

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-154-07

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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 2008 Rates, 2008 Cost of Service and
Revenue Deficiency Deferral Account Balance as at December 31, 2006**

BEFORE: L.F. Kelsey, Commissioner
P.E. Vivian, Commissioner December 10, 2007

O R D E R

WHEREAS:

- A. The Commission, by Order No. G-113-07 dated September 20, 2007, set out the Regulatory Timetable for the Terasen Gas (Vancouver Island) Inc. ("TGVI") filing of its 2007 Settlement Update Material, information requests, responses, the 2007 Settlement Update Meeting, undertaking responses from TGVI, Participant Comments, and TGVI Reply Comments; and
- B. On October 5, 2007, TGVI filed its 2007 Settlement Update filing and an application in accordance with the two-year extension of the 2006-2007 Revenue Requirement Negotiated Settlement Agreement terms for 2008 and 2009 ("Settlement") as approved by Commission Order No. G-34-07 ("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 2008 Rates, 2008 Cost of Service, and the Revenue Deficiency Deferral Account balance as at December 31, 2006; and
- C. On October 15, 2007 TGVI filed updates to pages in Sections A-3 and A-4 of the October 5, 2007 filing; and
- D. On November 2, 2007 TGVI filed its Revised Settlement Update Filing for six revisions to the October 5, 2007 Settlement Update Filing ("Amended Application"). The six revisions included the Vancouver Island Gas Joint Venture rate adjustment, capital schedule corrections, subordinated debt correction, federal tax surcharge correction, work in progress change correction, and B.C. Capital Tax assessment update; and
- E. The TGVI 2007 Settlement Update Meeting was held on November 13, 2007. The TGVI 2007 Settlement Update Meeting was held jointly with the Terasen Gas Inc. ("TGI") 2007 Annual Review. Subsequently, TGVI provided a response to undertakings ("Undertakings Submission") on November 19, 2007 responding to issues raised in the meeting. The Undertakings Submission addressed the rate base adjustment related to Allowance for Funds Used During Construction ("AFUDC"), BC Capital Tax Deferral Account Amortization Period, Response to Commission Information Request No. 1 Question 5.1, and future revisions to the Amended Application; and

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- F. On November 21, 2007 the Rental Owners and Managers Society of BC submitted its Comments. Also, on November 26, 2007 by British Columbia Hydro and Power Authority (“BC Hydro”) and the British Columbia Old Age Pensioners’ Organization *et al.* submitted their Comments; and
- G. On November 16, 2007, the Commission issued Order No. G-139-07 approving the Long Term Service Agreements between TGVI and BC Hydro, Peaking Agreement between TGVI and BC Hydro, and Capacity Assignment Agreement between TGVI, BC Hydro and TGI subject to certain conditions being met. Order No. G-139-07 also approved a fully executed and acceptable amendment to the Wheeling Agreement that reduces the amount of Coastal Transmission System (“CTS”) wheeling capacity provided to TGVI, and the payments by TGVI, to amounts that correspond to the net amount of CTS wheeling capacity that TGVI requires in addition to the wheeling capacity it receives under the Capacity Assignment Agreement. On November 23, 2007, TGI and TGVI filed for Commission approval, an Amending Agreement to the Wheeling Agreement in accordance with Order No. G-139-07. The Commission, by Order No. G-149-07, approved the amended agreements. The Amending Agreement results in a reduction in costs that TGVI incurs, and pays TGI in 2008, of \$900,000; and
- H. On November 30, 2007, TGVI provided its Reply Comments. With its Reply Comments, TGVI revised its Amended Application to update the 2008 return on equity (“ROE”) for TGVI to 9.32 percent in response to the Commission setting the benchmark ROE at 8.62 percent pursuant to Commission Letter No. L-93-07, to update 2007 plant balances to reflect the adjustment to the AFUDC as described in the Undertakings Submission, and to update the Wheeling Agreement costs paid to TGI pursuant to Order No. G-139-07, (“the Revised Application”); and
- I. The Commission has reviewed the Revised Application and the Comments received.

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, 2006 year end balance in the Revenue Deficiency Deferral Account in the amount of \$41,626,420.
2. The Commission approves the permanent rates effective January 1, 2008 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, 2008 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 2008 as filed in the Revised Application.

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4. The Commission approves the allowable capital expenditures forecast for 2008, 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. TGV I is to inform all affected customers of the January 1, 2008 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. TGV I 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 11th day of December 2007.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

Terasen Gas (Vancouver Island) Inc.
Application for Approval of 2008 Rates, 2008 Cost of Service and
Revenue Deficiency Deferral Account balance as at December 31, 2006

REASONS FOR DECISION

1.0 INTRODUCTION

1.1 The Application

On October 5, 2007 Terasen Gas (Vancouver Island) Inc. (“TGVI”) filed its 2007 Settlement Update filing and an application in accordance with the two-year extension of the 2006-2007 Revenue Requirement Negotiated Settlement Agreement terms for 2008 and 2009 (“Settlement”) as approved by Commission Order No. G-34-07 (“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 2008 Rates, 2008 Cost of Service, and the Revenue Deficiency Deferral Account (“RDDA”) balance as at December 31, 2006.

On November 2, 2007 TGVI filed its Revised Settlement Update Filing for six revisions to the October 5, 2007 Settlement Update Filing (“Amended Application”). The six revisions included the Vancouver Island Gas Joint Venture rate adjustment, capital schedule corrections, subordinated debt correction, federal tax surcharge correction, work in progress change correction, and B.C. Capital Tax assessment update.

The 2007 Settlement Update Meeting was held on November 13, 2007. Subsequently, TGVI provided a response to undertakings (“Undertakings Submission”) on November 19, 2007 responding to issues raised in the meeting including the rate base adjustment related to Allowance for Funds Used During Construction (“AFUDC”), BC Capital Tax Deferral Account Amortization Period, outstanding Response to Commission Information Request No. 1 Question 5.1, and future revisions to the Amended Application.

On November 21, 2007 the Rental Owners and Managers Society of BC (“ROMS BC”) provided its Comments. Also, on November 26, 2007 British Columbia Hydro and Power Authority (“BC Hydro”) and the British Columbia Old Age Pensioners’ Organization *et al.* (“BCOAPO”) submitted their Comments.

Subsequently on November 30, 2007, TGVI provided its Reply Comments. With its Reply Comments, TGVI revised its Amended Application to update the 2008 return on equity (“ROE”) for TGVI to 9.32 percent in response to the Commission setting the benchmark ROE at 8.62 percent pursuant to Commission Letter

No. L-93-07, to update 2007 plant balances to reflect the adjustment to the AFUDC as described in the Undertakings Submission, and to update the Wheeling Agreement costs paid to TGI pursuant to Order No. G-139-07, (“the Revised Application”).

The Revised Application includes the following requests for approval:

1. 2008 Rates,
2. 2008 Forecast Cost of Service,
3. 2008 Forecast Capital Expenditures,
4. 2008 Forecast Revenue,
5. December 31, 2006 Revenue Deficiency Deferral Account amount of \$41,626,420,
6. A proposed deferral account to deal with the event that the pipeline project to Whistler is energized in 2008 and conversion of the Terasen Gas (Whistler) Inc. (“TGW”) system is complete such that natural gas is flowing prior to the end of the year,
7. Approval to transfer the balance of \$2,392,531 of BC Capital Tax from a non-rate base deferral account to a rate base deferral account, with amortization over two years, as included in the November 2, 2007 Revised Settlement Filing and as set out in Section 10, and
8. Approval to depart from using a portion of the Uniform System of Accounts for recording its O&M in Accounts 600 to 999 and to prepare reports using the New Code of Accounts, providing both a resource-based view and an activity-view, as included in Section 9 of the October 5, 2007 Settlement Update filing.

The Undertakings Submission and other issues are addressed in the following section.

2.0 ISSUES

2.1 2008 Rates

In its Revised Application TGV I provides updates to its Rate Impact Assessments for the 2008 allowed ROE of 9.32 percent for TGV I, updated 2007 plant balances, and a change to the Wheeling Agreement. The revised 2008 rates are set forth in Schedules 28D-08 and 28E-08, effective January 1, 2008, in the November 30, 2007 filing.

TGVI proposes a transportation rate for TGW in the event that the natural gas pipeline is energized and conversion of the TGW distribution system does occur before the end of 2008. In Tab 2 of the November 30, 2007 filing, TGVI filed a revised a Section 8 – Customer Rates, page 5 containing Table 8.2.5 TGW Transportation Rate Proposals for 2008 (\$/GJ).

In its Comments, ROMS BC requests that the Commission reject TGVI's proposed 2008 rate increase of 5 percent for the Apartment General Service ("AGS") rate class. ROMS BC submits that the AGS rate should be based on a 1.0 revenue to cost ratio and therefore the rate for 2008 would be \$10.59/GJ. However, in the interests of all stakeholders, ROMS BC proposes that the 2008 AGS rate be set at \$11.542/GJ, a 0 percent increase from the 2007 rate. BC Hydro and BCOAPO did not provide any comments on the proposed rates for 2008.

TGVI in its Reply Comments disagrees with the position put forth by ROMS BC. TGVI submits that a rate reduction for the AGS rate class cannot be justified and it is TGVI's submission that its proposal for a 5 percent rate increase for the AGS rate class is reasonable, justified and is consistent with the terms of the Extended Agreement. ROMS BC, in its January 22, 2007 letter of support to extend the Settlement to 2008 and 2009, stated that ROMS BC does not object to the extension subject to three conditions. One of the three conditions stated by ROMS BC was that "AGS Rate increases for 2008 and 2009 will conform to the formula of a maximum of 5% where revenue exceeds costs and 10% where costs exceed revenue, both amounts subject to the competitive ceiling."

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 Wheeling Agreement

The November 19, 2007 Undertakings Submission indicates that the Commission issued Order No. G-139-07 approving the Long Term Service Agreements between TGVI and BC Hydro, Peaking Agreement between TGVI and BC Hydro, and Capacity Assignment Agreement between TGVI, BC Hydro and TGI subject to certain conditions being met. One of these conditions requires TGVI and TGI to file by December 15, 2007 for Commission approval of an agreement that amends the Wheeling Agreement between the two parties effective January 1, 2008. On November 23, 2007, TGI and TGVI filed for Commission approval, an Amending Agreement to the Wheeling Agreement in accordance with Order No. G-139-07. The Commission by Order

No. G-149-07 approved the amended agreements. The Amending Agreement results in a reduction in costs that TGV incurs, and pays TGI in 2008, of \$900,000.

2.3 2008 Return on Equity (“ROE”)

In the November 19, 2007 Undertakings Submission TGV indicated it would revise its Amended Application (and rate proposals) for the 2008 ROE and submit the revision with the Reply Comments due on November 30, 2007. The attachment to TGV's Response to Commission Information Request No.1 Question 17.3 shows rates based on an estimated ROE of 9.35 percent instead of 9.07 percent (the 2007 ROE) figure. With its Reply Comments, TGV revised its Amended Application to update the ROE for TGV to 9.32 percent in response to the Commission setting the benchmark ROE at 8.62 percent pursuant to Commission Letter No. L-93-07. The Commission notes that TGV should, in future advance material filings and regulatory schedules, use the estimated ROE rate for the revenue requirements in order to provide reasonable forecast of final rates. For the update, TGV should utilize the approved ROE and provide a reconciliation summary page that summarizes the changes from the filed application. The regulatory timetable should include all anticipated updates to the application.

2.4 Whistler Pipeline Deferral Account

TGV proposes a deferral account to deal with the event that the pipeline project to Whistler is energized in 2008 and conversion of the TGV system is complete such that natural gas is flowing prior to the end of the year. TGV proposes to put the capital costs into a deferral account for 2008, to be recovered from customers commencing in 2009. The rate base deferral account will capture capital costs, the Capital Contribution amount calculated in accordance with the Capital Contribution Agreement, and associated incremental operating and maintenance expenses incurred in 2008. The rate base deferral account will attract AFUDC and amortization will commence in 2009.

With the uncertainty surrounding the completion and in-service date of the Whistler Pipeline, the Commission approves the creation of a rate base deferral account in the event that the Whistler Pipeline is energized and conversion of the Terasen Gas (Whistler) Inc. system is complete in 2008.

2.5 Main Extension Test Inputs

The Settlement in Appendix A to Commission Order No. G-126-05 states “that TGVI will adopt the TGI MX test, with appropriate revisions to the inputs, commencing January 1, 2006”. In the Appendix A to Order No. G-161-06 the Commission found that TGVI MX test should be updated for appropriate inputs that are available. The response to Commission Information Request No. 1 Question 8.2 states that higher prices for external contractor services have not been incorporated into the main extension test for 2007. TGVI explains that changes to the costing model are typically undertaken annually, and contractor pricing changes and paving costs changes were anticipated to be reviewed in the spring of 2007; however, this was not undertaken at that time as TGI and TGVI were completing work on the TGI and TGVI Application for System Extension and Customer Connection Changes Review (“SET Application”). The Commission notes that the SET Application proposes an effective date of January 1, 2008. The response to Information Request Question 8.4 indicates that the higher prices for external contractor services and install contractors took effect on June 1, 2006.

The Commission notes that TGVI should have been updating the construction cost changes in a timely manner and that TGVI should update its main extension parameters for changes to the inputs at the start of each year.

2.6 BC Capital Tax Deferral Account Amortization Period

On November 2, 2007 TGVI submitted a Revised Settlement Update Filing, which included a request to transfer the remaining balance of \$2,392,531 in a non-rate base BC Capital Tax (“BCCT”) re-assessment deferral account to a rate base deferral account with amortization over two years. At the Settlement Update Meeting TGVI was asked whether or not it was appropriate to simply expense the \$2,392,531. TGVI does not oppose expensing the entire BCCT in 2008; the utility notes that the proposed the two-year amortization was in part to spread out the volatility resulting from including this expense in one year. The additional expense does not impact TGVI’s core market rate proposals for 2008 but it does impact the BC Hydro rate proposals.

No comments were received on this issue from participants.

The Commission approves the transfer of the balance of \$2,392,531 of BC Capital Tax from a non-rate base deferral account to a rate base deferral account with amortization over 2 years.

2.7 Departure from the Uniform System of Accounts for O&M

TGVI requests approval to depart from using a portion of the Uniform System of Accounts for recording its O&M in Accounts 600 to 999 and to prepare reports using the New Code of Accounts, providing both a resource-based view and an activity-view, as included in the October 5, 2007 Settlement Update filing as set out in Section 9. Previously, in the October 23, 2006 Settlement Update filing, TGVI stated that the proposed reporting allows costs to be easily compared year over year regardless of organization structure and that once approved TGVI, TGW and TGI will report their O&M in this consistent manner going forward.

On September 20, 2007, the Commission issued a letter detailing the progress and proposed reporting format (included as Attachment 9.3 to the 2007 Settlement Update filing) from the working group wherein the Commission requested Intervenor comments on the working group findings and results by September 27, 2007. No comments were received from Intervenors.

The Commission approves the TGVI request to depart from using a portion of the Uniform System of Accounts for recording its O&M in Accounts 600 to 999 and to prepare reports using the New Code of Accounts, providing both a resource-based view and an activity-view. The Commission accepts that the New Code of Accounts is to provide consistent and informative reporting similar to the Commission's Uniform System of Accounts for Gas Utilities. Also, TGVI is to request Commission approval for revisions to the New Code of Accounts. A revision may be due to an accounting rules change or operational change that necessitates a change to the New Code of Accounts. Changes to the New Code of Accounts for clarity does not need approval but should be reported to the Commission.

2.8 Rate Base Adjustment Related to Allowance for Funds Used During Construction

In response to Commission Information Request No. 1 Question 31.1, TGVI explains the 2007 AFUDC allocation of \$605,769 related to the Business Integration Program and that there was a delay in the project being financially closed. TGVI explained that the AFUDC portion that was over-recorded amounted to \$165,300. The Undertaking questioned the appropriateness of including additional AFUDC in rate base, beyond the time when the asset should have been put into service. In the Undertaking response TGVI commits to making the adjustment to remove the amount of over-recorded AFUDC of \$165,300 from rate base as part of the 2007 Annual Report filing and in the calculation of the 2007 RDDA. In the November 30, 2007 Revised Application TGVI made the AFUDC change.

The Commission notes that TGVI should be booking in its regulatory schedules the proper accounting transactions and correcting any known errors. **The Commission accepts the correction to remove the amount of the over-recorded AFUDC of \$165,300 from rate base.**

2.9 Use per Customer Data for RGS and SCS1 Customer Classes

Commission Information Request No.1 Question 5.1 requests medians, means, and histograms for TGVI rates Residential General Service No. 1 and Small Commercial Service No. 1 for the period from September 1, 2006 to August 31, 2007. TGVI, due to problems with the data files, was not able to respond until November 22, 2007.

The Commission notes that TGVI should ensure in the future that its data provider has the ability to provide complete and accurate data in a timely manner for ad-hoc billing data requests. The response provided to Question 5.1 indicates that 46 percent of the new customers installed in the specified data population used less than 30 GJ over 12 months and that 29 percent of the new customers used less than 20 GJ over 12 months. The use per customer consumption may increase after a second heating season has passed. TGVI is encouraged to monitor the use per customer of this and other new customer attachments by comparing the results to the forecast use for each customer.

2.10 O&M Costs, Shared Services and 2007 Mid-year Rate Base

BCOAPO in its Comments notes that TGVI's approved gross O&M costs have exceeded TGVI's actual gross O&M costs in each year, from 2004 through 2007 (the latter on a projected basis), for a cumulative total of approximately \$14.1 million. For 2008 TGVI expects the favourable variance to be \$3.2 million. BCOAPO also notes that the allocation of shared services costs between TGI and TGVI was set in May 31, 2004. The forecast 2007 mid-year rate base is now approximately \$6 million less than that as per the 2006 Settlement Update. BCOAPO understands that the forecast rate base is trued up to actual at the end of the forecast period, and that any variances are credited to the surplus available to repay the RDDA and, as such, ratepayers are held harmless by such treatment.

TGVI in its response notes that no issues were raised by BCOAPO with respect to rate proposals for 2008 or any other items addressed in Exhibit B-7 or included in TGVI's application.

2.11 Extension of Settlement Agreement beyond December 31, 2009

BCOAPO in its Comments states that in the context of Commission Order No. G-34-07 and the current framework in place, BCOAPO's main concern is not with the current filing but rather that the Settlement Agreement not be extended beyond December 31, 2009. BCOAPO submits that rates effective for January 2010 should be set pursuant to a comprehensive cost of service filing for a 2010 test year that would recognize the actual lower O&M costs that TGV I has realized, review of the allocation of shared services between TGI and TGV I, and suitable updates of cost of service items.

TGV I in its Reply Comments states that the utility plans to discuss the possibility of an extension of the Settlement Agreement with stakeholders in the first quarter of 2008 and will determine at that time whether there is sufficient stakeholder interest in convening a workshop on the matter.

2.12 Future RDDA Recovery

BC Hydro's Comments relates specifically to the possible continued existence of TGV I's RDDA in its current form after TGV I's Revenue Deficiency is fully recovered. At the Settlement Update Meeting on November 13, 2007, TGV I confirmed that it is likely that the Revenue Deficiency will be fully recovered at the end of 2009. BC Hydro notes that at the Settlement Update Meeting, TGV I put forth the suggestion that after fully recovering the RDDA, there might be a benefit to continue the collection and allocation of revenues to the RDDA over the two years 2010 and 2011, to reduce rate shock when the royalty revenues are eliminated at the end of 2011. BC Hydro acknowledges that TGV I has not yet applied for the continuation of the collection of revenues after the RDDA is fully recovered. BC Hydro does not consider it acceptable that the RDDA should continue to collect revenues from core and transportation customers after the Revenue Deficiency is fully recovered and then be used to cushion rate shock arising from the loss of royalty revenues to core customers. BC Hydro believes that TGV I should apply for the creation of a new deferral account and explicitly define the methodology by which customer revenue would be forecast and allocated to the account.

TGV I in its Reply Comments states while the utility is considering the options available to mitigate the Royalty Revenue loss in 2012 it has made no submission regarding this matter. TGV I anticipates it would consult with BC Hydro and other stakeholders before filing an application that includes such mechanism.

2.13 Future Revision to Rates Effective April 1, 2008

TGVI in its Undertakings Submission notes that on November 16, 2007 BC Hydro submitted its application to change rates resulting from Commission Order No. G-111-07 with respect to the BC Hydro Rate Design Application. Included in the BC Hydro rate application are rate changes to be effective April 1, 2008. However, TGVI has not revised its 2008 rate proposals in the Revised Application to address the proposed BC Hydro rate changes. TGVI notes that the rate changes proposed will increase the electric equivalent rate for residential customers and decrease the electric equivalent rate for small commercial customers to be used in TGVI's soft-cap mechanism. As these BC Hydro rate changes have not yet been approved, and when approved will be effective April 1, 2008, TGVI intends to file an application with the Commission after the Commission has made its determination with respect to BC Hydro's proposals. TGVI proposes to make its resulting rate proposals effective April 1, 2008.