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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-54-06

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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.
regarding Rate Schedules 7, 10 and 14A
for Market-Based Commodity Rates for the 2006/07 Gas Contract Year**

BEFORE: L.F. Kelsey, Commissioner May 18, 2006

O R D E R

WHEREAS:

- A. By Order No. G-39-05 and attached Reasons for Decision, the Commission approved for Terasen Gas Inc. ("Terasen Gas") market-based commodity rates for the 2005/06 gas contract year for Rate Schedule 7 – bundled General Interruptible Service, Rate Schedule 10 – commodity Large Volume Interruptible Sales, and Rate Schedules 14A – commodity Term and Spot Gas Sales; and
- B. On March 8, 2006, Terasen Gas filed an application (the "Application") regarding Rate Schedules 7, 10 and 14A for approval of market-based gas commodity rates for the gas contract year commencing November 1, 2006 and ending October 31, 2007 (the "2006/07 gas contract year"); and
- C. The Application proposed the current terms of service continue in effect for the 2006/07 gas contract year for the most part, but also requested approval that the Annual Fixed Rate Option under Rate Schedule 14A be eliminated for 2006/07 and
- D. The Commission by letter dated March 13, 2006 invited written comments on the Application from interested parties; and
- E. On March 30, 2006, Avista Energy Canada, Ltd. filed comments on the Application; and
- F. On March 31, 2006, Direct Energy Marketing Limited filed comments on the Application; and
- G. On April 13, 2006, Terasen Gas submitted its reply to the comments that were filed regarding the Application; and
- H. The Commission has considered the Application and the written submissions that it has received, and is satisfied that the Application for market-based rates should be approved for the 2006/07 gas contract year, for the reasons that are set out in the Reasons for Decision that are attached as Appendix A to this Order.

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NOW THEREFORE the Commission orders as follows for Terasen Gas for the 2006/07 gas contract year:

1. The Commission approves the termination of the Annual Fixed Rate Option under Rate Schedule 14A effective October 31, 2006, and otherwise approves the extension of the Rate Schedule 14A tariff, as set out in the Application.
2. The Commission approves the extension of the Rate Schedule 10 tariff without material changes, as set out in the Application.
3. The Commission approves the extension of the Rate Schedule 7 tariff without material changes, as set out in the Application.
4. The Commission will accept, subject to timely filing, Gas Tariff Rate Schedules in accordance with this Order and Reasons for Decision attached as Appendix A.
5. Terasen Gas will provide a copy of this Order and Reasons for Decision to all current customers of Rate Schedules 7, 10 and 14A.
6. Terasen Gas will file a report for Rate Schedule 14A within 30 days of the end of each gas contract year that summarizes monthly gas purchase and sales quantities, and costs and revenue for each month.
7. When it applies for approval of Rate Schedules 7, 10 and 14A for the 2007/08 gas contract year, Terasen Gas will include in its application information on customer numbers and actual monthly sales under each Rate Option under the three Rate Schedules for the 2005/06 gas contract year and for the period November 2006 through March 2007. In the 2007/08 application Terasen Gas will also provide reasons why Rate Schedule 10 Monthly Index Option should or should not continue for 2006/07, and will identify and justify the discount for winter Monthly Index Option rates that it proposes for 2007/08.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of May 2006.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

TERASEN GAS INC.
APPLICATION FOR RATE SCHEDULES 7, 10 AND 14A
MARKET-BASED COMMODITY RATES FOR THE 2006/07 GAS CONTRACT YEAR

REASONS FOR DECISION

1.0 INTRODUCTION

Terasen Gas Inc. (“Terasen Gas”, formerly BC Gas Utility Ltd. “BC Gas”) has sold natural gas at market-based commodity rates to its transportation service customers since the early 1990’s. The February 21, 1992 BC Gas Inc. Phase A Rate Design Decision anticipated the sale of surplus or “valley” gas that is available under baseload contracts to interruptible customers. The October 25, 1993 BC Gas Phase B Rate Design Decision approved Rate Schedule 14 as a separate rate schedule for interruptible backstopping sales. The Phase B Decision also approved several bundled or burner-tip schedules, including Rate Schedule 7 for small volume interruptible sales. Thereafter, BC Gas applied annually for approval of market-based commodity rates under Rate Schedules 7 and 10 and more recently 14. The rate options offered have evolved as the natural gas market in the area developed.

The Commission approved Rate Schedule 14A for the 2002/03 gas year. This rate schedule applies when Terasen Gas performs the nominating and balancing functions that Shipper Agents typically perform for customers or groups of customers.

When Terasen Gas filed its application for Rate Schedules 7, 10, 14 and 14A for the 2004/05 gas contract year, several gas marketers raised concerns that the proposed Rate Schedule 14 and 14A terms may be an impediment to the development of a competitive gas commodity market in British Columbia, that Core Market customers may be subsidizing the rate offering and that Terasen Gas may be inappropriately using customer information. After a written hearing process, the Commission approved the continuation of Rate Schedules 7, 10, 14 and 14A with certain relatively small changes to the tariffs, and directed Terasen Gas to file reports on several matters related to Rate Schedules 14 and 14A.

In 2005, after a written comment process, the Commission approved Terasen Gas’ application to eliminate Rate Schedule 14 and to extend Rate Schedules 7, 10 and 14A for the 2005/06 gas contract year.

2.0 APPLICATION AND REVIEW PROCESS

On March 8, 2006, Terasen Gas submitted its application for Rate Schedules 7, 10 and 14A for the November 1, 2006 to October 31, 2007 gas contract year (the “Application”). Terasen Gas proposes to maintain the current terms of service for the most part.

The Commission by letter dated March 13, 2006 invited written comments on the Application. The Commission received written comments from Avista Energy Canada, Ltd. (“Avista”) and Direct Energy Marketing Limited (“Direct”). On April 13, 2006 Terasen Gas replied to the written comments.

3.0 RATE SCHEDULE 14A – TERM AND SPOT GAS SALES

Rate Schedule 14A provides for the sale of gas to on-system customers and marketers on a firm basis that is delivered to the customer at the interconnection with the Duke Energy Gas Transmission (“Westcoast”) system. A customer may chose from among Annual Fixed Rate, Term Fixed Rate, Monthly Index Rate and Daily Index Rate Options. The Daily Index Rate Option can be used to supply spot gas to customers who have experienced gas supply failure for some reason, including customers who have been released from their marketer. Each customer must meet Terasen Gas’ credit requirements.

The Application requests approval for Rate Schedule 14A to continue for 2006/07 in substantially its current form, except that the Annual Fixed Rate Option would be eliminated.

The following is a summary of customer participation in Rate Schedules 14 and 14A over the last three years:

	Customer Participation		
	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06 (estimated)</u>
Rate Schedule 14A	175	111	83
Rate Schedule 14	<u>200</u>	<u>100</u>	<u>N/A</u>
Total	325	211	83

No customers have elected the Annual Fixed Rate Option in 2004/05 or 2005/06. Terasen Gas states that elevated commodity costs and increases in both the swing and market factor premiums appear to have rendered the Annual Fixed Rate Option uneconomic for customers.

Avista encourages the elimination of the Annual Fixed Rate Option. Avista further argues that Rate Schedule 14A service is no longer necessary as marketers are able to offer a range of products to meet customers’ requirements, and requests that it be eliminated. Avista also questions the physical premiums quoted in the

Application, whether the Terasen Gas management fees and currency exchange practices are consistent with those of independent marketers and the practice of not charging Provincial Sales Tax (“PST”) on Westcoast charges.

Direct supports the application to eliminate the Annual Fixed Rate Option for 2006/07, and argues that the other Rate Schedule 14A option should also be eliminated as they compete with marketers in a marketplace that is mature in terms of price transparency and customer knowledge. Direct believes that Index Rate Option supply does not provide market pricing information to Terasen Gas or its customers, and that marketers can now offer a product that is similar to the Term Fixed Rate Option. Direct argues that the termination of Rate Schedule 14A would support the continuing development of the competitive marketplace.

In response to the comments, Terasen Gas clarified that the Sumas market premium in February 2006 ranged from \$US 0.005/MMBtu to \$US 0.060/MMBtu, compared to the current premium of the greater of \$0.060/GJ or cost. Terasen Gas states that it buys gas for these sales in Canadian currency, and explained the basis for its PST charges. Terasen Gas also responds that in other reviews of Rate Schedule 14A charges the Commission has not required it to compare its charges to the equivalent cost of a stand-alone entity.

In response to the arguments that Rate Schedule 14A supply should be obtained from competitive marketers, Terasen Gas states that the service is not an impediment to the development of the market and that it continues to provide value for the marketplace.

Commission Determination

As customers are no longer using the Annual Fixed Rate Option, the Commission accepts that this service option should be terminated. The Commission notes that the number of Rate Schedule 14A customers has declined from 125 in 2003/04 to 83 currently (notwithstanding that Rate Schedule 14 was also terminated over the period). It seems evident that marketers are successfully competing with the Terasen Gas service, but it is also apparent that a significant number of customers find the service suitable for their needs. In addition, the comments of Avista on specific matters and the responses by Terasen Gas have not identified concerns that need to be addressed by changes to the Rate Schedule at this time.

The Commission approves the elimination of the Annual Fixed Price Option effective October 31, 2006 and otherwise approves the extension of the current terms of Rate Schedule 14A for the 2006/07 gas contract year, as set out in the Application.

4.0 RATE SCHEDULE 10 – LARGE VOLUME INTERRUPTIBLE SALES

Rate Schedule 10 provides for the sale of surplus Core Market gas to on-system customers and marketers on an interruptible basis, with delivery to the customer at the interconnection with the Westcoast system. A Rate Schedule 10 customer currently selects between a Daily Index option and a Monthly Index option. The Monthly Index rate includes a 3 percent discount in the winter. Terasen Gas requests that Rate Schedule 10 continue without changes for 2006/07.

Avista questions how much Rate Schedule 10 was used in the period November 2005 through March 2006, as the Monthly Index Option was not available and the Daily Index Option was limited. As the marketplace seemed to function well in the absence of this gas supply option, Avista questions whether or not the offering is used and useful and requests that it be eliminated.

Direct states that it would be useful to stakeholders if Terasen Gas provided information about Rate Schedule 10 number of customers, annual and monthly volumes and number of supply interruptions. Direct also suggests that BCUC should monitor how many days Terasen Gas purchases spot gas when it was also making interruptible sales, to determine if firm customers are being supplied through Rate Schedule 10. Direct further states that the 1,423 TJ of sales in November 2004 to October 2005 was a significant quantity for retail supply, and suggests it would be useful to see statistics on whether the 3 percent winter discount makes Rate Schedule 10 a more attractive supply option in a high gas price environment.

Terasen Gas clarified that the Rate Schedule 10 Monthly Index Option was not available in November 2005 through March 2006, and Daily Index Option availability was limited to five customer groups, for total sales of 165 TJ. Terasen Gas acknowledges that the current 3 percent discounting mechanism for the Monthly Index option can make Rate Schedule 10 sales less economically advantageous than selling the surplus volumes “off system,” but argues that this does not suggest the Rate Schedule 10 offering is not of value to core customers or the marketplace.

Terasen Gas responds to Direct’s request for more detailed reporting of Rate Schedule 10 sales by noting that it currently files information on these sales, such as the annual Gas Supply Mitigation Incentive Plan reports. Terasen Gas acknowledges that it periodically purchase spot gas on days when Rate Schedule 10 gas is sold, but states that this in no way affects the volumes available for Rate Schedule 10 customers.

With regard to the use of interruptible Rate Schedule 10 supply by firm customers, Terasen Gas responds that any reasonable firm customer, after reviewing the tariff, would use Rate Schedule 10 as interruptible supply as

intended. In any case, Terasen Gas believes that businesses must determine how best to source commodity supply, and that it does not have a mandate to monitor that customers adequately weigh the risks of Rate Schedule 10 service.

Commission Determination

The Commission supports the comments of Avista and Direct that more information regarding Rate Schedule 10 customers and sales should be provided. In the current Application, no information was provided for the current gas year and the information for 2004/05 was not split between the two price options. Terasen Gas will be expected to provide more information in future applications.

It seems questionable whether the Monthly Index Option as currently structured is appropriate in a high gas price environment. To avoid the effect of the 3 percent discount on the revenue generated for core market customers, Terasen Gas apparently decided that this option would not be available in November 2005 to March 2006. Although this action preserved core customer revenue and has not generated complaints to the Commission, it indicates that the Monthly Index Option needs to be reviewed. Since it does not appear that the Monthly Index Option has caused harm in the current year, the Commission concludes that the option should be approved for 2006/07 and revisited in detail in the next Terasen Gas application. When Terasen Gas applies for Rate Schedule 10 for 2007/08, it will be expected to address whether the Monthly Index Option continues to be useful, and the amount of discount, if any, that should apply for the rate for the winter period.

The Commission approves Rate Schedule 10 for 2006/07 as applied for in the Application.

5.0 RATE SCHEDULE 7 – GENERAL INTERRUPTIBLE SERVICE

Rate Schedule 7 provides interruptible bundled (burner-tip) service to customers who have the ability to switch to alternate fuels. Although the delivery service is interruptible and can be curtailed in times of capacity constraints on the Terasen Gas system, the supply of the gas commodity is considered to be firm. Currently Rate Schedule 7 service is provided under the Fixed Rate option, where the rate is equivalent to the sum of the Rate Schedule 5 Commodity Cost Recovery Charge, Midstream Cost Recovery Charge and related Gas Cost Riders. Terasen Gas requests that Rate Schedule 7 continue without changes for 2006/07.

Avista supports the continuation of Rate Schedule 7, while Direct did not comment on the matter.

The Commission approves Rate Schedule 7 for 2006/07 as applied for in the Application.