

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-40-15

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

**FortisBC Energy Inc.
Application regarding 2015 First Quarter Gas Cost Report and
Rate Changes effective April 1, 2015 for the Fort Nelson Service Area**

BEFORE:

L. F. Kelsey, Commissioner
C. A. Brown, Commissioner
H. G. Harowitz, Commissioner
K. A. Keilty, Commissioner
N. E. MacMurchy, Commissioner
B. A. Magnan, Commissioner
D. M. Morton, Commissioner

March 12, 2015

O R D E R

WHEREAS:

- A. The British Columbia Utilities Commission (Commission) established guidelines for gas cost rate 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-135-14 dated September 11, 2014, the Commission approved the Gas Cost Recovery Charge for the FortisBC Energy Inc. (FEI) Fort Nelson Service Area, effective October 1, 2014;
- D. On March 5, 2015, FEI filed its 2015 First Quarter Report on the Gas Cost Reconciliation Account (GCRA) balance and Gas Cost Recovery Charge for the Fort Nelson Service Area effective April 1, 2015, that were based on the five-day average of the February 11, 12, 13, 17, and 18, 2015 forward gas prices (2015 First Quarter Report), and discusses two scenarios for a rate change;
- E. The first scenario in the 2015 First Quarter Report forecasts that commodity cost recoveries at the existing rate will be 165.1 percent of costs for the following 12 months, which exceeds the 95 to 105 percent recovery to cost ratio threshold set out in the Guidelines;
- F. The tested rate decrease related to the forecast over recovery of gas costs based on the mechanism set out in the Guidelines would be a decrease of \$1.680/GJ to the Gas Cost Recovery Charge from \$4.259/GJ to \$2.579/GJ effective April 1, 2015. This tested rate decrease also exceeds the minimum \$0.50/GJ threshold set out in the Guidelines indicating that a rate change is required effective April 1, 2015;

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- G. The rate decrease for the first scenario, which is calculated according to the rate setting mechanism set out in the Guidelines, will be equivalent to a decrease of approximately \$235 or 21.4 percent per year for a typical Fort Nelson residential customer's annual bill based on an average annual consumption of 140 GJ;
- H. FEI filed a second scenario in the 2015 First Quarter Report. The proposed rate decrease to forecast over recovery gas costs for a 24 month period rather than the standard 12 month period would be \$1.380/GJ, effective April 1, 2015;
- I. FEI requests approval to flow-through, based on the second scenario, a decrease of \$1.380/GJ to the Gas Cost Recovery Charge from \$4.259/GJ to \$2.879/GJ effective April 1, 2015. FEI's proposed Gas Cost Recovery Charge requested within the 2015 First Quarter Report would be equivalent to a decrease of approximately \$193 or 17.6 percent per year for a typical Fort Nelson residential customer's annual bill based on an average annual consumption of 140 GJ;
- J. FEI requests that the forecast gas cost information in Tab 9 of the Application be held confidential, on the basis that it contains market sensitive information; and
- K. The Commission reviewed the 2015 First Quarter Report and the requested rate change and determines that the requested change should be denied and the rate change based on the 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 rate decrease of \$1.380/GJ in the Gas Cost Recovery Charge for the Fort Nelson Service Area is denied.
- 2. FortisBC Energy Inc. is directed to decrease the Gas Cost Recovery Charge for the Fort Nelson Service Area by \$1.680/GJ to \$2.579/GJ effective April 1, 2015.
- 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.
- 4. The Commission will hold the information in Tab 9 of the Application confidential.

DATED at the City of Vancouver, in the Province of British Columbia, this 16th day of March 2015.

BY ORDER

Original signed by:

D. Morton
Commissioner

Attachment

FortisBC Energy Inc.
Application regarding 2015 First Quarter Gas Cost Report and
Rate Changes effective April 1, 2015 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 British Columbia Utilities Commission (Commission) 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.¹

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 twelve month period based on forward prices for the period. The Guidelines do contemplate 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.”²

2.0 FEI REQUESTED RATE CHANGE

FEI filed its Fort Nelson Service Area GCRA Quarterly Gas Costs 2015 First Quarter Report (2015 First Quarter Report) on March 5, 2015, and in the 2015 First Quarter Report FEI presents two scenarios for determining the Gas Cost Recovery Charge rate change to be effective April 1, 2015. The first scenario, based on the 12 month amortization period established in the Guidelines, projects a rate decrease of \$1.680/GJ and the second scenario, based on a 24 month amortization period, projects a rate decrease of \$1.380/GJ. FEI requests that the Commission approve the rate decrease of \$1.380/GJ.

FEI references the following language in Letter L-40-11 as providing a level of flexibility in dealing with rate change proposals:

The Commission also agrees with FEI 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 intends to consider the full circumstances and other criteria in the review of the commodity and midstream cost recovery rates. As well as the Guideline trigger mechanism and rate methodology, consideration will be given to factors such as current rate deferral balances and, based on the forecast costs, the appropriateness of any rate proposals over a 24-month timeframe.³

FEI provides no elaboration on the “full circumstances and other criteria” that FEI believe the Commission should consider other than to note that FEI expects the 12 month prospective rate will require a rate change in 12 months (i.e. effective

¹ Commission Letter L-5-01 dated February 5, 2001, Appendix H

² Commission Letter L-40-11 dated May 19, 2011, p. 2

³ Commission Letter L-40-11, p. 2

April 1, 2016) whereas the 24 month view produces a smaller rate decrease and may not require an subsequent adjustment for a period somewhat longer period than 12 months.⁴

3.0 COMMISSION DETERMINATION

As described in Letter L-5-01 of the Guidelines, the factors the Commission considers should be balanced in the gas cost rate setting process include rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process. The Commission acknowledges that it retains the discretion to deviate from the mechanistic approach to quarterly gas cost rate adjustment and give consideration 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.”

Based on the information presented, the Commission finds that FEI has not presented a compelling reason to depart from the standard commodity rate setting mechanism set out in the Guidelines at this time. **The requested decrease of 1.380/GJ to the Gas Cost Recovery Charge for the Fort Nelson Service Area is denied. FEI is directed to decrease the Gas Cost Recovery Charge by \$1.680/GJ to \$2.579/GJ effective April 1, 2015.**

⁴ FEI Fort Nelson 2015 First Quarter Gas Cost Report, Figure 1, p. 2