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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-124-05**

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

and

**A Submission by Pacific Northern Gas Ltd.
for Review of a Resource Plan for Pacific Northern Gas Ltd.
West Pipeline System dated July 25, 2005**

BEFORE: L.A. O'Hara, Commissioner November 30, 2005

ORDER

WHEREAS:

- A. On July 25, 2005, Pacific Northern Gas Ltd. ("PNG") filed with the Commission its Resource Plan Report dated July 2005, covering its West Pipeline System, prepared with an objective of satisfying the Commission's Resource Planning Guidelines issued in December 2003 related to the Sections 45(6.1) and 45(6.2) of the Utilities Commission Act ("the Act"); and
- B. On September 15, 2005, the Commission finalized the schedule for a written review process of the Resource Plan as proposed in Letter No. L-71-05; and
- C. The Commission has considered the Resource Plan and the written arguments all as set forth in the Decision issued concurrently with this Order.

NOW THEREFORE the Commission accepts the Resource Plan for filing and directs PNG to submit its next Resource Plan filing no later than three years after the date of this decision, and every three years thereafter, until the Commission determines otherwise.

DATED at the City of Vancouver, in the Province of British Columbia, this 30th day of November 2005.

BY ORDER

Original signed by:

Liisa Anneli O'Hara
Commissioner

Attachment



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Pacific Northern Gas Ltd.
Review of a Resource Plan for Pacific Northern Gas Ltd.
West Pipeline System dated July 25, 2005

REASONS FOR DECISION

1.0 INTRODUCTION AND BACKGROUND

This decision addresses the Resource Plan filed by Pacific Northern Gas Ltd. ("PNG") on July 25, 2005 for its PNG-West Pipeline system. The filing is made in accordance with the British Columbia Utilities Commission ("BCUC" or "Commission") Resource Planning Guidelines (the "Guidelines") issued December 2003. It is the first such filing for the PNG-West Pipeline system since the Utilities Commission Act (the "Act") was amended in November 2003 to expand upon and clarify the planning requirements of the utilities and the Commission's role in evaluating those requirements [Sections 45 (6.1) and 45 (6.2)]. These amendments to the Act were made in part to further the Provincial Government's November 2002 Energy Policy. The last comprehensive resource plan prepared by PNG was its 1994 integrated resource plan ("IRP").

On September 15, 2005 the Commission finalized the schedule for a written review of this application as proposed in Letter No. L-71-05 (August 23, 2005).

PNG also filed its PNG-West 2005 Revenue Requirements Application and an Application to Convert PNG to an Income Trust on December 17, 2004. The latter resulted in a Decision issued September 9, 2005 (Order No. G-84-05), while the Revenue Requirements Application is the subject of a Negotiated Settlement process initiated on October 12, 2005.

A key circumstance underlying PNG-West's recent filings has been the uncertainty of the continued operation of its largest customer, Methanex Corporation ("Methanex"), representing approximately 76 percent of its annual throughput (Exhibit B-1, p. 18) and over 30 percent of its annual revenue (Exhibit B-6, PNG-West Revenue Requirements Application, p. 4). On August 31, 2005, Methanex publicly announced that it would indeed be shutting down its Kitimat plant, ceasing gas consumption from the PNG-West system by the end of 2005.

2.0 OVERVIEW

The Resource Planning process undertaken by PNG for the purposes of this filing entails a review of PNG-West's customer demand and pipeline capacity over a 20-year planning horizon. The purpose of the Resource Plan is to establish whether any actions are required by PNG at this time and in the foreseeable future with respect to supply side system capacity additions or the implementation of Demand Side Management ("DSM") programs to meet forecast gas requirements (Exhibit B-1, p. 1).

The PNG-West mainline system serves about 22,300 customers in the west-central Bulkley-Nechako region of British Columbia. The vast majority of the system's capacity is used to provide transportation service to large industrial customers, with only about 4.5 PJ being delivered to other customers in 2005. The total deliveries for 2005 are forecast at 33.3 PJ, which includes 25.4 PJ for Methanex (Exhibit B-1, p. 3).

In general, PNG submits no actions are necessary in the foreseeable future, as the findings of the Resource Plan indicate that the existing capacity is more than sufficient to accommodate forecast deliveries for the next 20-years (Exhibit B-1, p.1).

PNG considers it would be appropriate to file a resource plan every five years. PNG submits its annual revenue requirement applications provide comprehensive descriptions of capital requirements and therefore the public is kept well informed of PNG's short-term facility requirements, while the resource planning process is useful for informing the public of potential long term capital additions requirements (Exhibit B-2, BCUC IR 1.4).

3.0 RESOURCE PLANNING GUIDELINES

The following is a summary of the steps PNG followed in the development of the Resource Plan, which PNG submits are consistent with the Guidelines (Exhibit B-1, p. 7).

- Establish Objectives
- Market Review
- Develop Gross Demand Forecasts
- Review Supply and Demand Side Resources
- Group Resources into Portfolios

- Stakeholder Participation
- Recommend Actions

PNG submits it also incorporated its corporate planning process into the Resource Plan (Exhibit B-1, p.8).

Two additional items in the Guidelines are 'Regulatory Input' and 'Consideration of Government Policy' (Exhibit B-1, p. 6).

4.0 OBJECTIVES

PNG submits the planning objectives most relevant to the PNG-West service territory include:

- provision of reliable, secure and safe service
- sustainability of the utility
- provision of least cost service
- stability of rates
- pipeline efficiency
- environmental impacts

PNG submits that these objectives should continue to apply in respect of future Resource Plans, regardless of whether such plans indicate any actions and/or additional resources are required (Exhibit B-1, p. 12).

When assessing supply or demand resources against the stated objectives, some of the objectives may compete and therefore require that trade-offs be considered in the determination of a particular resource (Exhibit B-1, p. 9). However, given there is sufficient pipeline capacity to meet the projected gas requirements, and that PNG has determined it can achieve its objectives over the 20-year planning period with existing facilities, PNG submits it was not necessary to make any trade-offs in this planning process (Exhibit B-2, BCUC IR 2.3).

5.0 MARKET REVIEW AND FORECASTS

Overall, PNG forecasts that PNG-West's service territory will hold its own, but not grow at any significant rate in the near term. In the medium term from 2008 to 2012, PNG believes that economic prosperity being experienced by much of the rest of B.C. will occur in its service territory, resulting in stable populations and employment over time. PNG states the forecasts included in the long-term forecasting model supporting this Resource Plan are consistent with these trends and forecasts (Exhibit B-1, p. 21)

Over the 20-year planning period covered by the Resource Plan, PNG forecasts some growth in customer connections in the Residential and Commercial customer segments. This is based primarily on PNG's historical knowledge of its service area (Exhibit B-1, pp. 15, 16; Exhibit B-2, BCUC IR 5). Annual use per account is held constant for both of these customer classes. PNG's forecasting model shows a general decline in recent years' normalized use, which PNG speculates may in part be due to the recent increase in gas prices, and other factors such as the current generally poor economic conditions, and more efficient buildings and equipment replacing older, less efficient ones (Exhibit B-1, p. 15).

Industrial and Other customers' annual deliveries are forecast to stay at current levels for the duration of the 20-year planning period. PNG submits it has no further information that would support changes to current consumption levels (Exhibit B-1, p. 18; Exhibit B-2, BCUC IR 8.2).

Currently PNG-West serves three Large Industrial Transportation customers: Methanex, West Fraser Mills Kitimat Pulp Mill ("West Fraser Mills"), and Alcan Smelters and Chemicals ("Alcan"). In aggregate, they account for about 86 percent of PNG-West's annual throughput, with Methanex itself accounting for 76 percent of the total. Since PNG filed this Resource Plan, Methanex has announced it would be closing by the end of 2005. PNG forecasts that the remaining two Large Industrial Transportation customers' deliveries will remain at current levels over the planning period as there is no information that supports anything different (Exhibit B-1, p. 19).

PNG's pipeline system is designed and constructed to meet the peak day firm gas demands of its customers. The annual forecast deliveries for the customer segments above are the starting point to determine peak day demand. PNG defines the peak day as the coldest day in a 25-year period (Exhibit B-1, p. 22). PNG's forecasting methodology to arrive at peak day demand assumes peak day demand is dependent on the absolute temperature on

the coldest day and the proportion of gas deliveries that are heat sensitive (Exhibit B-1, p. 25). The demand forecasting model used for the Resource Plan is the same as that used for PNG's 1994 IRP demand forecast (Exhibit B-2, BCUC IR 1.1).

The peak day demand for each customer segment is determined, and then aggregated to arrive at the total system peak day demand, which can then be compared to the pipeline system capacity to determine whether there is sufficient capacity to meet the forecast demand over the planning period (Exhibit B-1, pp. 25, 31). PNG submits it considered several demand forecasts and sensitivities. However, due to the small relative size of the core customer component of demand compared with the industrial transportation customers, changes in the core customer inputs such as use per customer, customer additions, or technological factors have very little impact on overall demand. The only significant impact to demand occurs with the addition or deletion of an industrial shipper such as Methanex, West Fraser Mills or Alcan (Exhibit B-1, p. 29).

PNG submits that, based on the forecasting assumptions above, even in the event Methanex continued to operate, the peak day capacity of the pipeline system is greater than the forecast peak day demand over the entire planning period (Exhibit B-1, p. 32). With Methanex's announced closing of its Kitimat plant, the surplus capacity of the pipeline system is expected to be even greater. PNG concludes no additional pipeline capacity capital expenditures are required under the current set of assumptions.

Due to the spare capacity on its pipeline system, PNG concludes no further investigation of demand side management ("DSM") programs is required at this time, as the cost of investigating and implementing such programs is likely to outweigh potential benefits (Exhibit B-1, p. 34).

To ensure secure and reliable supplies of the natural gas commodity at reasonable cost, PNG annually prepares a Gas Contracting Plan and a Price Management Plan. These annual plans are filed for review by the Commission prior to their implementation (Exhibit B-1, p. 35).

6.0 RESOURCE PORTFOLIO EVALUATION

In PNG's unique circumstances, with no resources required to meet customer demand at this time or in the near future, PNG submits the development of resource portfolios is not necessary, and as such there is no requirement to complete a resource portfolio evaluation for this Resource Plan (Exhibit B-1, p. 36).

7.0 STAKEHOLDER CONSULTATION PROCESS

PNG provided a copy of the Resource Plan to the parties that usually register as intervenors in PNG's revenue requirements applications with a request that they provide comments on the Resource Plan to the Company and the Commission. These parties effectively represent all customer segments and are very knowledgeable of PNG and its operations (Exhibit B-1, p. 36).

8.0 ACTION PLAN

Since current and forecast customer peak day demands are projected to be less than current system capacity over the 20-year planning period covered by this Resource Plan, PNG concludes that no further actions relative to supply and demand resources are required at this time in respect of the PNG-West pipeline system. PNG states it will continue to periodically review its forecast peak day demand forecast to ensure it has sufficient pipeline capacity to continually provide secure, reliable and safe natural gas service to its customers. PNG will also actively seek economic customer additions that would improve the overall efficiency of its PNG-West Pipeline system (Exhibit B-1, p. 36).

If a new large industrial transportation customer requires service on the pipeline system, PNG submits it will determine at that time if it has sufficient capacity to provide firm service to that customer. PNG will decide how best to provide service if there is not sufficient pipeline capacity, either through additional pipeline facilities, some form of industrial curtailment arrangement, or if DSM programs would then be appropriate to meet the new customer demands. PNG states it will serve new loads consistent with then applicable energy policy and resource planning guidelines having regard to the major objectives of least cost service and efficient delivery of service (Exhibit B-1, p. 32).

9.0 INTERVENOR SUBMISSIONS

The British Columbia Old Age Pensioner's Organization ("BCOAPO") and Ministry of Energy and Mines ("MEM") registered as intervenors in this proceeding.

In its comments (Exhibit C3-3), BCOAPO states that PNG does not appear to be looking at any potential replacement load for the Methanex plant which is now scheduled to close and that, in the absence of any plan to replace that load over the 20-year planning period, it appears that PNG will have excess capacity in its system for which ratepayers will continue to pay. BCOAPO is also concerned that PNG does not appear to have seriously considered this issue by saying that its position that there will be no significant changes in industrial customer demand in its service area was a judgment call without having discussions with its customers or economists.

BCOAPO submits that PNG also appears to downplay the potential of the current proposal for an LNG facility at Kitimat by stating, it is too early to put any information about it in the resource plan. BCOAPO states it would be helpful to have some information as to how this facility, if it proceeds, will impact on PNG's resource planning in the next few years. This is especially the case given that, in the income trust recapitalization hearing, PNG submitted the proposed LNG facility would require significant capital expenditures. BCOAPO finds it difficult to understand where the money to make this investment would come from given the financial status of the utility, especially if PNG does not proceed with the recapitalization.

As noted above, PNG considers it would be appropriate to file a resource plan every five-year period. While BCOAPO agrees that this might be appropriate in normal circumstances, it submits that it is not appropriate in the circumstances of PNG and proposes PNG be required to file an updated resource plan once its structure and financial situation is clarified.

In response to BCOAPO's suggestion, PNG acknowledges it may need to file an updated resource plan earlier than in five years if the Kitimat to Summit Lake Pipeline Looping Project ("KSL Project") comes to fruition. If so, PNG notes it would be filing an application with the Commission for a Certificate of Public Convenience and Necessity ("CPCN") for the KSL Project pipeline facilities. PNG submits it would be appropriate at that time for the Commission to decide on whether PNG should file an updated resource plan having regard to the fact the KSL Project CPCN application would contain most if not all of the information that would usually be provided in a resource plan (Exhibit B-4, p. 1).

10.0 COMMISSION PANEL FINDINGS

The Commission Panel agrees with the objectives proposed by PNG, and that they should continue to apply in respect of future Resource Plans, regardless of whether such plans indicate any actions and/or additional resources are required. The Commission Panel also agrees that any decisions by PNG relating to resource planning to accommodate new load in the future should be consistent with then applicable energy policy and resource planning guidelines, while having regard to the objectives of least cost service and efficient delivery of service.

The Commission Panel accepts PNG's delivery and peak day demand forecasts for the purposes of this Resource Plan. The Commission Panel further accepts that the capacity of the existing PNG-West pipeline system suffices for the foreseeable future, and that at the current time, no actions with respect to pipeline capacity resources appear to be necessary over the 20-year planning horizon. The Commission also accepts PNG's conclusions regarding DSM expenditures, and the continuation of its annual Gas Contracting Plan and Price Management Plan review process.

No specific approvals result from this decision for the Resource Plan filing. Rather, it provides context for other applications for PNG-West, such as those for Revenue Requirements or CPCNs. Therefore, going forward, PNG should ensure that it has a Resource Plan accepted by the Commission that is sufficiently current and relevant to support such applications, or that it file an updated Resource Plan concurrently with any major CPCN application. Thus, if circumstances should change (respecting the demand forecast, for example) that would change the actions PNG would take over the 20-year period, PNG should file an updated Resource Plan to reflect those changes.

In any event, PNG should submit its next Resource Plan filing no later than three years after the date of this decision, and every three years thereafter, until the Commission determines otherwise.

The Commission notes that the Resource Plan does not appear to be intended to, and does not fulfill, the requirement of Section 45(6) for an annual statement of the extensions to its facilities that PNG intends to construct. The Commission expects PNG to continue to file such statements annually. However, given no specific approvals (respecting capital expenditures, for example) result from this Resource Plan application and decision, the matters raised by BCOAPO do not directly affect this decision.