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**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER** G-161-06

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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 (Vancouver Island) Inc.  
for Approval of 2007 Rates, 2007 Cost of Service and  
Revenue Deficiency Deferral Account Balance as at December 31, 2005

**BEFORE:** L.F. Kelsey, Commissioner  
L.A. Zaozirny, Commissioner December 14, 2006

**O R D E R**

**WHEREAS:**

- A. On October 23, 2006 Terasen Gas (Vancouver Island) Inc. ("TGVI") filed its 2006 Settlement Update filing and an application in accordance with the 2006-2007 Negotiated Settlement Agreement ("Settlement") as approved by Commission Order No. G-126-05 ("the Application"). The Application filed pursuant to Sections 60 and 23 of the Utilities Commission Act ("the Act") and Order in Council 1510, dated December 13, 2005, requested approval for 2007 Rates, 2007 Cost of Service, and the Revenue Deficiency Deferral Account balance as at December 31, 2005; and
- B. The Commission by Order No. G-122-06 set out the Regulatory Timetable for information requests, responses, the 2006 Settlement Update Meeting, and comments; and
- C. The 2006 Settlement Update Meeting was held on November 21, 2006. Subsequently, TGVI provided a response to undertakings ("Undertakings Submission") on November 24, 2006 responding to issues raised in the meeting. The Undertakings Submission provided updated financial schedules to reflect the amended transportation rate of \$0.9087/GJ for the Vancouver Island Gas Joint Venture ("VIGJV"). The Undertakings Submission also updated the return on equity ("ROE") for TGVI to 9.07 percent in response to the Commission setting the benchmark ROE at 8.37 percent. The change in the allowed ROE results in a reduction in the Firm Transportation rate for British Columbia Hydro and Power Authority ("BC Hydro") to \$0.892/GJ and the winter Interruptible Transportation rate to \$1.540/GJ. With its Undertakings Submission, TGVI amends its October 23, 2006 Application for the revised transportation rates for the VIGJV and BC Hydro ("Revised Application"); and
- D. Intervenor Comments were filed on November 30, 2006 by BC Hydro and the British Columbia Old Age Pensioners' Organization *et al.* ("BCOAPO"). The VIGJV had previously, in its letter of November 18, 2005, determined that it would not make a submission regarding any aspect of the proposed settlement agreement and gave notice of its withdrawal and participation from the negotiated settlement process. Accordingly, the VIGJV, in its letter of November 30, 2006 regarding the 2006 Settlement Update Meeting, continues to make no submission. TGVI provided its Reply Comments on December 5, 2006; and
- E. The Commission has reviewed the Revised Application and the Comments received.

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**NOW THEREFORE** pursuant to Sections 23, 60, and 61 of the Act the Commission orders the following for TGVI with Reasons for Decision attached as Appendix A to this Order:

1. The Commission approves as filed in the Revised Application the December 31, 2005 year end balance in the Revenue Deficiency Deferral Account in the amount of \$48,731,214.
2. The Commission approves the permanent rates effective January 1, 2007 for RGS, AGS, SCS-1, SCS-2, LCS-1, LCS-2, LCS-3, LCS-13, HLF, and ILF rates classes as proposed in the Revised Application. The Commission also approves permanent rates effective January 1, 2007 for Firm Transportation, summer Interruptible Transportation, and winter Interruptible Transportation rates as proposed in the Revised Application.
3. The Commission approves the forecast Cost of Service and Revenues for 2007 as filed in the Revised Application.
4. The Commission approves the allowable capital expenditures forecast for 2007, other than those expenditures that require a Certificate of Public Convenience and Necessity, which will be reviewed in separate regulatory processes, as included in the Revised Application.
5. TGVI is to inform all affected customers of the permanent rates by way of a bill insert or customer notice, to be submitted to the Commission in draft form prior to its release.
6. The Commission will accept, subject to timely filing, amended Gas Tariff rate schedules in accordance with the terms of this Order.
7. TGVI will comply with all other directions in the Reasons for Decision attached as Appendix A to this Order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 18<sup>th</sup> day of December 2006.

BY ORDER

*Original signed by:*

L.F. Kelsey  
Commissioner

Attachment

**Terasen Gas (Vancouver Island) Inc.**  
**Application for Approval of 2007 Rates, 2007 Cost of Service and**  
**Revenue Deficiency Deferral Account balance as at December 31, 2005**

**REASONS FOR DECISION**

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**1.0 INTRODUCTION**

**1.1 The Application**

On October 23, 2006 Terasen Gas (Vancouver Island) Inc. (“TGVI”) filed its 2006 Settlement Update filing and an application in accordance with the 2006-2007 Negotiated Settlement Agreement (“Settlement”) as approved by Commission Order No. G-126-05 (“the Application”). The Application filed pursuant to Sections 60 and 23 of the Utilities Commission Act (“the Act”) and Order in Council 1510, dated December 13, 2005, requested approval for 2007 Rates, 2007 Cost of Service, and the Revenue Deficiency Deferral Account (“RDDA”) balance as at December 31, 2005.

The 2006 Settlement Update Meeting was held on November 21, 2006. Subsequently, TGVI provided a response to undertakings (“Undertakings Submission”) on November 24, 2006 responding to issues raised in the meeting including Rate Impact Assessments, Deferred Incentive Programs, Main Extension Test, and Depreciation and Overheads Capitalization Studies. The Undertakings Submission also provided updated financial schedules to reflect the amended transportation rate of \$0.9087/GJ for the Vancouver Island Gas Joint Venture (“VIGJV”). Additionally, the Undertakings Submission updated the return on equity (“ROE”) for TGVI to 9.07 percent in response to the Commission setting the benchmark ROE at 8.37 percent. The change in the allowed ROE results in a reduction in the Firm Transportation rate for British Columbia Hydro and Power Authority (“BC Hydro”) to \$0.892/GJ and the winter Interruptible Transportation rate to \$1.540/GJ. With its Undertakings Submission, TGVI amends its October 23, 2006 Application for the revised transportation rates for the VIGJV and BC Hydro (“Revised Application”). The TGVI Reply Comments outlines five requests for approval:

- 2007 Revised Rates,
- 2007 Forecast Cost of Service,
- 2007 Forecast Capital Expenditures,
- 2007 Forecast Revenue, and
- December 31, 2005 Revenue Deficiency Deferral Account amount of \$48,731,214.

## **1.2 Comments from Intervenor and TGVI**

Intervenor Comments were filed on November 30, 2006 by BC Hydro and the British Columbia Old Age Pensioners' Organization et al. ("BCOAPO"). BC Hydro in its Comments accepts the proposals for 2007. BCOAPO provided Comments on the issues raised in the Undertakings Submission. Subsequently on December 5, 2006 TGVI provided its Reply Comments.

The VIGJV had previously in its letter of November 18, 2005 determined that it would not make a submission regarding any aspect of the proposed settlement agreement and gave notice of its withdrawal and participation from the negotiated settlement process. Accordingly, the VIGJV, in its letter of November 30, 2006 regarding the 2006 Settlement Update Meeting, continues to make no submission.

The Undertakings Submission issues are addressed in the following section.

## **2.0 ISSUES**

### **2.1 Rate Impact Assessments**

TGVI in its Undertakings Submission updated its Rate Impact Assessments for the 2007 allowed ROE of 9.07 percent for TGVI. The ROE change had an impact on the Firm Transportation rate to \$0.892/GJ and winter Interruptible Transportation rate to \$1.540/GJ. However, TGVI submits that the change in ROE does not result in changes to TGVI's 2007 rate proposals for core market customers. If TGVI were to revise its core rate proposals it would decrease the rate impact to three rate classes: residential (RGS) and commercial (SCS1 and SCS2) by \$0.24/GJ to \$0.28/GJ. The utility believes that a primary objective of the soft cap methodology is for timely elimination of the RDDA.

BC Hydro in its Comments has no outstanding issues with respect to the proposed costs, tolls and rates for 2007 and accepts the proposals for 2007. BCOAPO in its Comments does not oppose the rate proposals of TGVI and does not take a position on TGVI's submissions with respect to the soft cap methodology.

The Commission finds that the rate proposals to core market customer classes are in accordance with the soft cap methodology as agreed to in the Settlement. **The Commission approves the requested rate changes as proposed in the Revised Application.**

## 2.2 Deferred Incentive Programs

The Settlement in Appendix A to Commission Order No. G-126-05 states that TGVI “will demonstrate the economics of appliance grants”. TGVI explains that it uses the “Regulatory NPV Model” to evaluate the incentive programs and that the participant cost test, total resource cost (“TRC”) test, ratepayer impact measure (“RIM”) test and utility cost test are not utilized to analyze programs for TGVI (BCUC IR 18.3). In the Undertakings Submission the utility explains the current test utilized by TGVI does not differentiate between peak load and base load. TGVI is of the view that continued use of the existing test, although it may not be perfect, does consider the incremental costs associated with incenting and providing service to the customer. Also in its Undertakings Submission TGVI submits that during 2007 it will evaluate the merits of moving more towards using standard TRC and RIM tests in evaluating non-conservation focused programs for TGVI.

TGVI indicated that the utility does not include the incentive costs in the Main Extension (“MX”) test. TGVI proposes to include this as an issue in the upcoming comprehensive main extension review in 2007 (BCUC IR 30.6.4).

The BCOAPO in its Comments has concerns over the purported benefits that Demand Side Management (“DSM”) programs deliver and supports a review in a subsequent proceeding of incentives and DSM spending, including an evaluation of the merits of using standard TRC and RIM tests.

The Commission notes that Demand Side Management includes both load building programs and load conservation programs. TGVI should be planning and evaluating its DSM programs to ensure they are economic for the ratepayer and participant. **The Commission directs that TGVI commence in 2007 to plan and evaluate its deferred incentive programs to include the standard RIM and participant cost tests. The Commission directs TGVI to include in its next revenue requirement filing a demonstration of the benefits from incentives and DSM spending. TGVI is to include an evaluation of the merit of using a standard TRC test. For each incentive program the evaluation information should include the RIM test, participant test, and Regulatory NPV Model (or TRC test) plus the estimated percentage of free-riders with an explanation of how TGVI designs its programs to mitigate free-riders.**

## 2.3 Main Extension Test

The Settlement in Appendix A to Commission Order No. G-126-05 states “that TGV I will adopt the TGI MX test, with appropriate revisions to the inputs, commencing January 1, 2006”.

On April 30, 2006 TGV I filed its “Review of the Main Extension Test” updating the main extension test inputs. In the report TGV I requests that in the first quarter of 2008, TGV I proposes reporting to the Commission on a random sampling of 10 percent of the main extensions installed from January 1, 2006 to December 31, 2007.

TGV I stated in a main extension information response that a random sampling of 10 percent plus inclusion of each year’s five highest cost main extensions would be appropriate as it would ensure consistency and significance of impact to ratepayers (MX BCUC IR 3.1.2). **The Commission finds that reporting in the first quarter of 2008 on a random sampling of 10 percent plus inclusion of each year’s five highest cost main extensions installed from January 1, 2006 to December 31, 2007 is acceptable.**

The April 30, 2006 TGV I letter outlined that TGV I’s updated inputs including the same Operation & Maintenance (“O&M”) expense and System Improvements (“SI”) charge figures as Terasen Gas Inc. (“TGI”). TGV I proposes to use the TGI \$54.54 per customer Accenture Business Services for Utilities (“ABSU”) billing system charge for inclusion in the TGV I O&M input. If TGV I used its own billing system charge from ABSU it would be \$42.72 per customer (BCUC IR 30.2.1). Also, TGV I proposes to use the TGI SI charge of \$0.35/GJ. On July 22, 2004 TGV I filed a report entitled “Review of Main Extension Test 2003-2005 Negotiated Settlement Agreement BCUC Order No. G-2-03” which included evidence on the appropriateness of an allowance for system improvements and unitization of SI cost. The July 22, 2004 report on page 8 states that TGV I submits that its allowance for SI cost of \$0.50/GJ is reasonable and should be continued. TGV I has included the SI costs of \$0.50/GJ in the evaluation of system extensions each year since 1996. TGV I in its Undertakings Submission calculates that the two changes to the O&M and SI costs would have a result of decreasing the MX costs of \$38.35.

TGV I believes it is not appropriate to use the SI charge developed for one test as the SI charge for a different test. Further TGV I submits that the old TGV I MX test used an SI charge that was transmission based, whereas, the TGI test uses an SI charge that is distribution based. TGV I does not believe it is appropriate to simply take the TGV I transmission SI charge of \$0.50/GJ (even though the calculations show only a charge of \$0.42/GJ) and apply it to a test that does not have transmission SI incorporated in the test. TGV I notes that in Order No. G-80-96 the Commission noted that SI costs should be “consistently applied...and in a manner that does not add

unnecessary complexity”. Further, TGV I explains that TGV I and TGI will be reviewing their MX tests as part of a comprehensive review of its customer connection policies and system extension policies in 2007 (BCUC IR 30.5.1).

BCOAPO in its Comments is supportive of a review of the Main Extension test to be undertaken in the next year.

The Commission notes that TGV I is a separate utility from TGI with TGV I having its own capital structure and return on equity which recognizes the utility’s transmission and distribution system operations. TGI is primarily a distribution utility with a less significant transmission operation. **The Commission finds that the TGV I MX test should be updated for appropriate inputs that are available. The Commission determines that commencing January 1, 2007 the O&M cost should be updated to include the TGV I ABSU cost of \$42.72 per customer and the appropriate SI charge for TGV I is \$0.50/GJ.** TGV I may apply to vary the inputs upon completion of its comprehensive review of its customer connection policies and system extension policies in 2007.

#### **2.4 Depreciation and Overheads Capitalization Studies**

TGV I has included for its 2007 deferred expenses an estimated cost of \$25,000 US plus expenses for a Depreciation Study and an estimated \$60,000 for a separate Overheads Capitalized Study (BCUC IR 24.5.2). In its Undertakings Submission TGV I explained it has completed the Depreciation Study but has not finalized plans for the Overheads Capitalized Study. TGV I describes that TGV I in conjunction with TGI are completing the Overheads Capitalization Study. TGV I also submits that if an extension of the existing Settlement is achieved, then the TGV I will not pursue an application specific to these items for the period of the extension.

The BCOAPO in its Comments notes that the two studies can result in significant impacts on residential customers. As TGI and TGV I are both in their final year of settlement, the BCOAPO submits that it would not be appropriate for the utilities to further pursue or implement any changes during the settlement period.

The Commission notes that if an extension of the existing Settlement is achieved and an application specific to the two studies are not pursued the benefits of the two studies may be limited. **The Commission orders that TGV I is to suspend further expenditures on these two studies until such time that TGV I determines that an extension of the existing Settlement cannot be achieved.**