



LETTER NO. L-36-05

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June 9, 2005

Mr. Evan Saugstad
Mayor
District of Chetwynd
PO Box 357
Chetwynd, B.C. V0C 1J0

Dear Mr. Mayor:

Re: Terasen Gas Inc.
Natural Gas Rates Charged in Chetwynd

In your letter dated April 7, 2005, the District of Chetwynd ("Chetwynd") expressed concern that, in its view, residents and businesses of Chetwynd are being seriously overcharged for natural gas, and welcomed any action that the Commission could take to correct the situation. Chetwynd previously complained to the Commission about gas rates in Chetwynd in a letter dated December 18, 2003 and the Commission by Letter No. L-24-04 dated April 25, 2004 dismissed the complaint.

By a letter dated April 29, 2005, Terasen Gas Inc. ("Terasen Gas") responded to the April 7, 2005 letter from Chetwynd. On May 14, 2005, Chetwynd replied to the Terasen Gas letter and addressed several specific requests to the Commission.

Before responding to the several requests that Chetwynd makes, the Commission believes that it may be helpful to consider whether the Franchise/Operating Agreement matter is linked to issues related to gas rates. While Chetwynd is concerned that a new Franchise/Operating Agreement will bind Chetwynd to service by Terasen Gas, Terasen Gas asserts that Franchise/Operating Agreements and gas rates are separate matters and that issues related to them should be resolved separately. Terasen Gas' April 29, 2005 letter and attached February 20, 2004 letter explained the utility's position in detail. The Commission concludes that a municipal Franchise/Operating Agreement with the public utility that owns and operates the distribution system, and gas rates for customers served by the utility, raise issues that largely need to be resolved separately. To put it another way, the form and terms of a Franchise/Operating Agreement do not impact the Commission's conclusions on the appropriate allocation of gas rates to Terasen Gas customers in Chetwynd.

Franchise/Operating Agreement

In its April 29, 2005 letter, Chetwynd requests that the Commission extend its current Franchise/Operating Agreement until such time as a rate design hearing is concluded. In the absence of a rate design hearing, Chetwynd requests that the Commission direct Terasen Gas to commence negotiations that lead to the selling of the Chetwynd distribution system.

The Commission derives its authority from legislation, specifically the Utilities Commission Act (the "Act"). Section 45 of the Act provides that the Commission must approve a privilege, concession or franchise granted to a public utility by a municipality or other public authority in order for the privilege, concession or franchise to be valid. Sections 32, 33 and 36 of the Act set out circumstances in which the Commission may allow the use of

streets or other places and structures by a public utility, and may establish the manner and terms of the use. The Commission considers that neither these, nor any other provisions of the Act, give the Commission the authority to direct that a Franchise/Operating Agreement be extended, or to direct Terasen Gas to commence negotiations leading to the sale of some of its assets. Since the Commission lacks the authority to do what Chetwynd asks, the Commission denies Chetwynd's requests related to Franchise/Operating Agreements and negotiations for the sale of Terasen Gas assets.

In its May 14, 2005 letter, Chetwynd suggests that it may no longer wish to collect franchise fees. As these are fees that a public utility collects on behalf of municipalities, it is unlikely that either Terasen Gas or the Commission would object to a proposal from a municipality to eliminate franchise fees from a future Franchise/Operating Agreement.

Gas Rates

In addition to its concern that Chetwynd customers are being overcharged for natural gas, in its May 14, 2005 letter Chetwynd requests that the Commission have Terasen Gas provide the actual costs for operating the system in Chetwynd, and that the Commission commence a Rate Hearing that allows Chetwynd and Terasen Gas to address Chetwynd's rate concerns.

In Letter No. L-24-04, the Commission acknowledged Chetwynd's position that "...even though there is some regional differentiation in the gas supply portion of Chetwynd's rates, those rates still may include some Duke Energy Transmission tolls and fuel gas charges for services that Chetwynd doesn't need." In its April 29, 2005 letter, Terasen Gas advised that the amount that is embedded in the Midstream Charge for Chetwynd residential customers for Duke Energy Gas Transmission ("Duke") transmission south ("T-south") charges is \$0.17/GJ. In its letter, Terasen Gas also clarified that, although Chetwynd is north of Station No. 2, deliveries to Chetwynd were included in the calculation of Duke T-south tolls for the Inland Delivery Area and these tolls apply for gas deliveries to Chetwynd. Chetwynd and some other points north of Station No. 2 were included in the Inland Delivery Area for gas balancing and other supply reasons.

The Commission has been advised that annual gas sales in Chetwynd and vicinity are about 447,000 GJ per year, indicating that T-south charges cost Chetwynd customers approximately \$76,000 per year, assuming the \$0.17/GJ charge is representative for all sales. The T-south cost for a typical residential customer using 95 GJ per year is approximately \$1.35 per month.

Although Chetwynd customers are paying \$0.17/GJ of T-south charges for service that one can argue is not needed for Chetwynd, this outcome of an imperfect matching of costs and charges should reasonably be anticipated for certain customers whenever "postage stamp" pricing principles are applied to determine rates. Moreover, the additional costs of administering a service and tariff designed specifically for Chetwynd can reasonably be anticipated to offset the \$0.17/GJ avoided cost to Chetwynd. A rate design change would necessarily result in changes to the rates of other customers. Even if a rate change was in the interests of Chetwynd customers, a departure from "postage stamp" pricing principles is not necessarily in the interests of all customers considered collectively.

The Commission has reviewed the information provided by Chetwynd and Terasen Gas comparing the cost of gas for customers in Chetwynd and nearby areas, and recognizes there are challenges when attempting to compare the rates of different utilities. The attached schedule uses current rates for Chetwynd and Dawson Creek, and the annual consumption levels of 95 GJ for residential customers, 280 GJ for small commercial customers and 3,500 GJ for large commercial customers that Terasen Gas used when it filed rates for 2005. This information indicates that the annual bill for a typical residential customer in the Inland service area, which includes Chetwynd, is 14 percent higher than the annual bill calculated using Dawson Creek rates, while the annual bills of typical small and large commercial customers are 20 and 16 percent higher, respectively. Most of the differences result from the higher Monthly Charges and Delivery Charges in Chetwynd.

Terasen Gas stated in its April 29, 2005 letter that a rate design study and hearing is a very time-consuming and costly undertaking, and that it believes that the earliest a rate design review may be warranted would be in 2007.

The setting of gas rates was discussed in considerable detail in the enclosed Commission letters dated April 23, 2004 and June 9, 2004. A Terasen Gas rate design proceeding would be required to develop up-to-date allocated cost information and review the allocation of costs to rate classes and service areas. Moreover, to address Chetwynd's concerns, the Commission might need to establish a separate rate class for customers in Chetwynd and vicinity. The Commission stated in Letter No. L-24-04:

"To set a rate for a single municipality or district raises serious issues about how far the boundaries of the rate should extend, and how the utility would adjust its rates for other customers if the rates to one district were changed. The appropriate forum for considering the rates charged to various customer classes (whether those classes are defined by geographic areas or by customer characteristics) is within a rate design hearing so that other affected customers may respond, as well as the utility."

In conclusion, the Commission considers that it would not be appropriate to attempt to address Chetwynd's concern in less than a full rate design proceeding. Given the amount of T-south charges in terms of both absolute dollars and as a percentage of customer rates, and the decision in past rate designs to generally use "postage stamp" pricing principles for both delivery charges and gas commodity costs, the Commission concludes that it would not be cost-effective to revisit Terasen Gas' rate design at this time. Therefore, the Commission denies Chetwynd's requests regarding additional cost information and initiating a rate design proceeding. Nevertheless, as set out in Letter No. L-24-04, Chetwynd is invited to raise the issue of T-south charges in the next Terasen Gas rate design proceeding.

In closing, the Commission encourages renewed discussions between Chetwynd and Terasen Gas on a Franchise/Operating Agreement for Chetwynd, and regarding rate design matters so that Chetwynd can prepare itself to participate in the next rate design proceeding

Yours truly,

Original signed by:

Robert J. Pellatt

JBW/rt

Attachments

cc: Mr. Scott Thomson, Vice President, Finance and Regulatory Affairs
Terasen Gas Inc.
Mr. Mike Redfearn, Chief Administrative Officer
District of Chetwynd
Dr. Sheila Wynn, Deputy Minister
Ministry of Energy and Mines

COMPARISON OF ANNUAL GAS BILLS

Basis: Rates effective January 1, 2005 including rate riders
 Pacific Northern Gas (North East) Ltd. ["PNG(NE)"] rates are interim
 Charges exclude franchise fees (approximately 3%) and GST (7%)

Residential: Typical Customer using 95 GJ/year

	Chetwynd (Terasen Gas)		Dawson Creek (PNG (NE))	
	<u>Unit Cost</u>	<u>Annual</u>	<u>Unit Cost</u>	<u>Annual</u>
Monthly Charge, \$/Mo	\$10.70	\$ 128.40	\$7.00	\$ 84.00
Delivery Charge, \$/GJ	2.822	268.09	2.136	202.92
Commodity Charge, \$/GJ	7.553	<u>717.54</u>	7.309	<u>694.36</u>
Annual Bill		\$1,114.03		\$981.28

Small Commercial: Typical Customer Using 280 GJ/year

	Chetwynd (Terasen Gas)		Dawson Creek (PNG (NE))	
	<u>Unit Cost</u>	<u>Annual</u>	<u>Unit Cost</u>	<u>Annual</u>
Monthly Charge, \$/Mo	\$22.46	\$ 269.52	\$7.00	\$ 84.00
Delivery Charge, \$/GJ	2.385	667.80	1.535	429.80
Commodity Charge, \$/GJ	7.687	<u>2,152.36</u>	7.331	<u>2,052.68</u>
Annual Bill		\$3,089.68		\$2,566.48

Large Commercial: Typical Customer Using 3,500 GJ/year

	Chetwynd (Terasen Gas)		Dawson Creek (PNG (NE))	
	<u>Unit Cost</u>	<u>Annual</u>	<u>Unit Cost</u>	<u>Annual</u>
Monthly Charge, \$/Mo	\$119.83	\$ 1,437.96	\$150.00	\$ 1,800.00
Delivery Charge, \$/GJ	2.076	7,266.00	1.020	3,570.00
Commodity Charge, \$/GJ	7.434	<u>26,019.00</u>	7.027	<u>24,594.50</u>
Annual Bill		\$34,722.96		\$29,964.50