

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-192-08

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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 2009 Rates, 2009 Cost of Service and
Revenue Deficiency Deferral Account Balance as at December 31, 2007**

BEFORE: L.F. Kelsey, Commissioner
P.E. Vivian, Commissioner December 11, 2008
D.A. Cote, Commissioner

O R D E R

WHEREAS:

- A. The British Columbia Utilities Commission (the "Commission"), by Order G-143-08 dated September 25, 2008, set out the Regulatory Timetable for the Terasen Gas (Vancouver Island) Inc. ("TGVI") filing of its 2008 Settlement Update Material, information requests, responses, the 2008 Settlement Update Meeting, undertaking responses from TGVI, Participant comments, and TGVI Reply comments; and
- B. On October 8, 2008, TGVI filed its 2008 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 (the "Settlement Agreement") as approved by Commission Order 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 2009 Rates, 2009 Cost of Service, and the Revenue Deficiency Deferral Account ("RDDA") balance as at December 31, 2007; and
- C. The Application also requested approval of proposals to deal with the event that the pipeline project to Whistler is energized in 2009 and conversion of the Terasen Gas (Whistler) Inc. ("Terasen Whistler") system is complete such that natural gas is flowing prior to year end. The Application also requested deferral account treatment for incremental costs associated with the implementation of International Financial Reporting Standards ("IFRS") to be amortized beginning in 2011, deferral account treatment of incremental costs for Olympic and Paralympic Games Security to be amortized beginning in 2011 and a new deferral account to record any surplus collected in excess of the amount required to reduce the RDDA to zero; and
- D. On October 17, 2008 TGVI filed a Revised Settlement Update Application (the "Revised Application") that corrected errors in the Application, revised the proposed 2009 transportation tolls for British Columbia Hydro and Power Authority ("BC Hydro") and Terasen Whistler and revised the forecast 2009 Revenue Requirements and 2009 Forecast Revenue. Rate changes for the core market are set in accordance with the

soft cap methodology that considers alternate fuels as specified in Item 17 of the Settlement Agreement and are unchanged in the Revised Application; and

- E. On November 3, 2008, TGVl filed an Errata to Table 8.2.1 on page 53 of the Revised Application. The changes to Table 8.2.1 do not affect the remainder of the Revised Application; and
- F. The TGVl 2008 Settlement Update Meeting was held on November 7, 2008. The TGVl 2008 Settlement Update Meeting was held jointly with the Terasen Gas Inc. ("TGI") 2008 Annual Review. Subsequently, TGVl provided a response to undertakings ("Undertakings Submission") on November 19, 2008 responding to issues raised in the meeting. The Undertakings Submission addressed the legislation or agreements affected when the RDDA is retired, details on the retirement of equipment on customer premises and confirmed that following the Commission's setting of the benchmark allowed Return on Equity ("ROE") for 2009 TGVl will revise its Application and rate proposals; and
- G. On November 25, 2008, BC Hydro submitted its Comments and requested that the Commission direct TGVl to develop a mechanism, that in the event full RDDA recovery and over-collection occurs, would include refunds to transmission customers based on their respective contributions to the over-collection; and
- H. On November 26, 2008, the British Columbia Old Age Pensioners' Organization *et al.* ("BCOAPO") submitted its comments wherein the main concern was not with the current filing but that the Settlement Agreement should not be extended beyond December 31, 2009. BCOAPO commented that the approved amounts for gross Operating, Maintenance and General and Administrative expenses ("O&M") in the Settlement Agreement from 2004 to 2007 have exceeded the actual results. BCOAPO also argued that with the pipeline to Whistler not expected to be in service until the end of May 2009 that the inclusion of this pipeline in rate base should not have a full-year impact of this asset on rates in 2009. BCOAPO also submitted that it did not support BC Hydro's proposed RDDA mechanism but that a process would be required to establish the actual allocation of any account surplus; and
- I. On December 3, 2008, TGVl provided its Reply Comments. With its Reply Comments, TGVl amended its Revised Application (the "Updated Application") to update the 2009 ROE for TGVl to 9.17 percent in response to the Commission setting the benchmark ROE at 8.47 percent pursuant to Commission Letter L-55-08. The change in 2009 ROE did not change the proposed 2009 core market rates but made a modest revision to the Firm and Interruptible Transportation rate proposals as shown in Schedules 28D to 28F. TGVl agreed with the BCOAPO's position that nothing practical would be gained by following BC Hydro's proposed RDDA refund mechanism. TGVl argued that any RDDA disposition should wait until TGVl's 2010 Revenue Requirements and Rate Design application is filed in the spring of 2009. TGVl submitted that the treatment of approved and actual gross O&M has been in accordance with the Settlement Agreement. TGVl stated that the 2009 customer rate proposals were made without including the costs associated with the new pipeline; and

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- J. On December 9, 2008, TGVl submitted a Supplemental Filing to the Updated Application, which identified the Terasen Whistler Firm Transportation rate; and
- K. The Commission has reviewed the Revised Application, the Updated Application, the Supplemental Filing and the comments received.

NOW THEREFORE pursuant to sections 23, 60, and 61 of the Act the Commission orders the following for TGVl:

1. The Commission approves as filed in the Revised Application and unchanged in the Updated Application, the December 31, 2007 year-end balance in the Revenue Deficiency Deferral Account in the amount of \$27,907,609.
2. The Commission approves the permanent rates, effective January 1, 2009, for RGS, AGS, SCS-1, SCS-2, LCS-1, LCS-2, LCS-3, LCS-13, HLF, and ILF rates classes as proposed in Schedules 28D and 28E of the Updated Application. The Commission also approves permanent rates effective January 1, 2009 for Firm Transportation ("FT"), summer Interruptible Transportation ("IT"), and winter IT rates as proposed in Schedule 28F of the Updated Application.
3. The Commission also approves the permanent rate for Firm Transportation to Terasen Whistler as calculated in the Supplemental Filing.
4. The Commission approves the forecast Cost of Service and Revenues for 2009 as filed in the Updated Application.
5. The Commission approves the proposals to deal with the event that the pipeline project to Whistler is energized in 2009 and conversion of the Terasen Whistler system is complete such that natural gas is flowing prior to year end as contained in Section 2 of the Application.
6. The Commission approves the recording of the incremental costs in the requested IFRS deferral account and the Olympic and Paralympic Games deferral account.
7. TGVl is to track the monthly activity in RDDA and when the account has reached a projected year-end actual zero balance, TGVl is to file, within 30 days, a proposal to the Commission for the disposition of the surplus collected along with recommended rate changes. TGVl is to provide a copy of the proposal to the Intervenor that have registered for the 2008 Settlement Update Meeting.

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8. The Commission approves the allowable capital expenditures forecast for 2009, 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 Updated Application.
9. TGVI is to inform all affected customers of the January 1, 2009 permanent rates by way of a bill insert or customer notice, to be submitted to the Commission in draft form prior to its release.
10. The Commission will accept, subject to timely filing, amended Gas Tariff rate schedules in accordance with the terms of this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of December 2008.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner