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web site: <http://www.bcuc.com>



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-134-05**

TELEPHONE: (604) 660-4700  
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**IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

**and**

**Application by Pacific Northern Gas Ltd.  
(PNG-West and Granisle)  
for Approval of 2006 Rates**

**BEFORE:** L.A. Boychuk, Panel Chair / Commissioner  
R.W. Whitehead, Commissioner December 16, 2005

**O R D E R**

**WHEREAS:**

- A. On November 30, 2005, Pacific Northern Gas Ltd. ("PNG", "PNG-West" and "Granisle") filed for approval of its 2006 Revenue Requirements Application ("the Application") to amend its rates on an interim and final basis, effective January 1, 2006, pursuant to Sections 89 and 58 of the Utilities Commission Act ("the Act"); and
- B. The Application proposes to increase delivery rates to all customers, except Methanex Corporation ("Methanex") and West Fraser-Kitimat ("West Fraser"), as a result of decreases in cost of service and decreased deliveries to most customer classes. Methanex and West Fraser have contracts in place that provide for fixed demand charges over the term of the contracts; and
- C. Methanex closed its methanol/ammonia complex in Kitimat in November 2005 and the Methanex contract is being terminated effective March 1, 2006 ("Methanex closure"). PNG's 2006 margin forecast includes fixed demand charges for January and February 2006 under the terms of the Methanex contract; and
- D. PNG forecasts a 2006 revenue deficiency of approximately \$5.2 million which is mainly due to a reduction in revenues of approximately \$10.4 million resulting from the Methanex closure. This revenue reduction is partly offset by PNG crediting to its cost of service \$5.6 million from the contract termination payment of \$23.3 million that Methanex will pay to PNG on February 28, 2006; and
- E. On December 12, 2005 PNG filed its Fourth Quarter 2005 Report on gas supply costs and Gas Cost Variance Account ("GCVA") balances ("the Report"), which requested changes to Gas Supply Cost Recovery Rates for PNG-West and Granisle effective January 1, 2006 based on November 28, 2005 natural gas and propane forward prices. PNG proposes that no changes be made to GCVA rate riders; and

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER        G-134-05**

2

- F. The Report projects a minimal debit balance of \$48,000 in the PNG-West GCVA at December 31, 2005, which would require an increase in the GCVA rate rider from a credit of \$0.281/GJ to a debit of \$0.014/GJ to repay the GCVA balance to PNG over 2006; and
- G. The Report projects a credit balance of \$2,757,000 in the PNG-West unaccounted-for gas GCVA at December 31, 2005, which would require an increase in the GCVA credit rate rider from \$0.189/GJ to \$0.254/GJ to repay the GCVA balance to customers over approximately two years; and
- H. The Report projects a debit balance of \$60,000 in the Granisle GCVA at December 31, 2005, which the current GCVA debit rate rider of \$1.000/GJ will repay to PNG over approximately 4.9 years; and
- I. Since November 28, 2005 natural gas forward prices have increased significantly; and
- J. PNG had discussions regarding the review process for the Application with the BC Old Age Pensioners Organization et. al. ("BCOAPO") and staff of the Ministry of Energy, Mines and Petroleum Resources, who were active intervenors in the review of the PNG 2005 revenue requirements application (the "Parties"). By letter dated December 13, 2005 PNG advised the Commission that the Parties are of the view that the Application should be subject to a Negotiated Settlement Process ("NSP") and provided a draft Regulatory Timetable that shows NSP discussions commencing the week of March 13, 2006. On December 14, 2005 BCOAPO filed a letter of support for an NSP and PNG's proposed Regulatory Timetable; and
- K. The Commission requires that interim rates and a regulatory process to deal with the Application be established.

**NOW THEREFORE** the Commission orders as follows:

1. The PNG Application will be examined through an NSP and the Regulatory Timetable, attached as Appendix A has been established.
2. The Commission, pursuant to Section 89 of the Act, approves for PNG an interim rate increase in the delivery rates for all classes of customers as filed in the Application effective January 1, 2006, except Methanex and West Fraser.

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER        G-134-05**

3

3. The differences between the 2006 interim and permanent delivery rates that are determined by the Commission following consideration of this Application are subject to refund with interest at the average prime rate of PNG's principal bank as set out in a Commission Order that establishes permanent rates for PNG.
4. The Commission, pursuant to Section 61(4) of the Act, approves for PNG for PNG-West and Granisle permanent Gas Supply Cost Recovery Rates for sales service customers as set out in the Report, effective January 1, 2006.
5. The Commission, pursuant to Section 61(4) of the Act approves the PNG-West company use rate of \$0.305/GJ as an interim rate effective January 1, 2006.
6. The Commission, pursuant to Section 61(4) of the Act, approves a permanent GCVA rate rider for PNG-West of \$0.000/GJ, a permanent unaccounted-for gas GCVA credit rate rider for PNG-West of \$0.254/GJ and continuation of the permanent GCVA debit rate rider for Granisle of \$1.000/GJ, effective January 1, 2006.
7. The Commission will accept, subject to timely filing by PNG, amended Gas Tariff Rate Schedules in accordance with the terms of this Order. PNG is to provide all affected customers with a Customer Notice notification of the interim and permanent rates, to be reviewed by the Commission in advance of its release.
8. PNG will publish, as soon as possible, in display-ad format, the Notice of Negotiated Settlement Process, attached as Appendix B, in such appropriate local news publications as may properly provide adequate notice to the public in its service areas.
9. The Application and supporting material will be made available for inspection at public libraries in Prince Rupert, Terrace, Kitimat, Houston, Smithers, Burns Lake, Vanderhoof and Fort St. James, and at the Head Office of PNG at Suite 950, 1185 West Georgia Street, Vancouver, B.C., V6E 4E6 and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3.
10. PNG is to provide a copy of this Order, by facsimile if possible, to all Intervenors and Interested Parties registered in the PNG 2005 Revenue Requirements Application proceedings, as well as all large industrial customers, as soon as possible.
11. Intervenors and Interested Parties should register with the Commission, via the BCUC website or in writing, by Wednesday, January 11, 2006, of their intention to intervene.

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER**      G-134-05

4

**DATED** at the City of Vancouver, in the Province of British Columbia, this      16<sup>th</sup>      day of December 2005.

**BY ORDER**

*Original signed by:*

Lori Ann Boychuk  
Panel Chair  
and Commissioner

Attachments

**PACIFIC NORTHERN GAS LTD.  
(PNG-West and Granisle)  
Application for Approval of 2006 Revenue Requirements**

**REGULATORY TIMETABLE**

| <u>Action</u>   | <u>Date 2006</u>      |
|---|-----------------------|
| Registration of Intervenors and Interested Parties                    | Wednesday, January 11 |
| Budget Estimates for Participant Assistance submitted                 | Friday, January 20    |
| Commission Information Requests No. 1 issued to PNG                   | Friday, January 27    |
| Intervenor Information Requests No. 1 issued to PNG                   | Friday, February 3    |
| PNG Responses to Commission Information Requests No. 1                | Friday, February 10   |
| PNG Responses to Intervenor Information Requests No. 1                | Friday, February 17   |
| PNG Files 2005 Year-End Update to Application                         | Friday, February 17   |
| Commission and Intervenor Information Requests No. 2 issued to PNG    | Friday, February 24   |
| PNG Responses to Commission and Intervenor Information Requests No. 2 | Friday, March 3       |
| Commencement of Negotiated Settlement Process                         | Monday, March 13      |



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**APPENDIX B**  
to Order No. G-134-05  
Page 1 of 2

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**PACIFIC NORTHERN GAS LTD.  
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Application for Approval of 2006 Revenue Requirements**

**NOTICE OF NEGOTIATED SETTLEMENT  
PROCESS**

**THE APPLICATION**

Pacific Northern Gas Ltd. ("PNG") has applied to the British Columbia Utilities Commission ("the Commission") for approval to adjust rates, effective January 1, 2006. PNG forecasts a 2006 revenue deficiency of approximately \$5.2 million mainly due to a reduction in revenues of approximately \$10.4 million resulting from Methanex Corporation closing its methanol/ammonia complex in November 2005. This revenue reduction is partly offset by PNG crediting to its cost of service \$5.6 million from the contract termination payment of \$23.3 million that Methanex Corporation will pay to PNG on February 28, 2006. This Application seeks to recover increased revenue requirements associated with delivering natural gas.

In its Fourth Quarter 2005 Gas Supply Cost Report, PNG also requested approval to change its gas commodity rates. PNG requests an increase in the gas delivery charges in residential and small commercial rates of about 21 to 23 percent and increases in the gas commodity charges of zero to 6 percent to be effective January 1, 2006.

**THE REGULATORY PROCESS**

By Order No. G-134-05, the Commission approved interim rate increases in the gas delivery charges in residential and small commercial rates of about 21 to 22 percent and permanent rate increases of 3 to 6 percent in gas commodity charges, effective January 1, 2006. The differences between the 2006 interim and permanent delivery rates that are determined by the Commission following consideration of this Application are subject to refund with interest at the average prime rate of PNG's principal bank as set out in a Commission Order that establishes permanent rates for PNG. The permanent gas commodity charges for Granisle includes a Gas Cost Variance Account ("GCVA") rate rider that recovers the end-of-2005 debit balance in the GCVA.

The Commission has established a Negotiated Settlement Process for the review of PNG's Application.

**PUBLIC INSPECTION OF THE DOCUMENTS**

The PNG Application and supporting material will be made available for inspection at public libraries in Prince Rupert, Terrace, Kitimat, Houston, Smithers, Burns Lake, Vanderhoof, Fort St. James, at the Head Office of PNG at Suite 950, 1185 West Georgia Street, Vancouver, B.C. V6E 4E6 and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3

## **INTERVENTIONS**

Persons who expect to actively participate in the PNG proceeding should register as Intervenors with the Commission, via the BCUC website or in writing, by Wednesday, January 11, 2006. Intervenors will receive copies of the Application, all correspondence and filed documentation.

Persons not expecting to actively participate, but who have an interest in the PNG proceeding should register as Interested Parties with the Commission, via the BCUC website or in writing, by Wednesday, January 11, 2006. Interested Parties will receive a copy of the Application's Executive Summary and all Orders issued.

## **FURTHER INFORMATION**

For further information, please contact Mr. Robert J. Pellatt, Commission Secretary or Mr. Philip Nakoneshny, Director, Rates and Finance as follows:

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