004 by Fort Nelson's two industrial customers is forecast to be approximately the same as the 2003 forecast, based on discussions with the customers. Since 1995, use by the industrial customers has been highly variable. Fort Nelson's forecast is based on the mean of the results from two different modeling approaches, leading to a forecast of 412 TJ/year, an increase of 2 TJ over 2003 (Response to BCUC Staff IR No. 1, questions 6.2.1 and 6.2.2).

The Commission has reviewed the load forecasts and is persuaded that they are reasonable. Therefore, the Commission accepts the forecasts. The Commission also notes that the impact of an error in the forecasts will be mitigated by the RSAM account as approved for Fort Nelson.

4.0 REVENUE REQUIREMENTS

4.1 Cost of Gas and Gas Commodity Charge

On December 5, 2003, Fort Nelson filed its Fourth Quarter 2003 Gas Cost Reconciliation Account ("GCRA") report. Based on December 4, 2003 forward gas prices, the ratio of gas commodity revenue to gas costs for 2004 was 107.8 percent, suggesting a flow-thorough decrease to the gas commodity charge. However, as there was a Commission process related to the 2004 Revenue Requirements Application underway, Fort Nelson recommended that no change be made to the gas commodity charge effective January 2004. Commission Letter No. L-61-03 accepted this recommendation.

On January 15, 2004, Fort Nelson filed a GCRA report for the period February 2004 through January 2005, and projected a $188,100 credit balance in the GCRA at January 31, 2004. Based on January 13, 2004 forward gas prices, the ratio of gas commodity revenue to gas costs is 103 percent. This is within the 95 to 105 percent no-rate-change band in the GCRA Guidelines that were established by Commission Letter No. L-5-01. Nevertheless, the current gas commodity charge of $5.900/GJ could be reduced by up to $0.171/GJ to fully align gas commodity revenue with expected gas costs.

These Reasons for Decision approve a revenue deficiency of $49,000 for 2004, which increases gas delivery rates by approximately $0.05/GJ for residential customers, $0.07/GJ for commercial customers and $0.04/GJ for industrial customers. Considering the GCRA credit balance, the Commission concludes that the gas commodity charge should be reduced by an amount that would offset the gas delivery rate increase for commercial customers. As the same gas commodity charge applies for all Sales customers, residential customers would experience a small decrease to their overall rates.

The Commission directs Fort Nelson to file permanent gas delivery rate schedules for all rate classes, effective March 1, 2004. Furthermore, the Utility is directed to file permanent gas commodity rate schedules for all Sales customers, effective March 1, 2004. The permanent gas commodity rates will reflect a reduction, which is equal to the gas delivery rate increase for commercial customers.

Commission Order No. G-68-03 approved the use of a rate rider in 2004 to recover any approved foregone revenue requirement increase for the period from January 1, 2004 to the effective date of the 2004 permanent gas delivery rates (March 1, 2004). Consequently, the Commission directs such a rider to be added to Transportation (Industrial) customers' rate schedules. A rider will not be necessary for Sales customers' rate schedules and instead the following funding method will apply. The amount of any approved foregone revenue requirement increase for the period January 1, 2004 to February 29, 2004 and specifically pertaining to Sales customers, will be funded by a one-time withdrawal from the GCRA.

4.2 Operating & Maintenance Expenses

Fort Nelson forecasts gross Operating & Maintenance ("O&M") expenses of $706,000 in calendar year 2003 (Response to BCUC Staff IR No. 1, question 9.1). This amount is increased by an inflation adjustment of 1.9 percent to arrive at the forecast gross O&M expenses of $719,000 for the 2004 Test Year (Application, Tab 9, p. 2).

Fort Nelson operations have benefited by being able to draw upon the company-wide resources and expertise of Terasen in areas such as gas supply, transmission and distribution functions, customer billing and customer care, marketing, information technology, municipal, community and aboriginal relations, legal, risk management, environment, health and safety, regulatory, human resources, and finance/accounting (Application, Tab B, p. B-2).

Gross O&M expenses increased in 2003 partly due to the new services from CustomerWorks Limited Partnership ("CWLP"). In Order No. G-29-02, the Commission approved the outsourcing of the customer billing function by Terasen to CWLP and approved the annual cost payable for the years 2003 to 2006. The annual cost is also expressed as a unit cost of $54.54 per customer [$41,992,295 divided by 770,000 customers (Response to BCUC Staff IR No. 1, question 9.6)]. Fort Nelson forecasts both the 2003 and 2004 customer billing function cost by multiplying this unit cost and the number of customers in each fiscal period, respectively. Fort Nelson states that it requires all the included customer care services in the 2004 Test Year to carry out utility operations (Response to BCUC Staff IR No. 1, question 9.7).

The Commission accepts Fort Nelson's forecast 2004 gross O&M expenses of $719,000, which include $116,000 of costs payable to CWLP.

4.3 Overheads Capitalized

Fort Nelson seeks confirmation of an Overheads Capitalization rate of 16 percent the same as that found appropriate for Terasen's other service areas in the BCUC Decision dated February 4, 2003 (Application, Tab 9, p. 1). The rate is to be applied to 2004 gross O&M expenses of $719,000, resulting in $115,000 of Overheads Capitalized and $604,000 in 2004 net O&M expenses.

The Commission accepts the rate of 16 percent as an appropriate Overheads Capitalization rate for Fort Nelson.

5.0 RATE BASE

5.1 Plant in Service and Capital Additions

The Application is based on Plant in Service of $6,920,000 and $7,241,000 at the beginning and end of 2004, respectively. The corresponding mid-year utility rate base for 2004 is $4,271,000.

The December 13, 1994 application for 1995 rates reported $4,103,000 of Plant in Service at the end of 1993 and projected $4,455,000 of Plant in Service at the end of 1994. The recorded Plant in Service at the end of 1994 was $4,638,000. The large increase in actual capital additions in 1994 resulted from a decision to install the new Muskwa gate station rather than upgrade an existing gate station, and the relocation of Natural Gas for Vehicles compression equipment. Significant capital additions were made over 1995 through 2002 to provide service to new customers, to improve the distribution system and metering, and for computer software. The significant disposal was the retirement of computer software sold to CWLP at net book value. The recorded Plant in Service was $6,768,000 at the end of 2002.

Additions to Plant in Service in 2003 are projected to be $188,000, including $67,000 of Overhead. The projected direct cost of connecting 80 new residential customers is $64,000. The load forecast estimated 26 residential additions in 2003. In response to BCUC Staff IR No. 1, question 1.5, Fort Nelson attributed the difference in customer addition forecasts to timing differences between the two forecasts, and noted that the load forecast was based on net additions.

Additions to Plant in Service in 2004 are forecast at $347,000, including $115,000 of Overheads Capitalized. The direct cost to replace an odourant tank with a double-walled vessel, as part of Terasen's hazardous liquids containment program is $100,000. The direct cost to upgrade two road crossings is $40,000. The direct cost of a distribution system addition to improve reliability in the western part of town is $40,000.

No concerns were identified about any of the capital additions. The Commission accepts the Plant in Service projections in the Application.

5.2 Changes in Depreciation and Amortization Rates

Fort Nelson seeks approval to implement effective January 1, 2004 the same depreciation rate increases as approved for Terasen by the BCUC Decision dated February 4, 2003, page 38. Specifically, the Utility seeks to increase depreciation rates as follows (Application, pp. A-3 & A-4):

- Meters, regulators and meter installation rates are increased from 3 percent to 3.57 percent.
- Miscellaneous computer software rates are increased from 12.5 percent to 20 percent.
- The amortization rate for software tax savings (recorded in Account 211 Contributions-in-aid-of-construction) of non-infrastructure software is also to be increased from 12.5 percent to 20 percent.

The Commission approves the above requested depreciation and amortization rate increases for implementation effective January 1, 2004.

6.0 DEFERRAL ACCOUNTS FOR PROPERTY TAXES AND UTILITY INTEREST EXPENSE

The Utility also seeks approval of the following deferral accounts (Application, p. A-3):

- Property tax expense – This account will capture the variances between actual and forecast expenses.
- Utility interest expense – This account will capture variances due to short-term debt interest rate variances and long-term debt rate, timing and principal variances from those embedded in the rates approved as a result of this Application.

The Commission approves the setting up of the above accounts for Fort Nelson under the same terms and conditions as those previously approved for Terasen.

7.0 RETURN ON EQUITY AND CAPITAL STRUCTURE

In its Application Fort Nelson used the recent estimate of 9.0 percent for the Return on Equity ("ROE") that would be in effect if the ROE were set using current Long Canada Bond yields. In Commission Letter No. L-57-03 the ROE of 9.15 percent was approved for Fort Nelson for the 2004 Test Year. The revisions filed as part of the Final Argument included this increase in the ROE.

Fort Nelson's 2004 capital structure is the same as the Terasen capital structure filed in the Multi-Year Performance Based Rate Plan for 2004-2008 Application ("Terasen 2004-2008 Application"), Section H, Tab 14. The Utility and Terasen's other three service areas (Lower Mainland, Inland and Columbia) share the same debt and equity percentages for its capital structure: 67 percent debt and 33 percent equity (Application, Tab 14, p. 1).

The Utility's average embedded cost of long-term debt and unfunded debt cost is 7.472 percent and 4 percent respectively as per the Terasen 2004-2008 Application (Application, Tab 14, p. 1).

The Commission accepts the proposed capital structure, average embedded cost of long-term debt and unfunded debt cost for Fort Nelson.