

**ORDER
NUMBER** G-35-09

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and

BEFORE: P.E. Vivian, Panel Chair
A.J. Pullman, Commissioner
M.R. Harle, Commissioner

April 7, 2009

ORDER

WHEREAS:

- A. On October 3, 2008, Terasen Gas (Whistler) Inc. ("Terasen Whistler" or "TGW") applied to the British Columbia Utilities Commission (the "Commission") for adjustment to its rates effective January 1, 2009 and for approval of a Return on Equity ("ROE") and Capital Structure and
- B. Commission Order G-14-04 approved TGW's negotiated settlement (the "Settlement Agreement") of its 2004-2005 Revenue Requirement, which set rates for the two years and established the treatment of various deferral accounts over the term of the Settlement Agreement; and
- C. Commission Order C-3-06 granted a Certificate of Public Convenience and Necessity to construct the Whistler Pipeline and convert Terasen Whistler's propane system to natural gas and also granted permission to discontinue propane service to Whistler when natural gas service was fully in place; and
- D. Commission Order G-146-07 approved TGW's continuation of the 2007 rates and the Rider 'A' adjustment mechanism effective January 1, 2008 and the recording of variances in the Interest Rate Differential deferral account, the Property Tax deferral account, the Sales Margin Differential deferral account and the Deferred Return on Equity variance account for 2008 activity compared to 2007 as established in Order G-14-04 and continued by Order G-172-06 ; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-35-09

- E. Commission Order G-146-07 also approved the establishment of a non-rate base, non-interest bearing deferral account for consulting costs regarding Terasen Whistler's capital structure and ROE to be included in Terasen Whistler's next ROE application; and
- F. The application seeks approval, pursuant to Sections 58, 60 and 61 of the Utilities Commission Act for a permanent reduction to its total bundled variable rates, inclusive of Rate Rider A of \$1.176 per GJ from \$25.459 per GJ to \$24.283 per GJ effective January 1, 2009, and a revenue surplus forecast to be \$0.88 million for 2009 based on the current bundled rate including Rate Rider A; and
- G. As 2009 is a transition period during which there remains uncertainty related to the completion date of the Whistler Pipeline and the conversion schedule of the Terasen Whistler propane system to natural gas, TGW seeks approval for the implementation of transitional deferral accounts for 2009; and
- H. Terasen Whistler also requests that its allowed ROE be set at 75 basis points above the benchmark low-risk utility and that its capital structure for ratemaking purposes be set at 60 percent debt and 40 percent common equity, effective January 1, 2009. Terasen Whistler's current allowed ROE is set at 60 basis points above the benchmark low-risk utility and its capital structure for ratemaking purposes is set at 65 percent debt and 35 percent common equity; and
- I. Terasen Whistler is seeking approval for changes in certain accounting treatments and continuation of certain deferral accounts and proposes to harmonize its system extension and customer connection policies with those of Terasen Gas Inc. ("TGI") and Terasen Gas (Vancouver Island) Inc. ("TGVI"), effective January 1, 2009; and
- J. Commission Order G-172-06 directed Terasen Whistler to consider changing to an unbundled rate structure as part of its next revenue requirements application. Terasen Whistler is requesting Commission approval for unbundling of rates within Terasen Whistler's Gas Tariff and for customer billing purposes, to be effective January 1, 2010, after the completion of the Whistler Pipeline and the conversion of the propane system to natural gas; and
- K. Terasen Whistler considers that a written hearing process followed by a negotiated settlement process is appropriate for review of the Application and proposed a regulatory timetable that included a deadline for Intervenor registration and Intervenor comments regarding the regulatory review process; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-35-09

3

- L. Commission Order G-152-08 established a Regulatory Timetable for the registration of Intervenor and for the preliminary review of the Application. The order also allowed Intervenor to make written submissions on a formal review process. In a letter dated October 30, 2008, the BC Old Age Pensioners' Organization et al. ("BCOAPO") submitted that a public oral hearing is appropriate for the review of the Application and that, in the alternative, a written hearing is preferable to a negotiated settlement process; and
- M. Commission Order G-169-08 established the current customer rates inclusive of Rate Rider 'A' as interim and refundable, effective January 1, 2009, a written hearing process and a regulatory timetable for the review of the Application;
- N. In a letter dated November 21, 2008, Terasen Whistler updated its application to address four cost of service related items (conversion costs, overheads capitalized, income tax refund and IFRS costs) as well as two tariff related matters. As a result of the updates Terasen Whistler requests a permanent reduction to its total bundled variable rates, inclusive of Rate Rider A of \$1.537 per GJ from \$25.459 per GJ to \$23.922 per GJ effective January 1, 2009, and a revenue surplus forecast to be \$1.149 million for 2009 based on the current bundled rate including Rate Rider A. Terasen Whistler also proposed to refund the difference between interim rates and permanent rates by way of a rate rider (the original application and the amended application are referred to as the "Application"); and
- O. The review of the Application included two rounds of Information Requests; and
- P. The Commission has considered the Application and evidence all as set for the in the Decision issued concurrently with this Order.

NOW THEREFORE pursuant to Sections 58, 60 and 61 of the Utilities Commission Act, The Commission Panel orders for TGW with Reasons for Decision attached as Appendix A to this Order:

1. The requested permanent reduction to Terasen Whistler's total bundled variable rates, inclusive of Rate Rider A of \$1.537 per GJ from \$25.459 per GJ to \$23.922 per GJ effective January 1, 2009, and a revenue surplus forecast to be \$1.149 million for 2009 based on the current bundled rate including Rate Rider A are not approved as filed.
2. The Commission Panel accepts the 2009 forecast for new customer additions and use per customer. The Commission Panel approves the 2009 forecast pant additions of \$2,190,800, capitalized overhead expenditures of \$163,200, retirements of \$18,000 and depreciation expense of \$501,200.
3. Commission Panel approves the following deferral accounts upon the terms set out in the Amended Application, as proposed by TGW:

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-35-09

4

- (a) Gas Cost Reconciliation Account;
 - (b) Interest Rate Differential;
 - (c) Property Tax Differential;
 - (d) Sales Margin Differential;
 - (e) 2010 Olympic and Paralympic Games;
 - (f) International Financial Reporting Standards;
 - (g) Income Tax Deferral Account;
 - (h) Transitional 2009 ROE Variance Account;
 - (i) Capital Contribution to TGI;
 - (j) Natural Gas Pipeline Development Costs (1997);
 - (k) Natural Gas Pipeline Development Costs (2006);
 - (l) Propane to Natural Gas Conversion Costs (Customer Appliances);
 - (m) Capital Gain on Sale of Propane Land & Propane Asset Decommissioning;
 - (n) Non-Rate Base Future Revenue Requirements (Capital Structure & ROW); and
 - (o) Deferred ROE Variance (2005, 2007) & (2008).
4. Commission Panel directs TGW to charge all property taxes relating to the Propane Plant in respect of the period after final conversion to the Propane Asset Decommissioning deferral account and to include in its next revenue requirement application a report on whether following decommissioning of the propane plant the variations in property taxes are expected to be significant enough to warrant the retention of the deferral account.
5. Commission Panel accepts TGW's request to defer amounts in respect of conversion costs on a gross basis and directs TGW to reduce the amount deferred by \$1.076 million being the amount of prior year's losses available for "carry back" at the start of 2009.
6. The Commission Panel approves the inclusion of the maximum permissible recoverable cost for the Conversion Project at \$6.231 million.
7. The Commission Panel accepts TGW's 2009 forecast mid-year rate base of \$38,816,000.
8. Commission Panel accepts the forecasted revenues for TGW as set out in the Application.
9. The Commission Panel approves the following:
- (a) The management by TGI of the natural gas supply requirements of TGW during the 2008-2009 gas contracting year together with an allocation of the actual incurred cost of the natural gas volumes provided to TGW, including midstream costs;
 - (b) The continued management by TGI of the natural gas requirements of TGW from November 1, 2009 onwards, upon substantially the same terms as above in (a);

- (c) The complete amalgamation of the TGW and TGI gas portfolios in 2010 as set out in the Application, including the discontinuance of the requirement to submit a separate price risk management and supplier contracts; and
 - (d) TGW's 2009 forecast cost of gas.
10. The Commission Panel directs TGW to establish unbundled rates upon the later of January 1, 2010 or completion of the Conversion Project.
11. The Commission Panel approves the cost forecasts in the Application for:
- (a) Operations, maintenance and administration;
 - (b) Transportation charges; and
 - (c) Cost of own use gas.
12. The Commission Panel approves the forecast Income Tax refund of \$344,000 and the forecasts Property Tax in the Application.
13. Commission Panel approves for TGW a capital structure comprised 40 percent common equity and 60 percent debt.
14. Commission Panel orders that the ROE for TGW be established at 50 basis points over the benchmark low-risk utility.
15. The Commission Panel approves TGW's request to recover any potential difference between interim rates and permanent rates by way of a rate rider.
16. The Commission Panel approves the following:
- (a) TGW's proposal to adopt an \$85 Application Fee for new installations and a \$25 fee for existing installations;
 - (b) TGW's proposal to adopt the TGI and TGI Service Line Cost Allowance of \$1,535 (other than duplex) and \$3,070 (duplex);
 - (c) TGW's proposal to adopt the TGI -TGI Main Extension ("MX") Test;
 - (d) TGW's proposal to maintain a Profitability Index threshold of 1.0 for each main extension and to evaluate the MX tests on an individual basis rather than on an aggregated basis; and
 - (e) TGW's proposal to provide incentives to install high efficiency gas appliances;
17. The Commission Panel approves TGW's proposed changes to its Tariff.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-35-09

6

18. The Commission will accept, subject to timely filing, amended Gas Tariff rate schedules and full supporting regulatory financial schedules in accordance with the terms of this Order.
19. Terasen Whistler is to refund the difference between the 2009 interim rates inclusive of Rate Rider A and the permanent rates with interest at the average prime rate of Terasen Whistler's principal bank as set out in a Commission Order that establishes permanent rates.
20. TGW is to inform all affected customers of the final rates by way of a bill insert or customer notice, to be submitted to the Commission in draft form prior to its release.
21. TGW 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 7th day of April 2009.

BY ORDER

Original signed by:

P.E. Vivian
Panel Chair and Commissioner