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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-43-14**

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

and

**Pacific Northern Gas Ltd.
Application regarding Natural Gas Commodity Charges effective April 1, 2014
for the PNG-West and Granisle Service Areas**

BEFORE: L.F. Kelsey, Commissioner
C.A. Brown, Commissioner
B.A. Magnan, Commissioner March 20, 2014
D.M. Morton, Commissioner
N.E. MacMurchy, Commissioner
C. van Wermeskerken, Commissioner

ORDER

WHEREAS:

- A. On March 7, 2014, Pacific Northern Gas Ltd. (PNG, PNG-West) filed with the British Columbia Utilities Commission (Commission) its 2014 First Quarter Report on gas supply costs and Gas Cost Variance Account (GCVA) balances for PNG-West and Granisle, based on forecast natural gas prices using the average of five consecutive days forward price forecasts ending March 5, 2014, and forecast propane prices obtained from PNG's propane supplier on March 4, 2014 (the Report);
- B. On March 13, 2014, PNG filed supplementary information to the Report;
- C. On March 14, 2014, PNG amended Table 4 of the Report to correct a data error for PNG-West;
- D. By Letter L-40-11, the Commission set out a guideline trigger mechanism and rate methodology (Guidelines) that have generally been adopted by natural gas and propane utilities including PNG;
- E. For PNG-West, the Commission, by Order G-135-13, established the current gas commodity rates, GCVA commodity rate rider, and Company Use GCVA gas cost rate rider;
- F. For PNG-West, the PNG Report forecasts that the ratio (Revenue to Cost Ratio, R/C Ratio) of gas commodity cost recoveries at current rates to forecast gas commodity costs over the following 12 months would be 0.638, which is outside the established 0.95 to 1.05 dead band range and the indicated rate changes are greater than the \$0.50/gigajoule (GJ) minimum threshold;

- G. For PNG-West, PNG requests approval for the PNG-West Division to increase gas commodity rates, effective April 1, 2014, to be limited such that they result in a R/C Ratio of 0.95 to mitigate commodity rate increases and to provide relief to customers;
- H. For PNG-West, PNG's proposal to partially increase the gas commodity rates such that they result in a R/C Ratio of 0.95 would be \$0.275/GJ less than the indicative gas commodity rates of a R/C Ratio of 1.00;
- I. For PNG-West, PNG requests approval to increase the GCVA commodity debit rate rider from \$0.070/GJ to \$0.487/GJ and to increase the Company Use GCVA gas cost credit rate rider from \$0.017/GJ to a debit rate rider of \$0.008/GJ, effective April 1, 2014;
- J. For PNG-West, Order G-215-13 established the current Company Use gas cost delivery rate and Company Use gas commodity price used for deferral accounting purposes;
- K. For PNG-West, PNG recommends maintaining the current Company Use gas cost delivery rate of \$0.067/GJ and maintaining the Company Use gas commodity price used for price deferral accounting purposes of \$3.253/GJ, effective April 1, 2014;
- L. Based on the Guidelines to set the indicative gas commodity rate to a R/C Ratio of 1.00, the net impact on a PNG-West residential customer is a rate increase of \$2.048/GJ, effective April 1, 2014, which is equivalent to an overall increase of approximately \$145 or 10.8 percent per year for a typical PNG-West residential customer's annual bill based on an average annual consumption of 71 GJ;
- M. For Granisle, Order G-215-13 established the current propane commodity rate and the GCVA commodity rate rider;
- N. For Granisle, the PNG Report forecasts that the ratio of propane commodity cost recoveries at current rates to forecast propane commodity costs over the following 12 months would be 0.961, which is within the established 0.95 to 1.05 dead band range. PNG recommends that no changes be made to the current propane commodity rate and the GCVA commodity rate rider; and
- O. The Commission reviewed the Report with the Guidelines and determines that PNG's proposal to set the gas commodity rates for the PNG-West Division such that they result in an R/C Ratio of 0.95 should be denied. In consideration of the evidence presented by PNG, the Commission finds no compelling reasons to depart from the Guidelines as PNG did not provide any market analysis to support its recommended gas commodity rates and the Commission finds that gas commodity rates should reflect proper price signals to customers.

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NOW THEREFORE pursuant to section 61(4) of the *Utilities Commission Act*, the British Columbia Utilities Commission (Commission) orders the following:

1. In the Pacific Northern Gas Ltd. (PNG) West Division, for the Reasons attached as Appendix A to this Order, PNG's proposal to set the gas commodity rates such that they result in Revenue to Cost Ratio (R/C Ratio) of 0.95 is denied.
2. In the PNG-West Division, for the Reasons attached as Appendix A to this Order, an increase of the indicative (R/C Ratio of 1.00) gas commodity charges to \$5.106/GJ, \$5.076/GJ, \$4.757/GJ, \$4.457/GJ, \$4.560/GJ and \$4.592/GJ for the residential (RS1), commercial firm (RS2/RS3), small industrial (RS4), commercial interruptible (RS5), seasonal off peak (RS6) and natural gas vehicle (RS7) sales customers, respectively, effective April 1, 2014, is approved.
3. In the PNG-West Division, an increase of the Gas Cost Variance Account (GCVA) commodity debit rate rider from \$0.070/GJ to \$0.487/GJ and an increase of the Company Use GCVA gas cost credit rate rider from \$0.017/GJ to a debit rate rider of \$0.008/GJ, effective April 1, 2014, is approved.
4. In the PNG-West Division, no change to the current Company Use gas cost delivery rate of \$0.067/GJ and no change to the current Company Use gas commodity price of \$3.253/GJ, used for price deferral accounting purposes, effective April 1, 2014, is approved.
5. In Granisle, no change to the current propane commodity rate of \$20.656/GJ and no change to the GCVA commodity credit rate rider of \$0.121/GJ, effective April 1, 2014, is approved.
6. PNG must notify all affected PNG-West customers of the rate change by way of a bill insert or bill message to be submitted to the Commission for review prior to its release with the next monthly gas billing.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of March 2014.

BY ORDER

Original signed by:

D.M. Morton
Commissioner

Attachment

An Application by Pacific Northern Gas Ltd.
regarding Natural Gas Commodity Charges effective April 1, 2014
for the PNG-West and Granisle Service Areas

REASONS FOR DECISION

1.0 INTRODUCTION

Pacific Northern Gas Ltd. (PNG, PNG-West) reports its gas supply cost and Gas Cost Variance Account (GCVA) balance for PNG-West and Granisle generally on a quarterly basis with the British Columbia Utilities Commission (Commission). The gas commodity rates and the GCVA balance are reviewed and adjusted as required.

The Commission's guidelines for gas cost rate 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.

This Reasons for Decision relates to PNG's requested gas commodity rate change for PNG-West as it varies from the methodology as established by the Guidelines.

2.0 PNG REQUESTED RATE CHANGE

On March 7, 2014, PNG filed its 2014 First Quarter Report on gas supply costs and GCVA balances for PNG-West and Granisle.

For PNG-West, PNG in the Report forecasts that the ratio (Revenue to Cost Ratio, R/C Ratio) of gas commodity cost recoveries at current rates to forecast gas commodity costs over the following 12 months would be 0.638 which is outside the established 0.95 to 1.05 dead band range and the indicated rate changes are greater than the \$0.50/gigajoule (GJ) minimum threshold.

PNG requests approval for the PNG-West Division to increase gas commodity rates, effective April 1, 2014, to be limited such that they result in an R/C Ratio of 0.95. In the Report, PNG states:

"... in order to mitigate the significant commodity rate increases and to provide some relief to customers while complying with the Commission guidelines for setting gas recovery rates as per Letter L-5-01, PNG is recommending that the gas commodity rate increases be limited such that they result in a R/C ratio of 0.95."

PNG's proposal to partially increase the gas commodity rates such that they result in an R/C Ratio of 0.95 would be \$0.275/GJ less than the indicative gas commodity rates of an R/C Ratio of 1.00.

3.0 COMMISSION DETERMINATION

The Commission reviewed the Report with the Guidelines and denies PNG's proposal to set the gas commodity rates for the PNG-West Division such that they result in an R/C Ratio of 0.95. While the Commission in Letter L-40-11 accepted that the Guidelines should be applied in a flexible manner, considering the full circumstances prevailing at the time when a quarterly report is under review, the Commission considers that the R/C Ratio should be reset to 1.00 for the following reasons.

- First, the Commission view that limiting the R/C Ratio to 0.95 would provide a commodity rate that does not reflect proper price signals to customers. Letters L-5-01 and L-40-11 mentioned the desire of price transparency and appropriate price signals to customers in the gas cost recovery rates.
- Second, the Commission considers that the purpose of the ± 5 percent is a rate trigger mechanism. The R/C Ratio reset is not a discretionary band.
- Third, with respect to Guidelines flexibility, the Commission, in Letter L-40-11, states that the Guidelines should be applied in a flexible manner, considering the full circumstances prevailing at the time. PNG's recommendation of 0.95 R/C Ratio is not supported by a commentary regarding these market factors.

Accordingly, in consideration of the evidence as presented by PNG, the Commission finds no compelling reasons to depart from the Guidelines. The Commission denies PNG's proposal to set the gas commodity rates such that they result in R/C Ratio of 0.95.

In the PNG-West Division, PNG is directed to increase by the indicative (R/C Ratio of 1.00) gas commodity charges to \$5.106/GJ, \$5.076/GJ, \$4.757/GJ, \$4.457/GJ, \$4.560/GJ and \$4.592/GJ for the residential (RS1), commercial firm (RS2/RS3), small industrial (RS4), commercial interruptible (RS5), seasonal off peak (RS6) and natural gas vehicle (RS7) sales customers, respectively, effective April 1, 2014.