

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. V6Z 2N3 CANADA  
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-40-06

TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

**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 April 7, 2006

**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 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. In its Application, 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 paid to PNG on February 28, 2006; and
- E. 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 were 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

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- F. By Order No. G-134-05, the Commission approved for PNG an interim refundable 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. That Order also approved permanent Gas Supply Cost Recovery Rates for sales service customers effective January 1, 2006. The Order also approved the PNG-West company use rate of \$0.305/GJ as an interim rate effective January 1, 2006; and
- G. By Order No. G-134-05, the Commission scheduled an NSP for the review of the PNG Application and established a Regulatory Timetable; and
- H. The Negotiated Settlement discussions were held in Vancouver on March 13 to 15, 2006 and a proposed Settlement Agreement that would reduce PNG's revenue deficiency to \$4.091 million was agreed to by PNG; and
- I. By letter dated March 28, 2006, PNG requested that the Commission review the Settlement Agreement and the letter of comments received and issue an order approving the Settlement Agreement on an interim or permanent basis by April 7, 2006 to coincide with the Gas Supply Cost Recovery Rates that were approved effective April 1, 2006; and
- J. Letters of comment on the proposed Settlement Agreement were received from the BCOAPO, the Haisla Nation, Mr. Childs, Mayor Talstra of Terrace, Robin Austin, MLA-Skeena and the Kitimat Chamber of Commerce; and
- K. BCOAPO in its letter of comment dated March 29, 2006 does not accept the Settlement Agreement and in particular Item 1 which "represents the fundamental gist of the agreement in that it purports to transfer the entire shortfall arising from Methanex leaving the PNG-West system to the residential and small commercial customers." BCOAPO states that it does not have any objection to the remainder of the proposed Settlement Agreement and has no objection to PNG's request to have the rates that would arise from the Settlement Agreement approved on an interim basis, pending resolution of the allocation of the Methanex revenue shortfall. In BCOAPO's view an oral hearing and a full 2006 Revenue Requirements proceeding is not necessary. BCOAPO suggests that the issue can be resolved in a written hearing process with an additional round of information requests to PNG-West to ensure that all necessary and appropriate evidence is before the Commission; and
- L. Mr. Childs' comments were similar to those of BCOAPO, except that he recommended that "the 06/01/01 Interim Rates remain in effect until a Final Commission Ruling is made". The Haisla Nation accepted PNG's commitment to work with the Haisla Nation and took no position on the remainder of the Settlement Agreement. Mayor Talstra in his letter of comment dated April 5, 2006 found the Settlement Agreement to be acceptable provided that the new rates, including gas supply costs charges remain in effect throughout 2006. Robin Austin in his letter dated April 6, 2006 did not agree with PNG's proposal that the lost revenue from the Methanex contract should be downloaded to residential and commercial customers and requested a written hearing to resolve this issue. The Kitimat Chamber of Commerce in its email dated April 6, 2006 repeated its protest to PNG's increased delivery charges and asked for the review process to continue; and

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- M. By letter dated April 3, 2006, PNG requested that the Commission approve rates arising from the Settlement Agreement on either a permanent basis or on an interim basis pending review of the issue raised in BCOAPO's letter of comment dated March 29, 2006. PNG cited previous Commission decisions on the allocation of revenue reductions to PNG's customers and stated that by allocating the revenue reduction to the remaining customers the Commission would carry out its statutory duty consistent with past practice and that to allocate any of the remaining revenue deficiency to PNG's shareholders would contravene section 59(5)(b) of the *Utilities Commission Act*. PNG recommended that the Commission issue an Order on April 7, 2006 reconfirming its past practice and approving the NSP 2006 rates on a permanent basis. However, should the Commission decide to conduct a hearing as requested by BCOAPO, then PNG suggests that BCOAPO "has effectively become the applicant in this situation and should be directed to file evidence upon which all parties should be given an opportunity to issue information requests to BCOAPO; and
- N. By letter dated April 4, 2006, BCOAPO commented on PNG-West's brief review of past Commission decisions and submitted that the question of how section 59 of the Act should be applied in PNG-West's current situation is a matter that requires determination by the Commission after hearing submissions from appropriate parties. While BCOAPO does not propose to adduce further evidence, it maintains its request for a limited round of information requests to ensure that relevant information which is not included in the formal record but which was referred to in the course of the NSP by PNG is part of the public record. BCOAPO acknowledges that absent this procedural step, this information could not be referred to by the parties, given the confidentiality requirements of the NSP; and
- O. The Commission has reviewed the proposed Settlement Agreement for PNG-West, the letters of comment received and considers that a further process should be established to review and consider Item 1, "Methanex Termination Payment", of the proposed Settlement Agreement.

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

1. The Commission approves BCOAPO's request for an additional round of Intervenor information requests to PNG-West to be filed by April 18, 2006. In accordance with the Commission's NSP Guidelines, settlement discussions are without prejudice and confidential. Unless otherwise agreed to by the parties involved in the NSP, these additional information requests of BCOAPO and any other Intervenor, are to be based on the evidence filed in this proceeding and publicly available information.
2. PNG is to respond to the Intervenor's additional information requests by April 24, 2006.
3. The Commission does not agree with PNG-West's characterization of BCOAPO as an effective applicant in this situation. Accordingly, the Commission does not direct BCOAPO to file evidence.

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4. PNG is to file its submission related to Issue 1 by April 28, 2006.
5. Intervenor submissions related to Issue 1 are to be filed by May 4, 2006.
6. PNG may file its Reply by May 9, 2006.

**DATED** at the City of Vancouver, in the Province of British Columbia, this      10<sup>th</sup>      day of April 2006.

**BY ORDER**

*Original signed by*

Lori Ann Boychuk  
Panel Chair  
and Commissioner