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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-39-14

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**IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

and

**FortisBC Energy Inc.
Application regarding 2014 First Quarter Gas Cost Report and
Rate Changes effective April 1, 2014 for the Fort Nelson Service Area**

BEFORE: L.F. Kelsey, Commissioner
C.A. Brown, Commissioner
R.D. Revel, Commissioner
C. van Wermeskerken, Commissioner
March 13, 2014

O R D E R

WHEREAS:

- A. The British Columbia Utilities Commission (Commission) established guidelines for gas cost rates setting in Letter L-5-01 dated February 5, 2001, and further modified the guidelines in Letter L-40-11 dated May 19, 2011 (together the Guidelines);
- B. The gas cost setting mechanism described in the Guidelines sets rates at a level required to ensure recovery of projected gas costs and outstanding balances in the gas cost deferral account over the 12 month period following the effective date;
- C. By Order G-203-13 dated November 28, 2013, the Commission approved the Gas Cost Recovery Charge of \$2.846 per gigajoule (GJ) for the Fort Nelson Service Area, effective January 1, 2014;
- D. On March 5, 2014, FortisBC Energy Inc. (FEI) filed its 2014 First Quarter Report on the Gas Cost Reconciliation Account (GCRA) balance and Gas Cost Recovery Charges for the Fort Nelson Service Area effective April 1, 2014, that were based on the five-day average of the February 12, 13, 14, 18, and 19, 2014 forward gas prices (2014 First Quarter Report);
- E. The 2014 First Quarter Report forecasts that gas cost recoveries at current rates would be 59.6 percent of costs for the following 12 months and the indicative rate change that would be required to ensure projected gas costs and outstanding deferral account balances are recovered over that period is an increase of \$1.929/GJ;
- F. The requested increase of \$1.929/GJ to the Gas Cost Recovery Charge would be equivalent to an increase of approximately \$270 or 33.3 percent for a typical Fort Nelson residential customer's annual bill based on an average annual consumption of 140 GJ;

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- G. In the 2014 First Quarter Report FEI provided an alternative scenario in which it forecasts that gas cost recoveries at current rates would be 66.8 percent of costs for the following 24 months, and requests approval, based on the 24 month amortization, for an increase of \$1.417/GJ in the Gas Cost Recovery Charge for natural gas customers in the Fort Nelson Service Area, effective April 1, 2014;
- H. FEI requests that the forecast gas cost information in Section 1, Tab 5 of the Application be held confidential on the basis that it contains market sensitive information; and
- I. The Commission reviewed the 2014 First Quarter Report and the requested rate change and determines that the requested rate change should be denied and the rate change based on a 12 month recovery period as described in the Guidelines should be approved.

NOW THEREFORE pursuant to section 61(4) of the *Utilities Commission Act*, and for the Reasons attached as Appendix A, the British Columbia Utilities Commission orders as follows:

- 1. The requested increase of \$1.417/GJ in the Gas Cost Recovery Charge for the Fort Nelson Service Area is denied.
- 2. FortisBC Energy Inc. is directed to increase the Gas Cost Recovery Charge for Fort Nelson Service Area by \$1.929/GJ to \$4.775/GJ effective April 1, 2014.
- 3. FortisBC Energy Inc. must notify all customers that are affected by the rate change with a bill insert or bill message to be included with the next monthly gas billing, to be submitted to the Commission prior to its release.
- 4. The Commission will hold the information in Section 1, Tab 5 of the Application confidential.

DATED at the City of Vancouver, in the Province of British Columbia, this 13th day of March 2014.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

FortisBC Energy Inc.
Application regarding 2014 First Quarter Gas Cost Report and
Rate Changes effective April 1, 2014 for the Fort Nelson Service Area

REASONS FOR DECISION

1.0 BACKGROUND

FortisBC Energy Inc. (FEI) is required to report its Gas Cost Reconciliation Account (GCRA) performance on a quarterly basis for the Fort Nelson Service Area. The GCRA balances are reviewed and adjusted quarterly as required.

The Commission's guidelines for gas cost rates setting were originally established in Commission Letter L-5-01 dated February 5, 2001, and further modified in Commission Letter L-40-11 dated May 19, 2011 (together the Guidelines). The Guidelines were established in 2001 in response to high gas prices and the need to change rates more frequently than once per year to ensure significant deficits were not accumulated in gas cost deferral accounts in times of rising prices. In establishing the Guidelines in L-5-01 the Commission took into account rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process.

The methodology set out in the Guidelines determines a commodity rate change to recover projected gas costs and outstanding GCRA deferral account balances over a 12 month period based on forward prices for the period.

2.0 FEI REQUESTED RATE CHANGE

FEI filed its Fort Nelson Service Area GCRA Quarterly Gas Costs 2014 First Quarter Report (2014 First Quarter Report) on March 5, 2014, and in the 2014 First Quarter Report FEI presents two scenarios for determining the Commodity Cost Recovery Charge rate change to be effective April 1, 2014. The first scenario (Scenario One), based on the 12 month amortization period established in the Guidelines, projects a rate increase of \$1.929/GJ and the second scenario (Scenario Two), based on a 24 month amortization period, projects a rate increase of \$1.417/GJ.

Given that the current forward prices for the 12 months beyond March 31, 2015 show a return to lower market prices, FEI estimates that under Scenario One a subsequent rate decrease is projected for January 2015. In the interests of providing customers with longer term rate stability FEI requests that the lower rate increase determined in Scenario Two be approved.

3.0 COMMISSION DETERMINATION

As noted in the Letter L-40-11, the Commission retains the discretion to deviate from the mechanistic approach to quarterly gas cost rate adjustment and "consideration will be given to factors such as the current deferral balances, and based on the forecast costs, the appropriateness of any rate proposals over a 24 month timeframe."

Although longer term forward prices show a return to lower levels, as noted by FEI, natural gas storage levels in North America are at unusually low levels exiting the winter heating season. The current situation is such that any number of factors, including additional cold weather over the remainder of the heating season, warmer than normal summer weather,

facility outage or other factors that may impact natural gas markets, have a greater potential than usual to result in higher market prices in the shorter term.

Based on the foregoing factors, the Commission sees no compelling reason to depart from the standard commodity rate setting mechanism set out in the Guidelines at this time. **The requested increase of \$0.868/GJ to the Commodity Cost Recovery Charge is denied. FEI is directed to flow-through an increase in the amount of \$1.368/GJ to the Commodity Cost Recovery Charge from \$3.272/GJ to a rate of \$4.640/GJ for the sales rate classes within the Lower Mainland, Inland, and Columbia Service Areas effective April 1, 2014.**