



ORDER NUMBER

G-144-17

IN THE MATTER OF

the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.

Third Quarter 2017 Report on Gas Supply Costs
for PNG-West and Granisle Service Areas

BEFORE:

D. J. Enns, Commissioner
B. A. Magnan, Commissioner
R. D. Revel, Commissioner

on September 21, 2017

ORDER

WHEREAS:

- A. On September 11, 2017, Pacific Northern Gas Ltd. (PNG) filed with the British Columbia Utilities Commission (Commission) its 2017 Third Quarter Report on gas supply costs and Gas Cost Variance Account (GCVA) balances for its PNG-West and Granisle service areas, based on the average of five consecutive days of forward natural gas price forecasts ending September 7, 2017 and propane price forecasts from the forward strip dated September 7, 2017 (the Gas Cost Report);
- B. By Letters L-5-01 and L-40-11, the Commission set out guidelines for a trigger mechanism and rate setting methodology (Guidelines) that have generally been adopted by natural gas and propane utilities including PNG;
- C. The Commission, by Order G-189-16, established the current gas commodity rates, GCVA commodity rate riders, Company Use GCVA rate riders and Company Use delivery rates for PNG-West, effective January 1, 2017. These rates and rate riders were maintained effective April 1, 2017 and July 1, 2017 through Order G-36-17 and Letter L-9-17 respectively. Order G-36-17 also established the current propane commodity rates for Granisle effective April 1, 2017, which were maintained effective July 1, 2017 through L-9-17;
- D. For PNG-West, PNG forecasts the ratio of 12 month forecast gas cost recovery revenue from customers using current rates to the sum of the 12 month forecast gas supply costs and the GCVA balance at September 30, 2017 (R/C Ratio) to be 1.258, which is outside the established 0.95 to 1.05 dead band range. The indicative October 1, 2017 gas cost commodity rate and GCVA rate rider changes required to achieve an R/C Ratio of 1.00 by September 30, 2018 are greater than the \$0.50/GJ threshold set out in the Guidelines. PNG notes that both rate change mechanisms are triggered and that a decrease in gas commodity rates for PNG-West, effective October 1, 2017, is warranted as per the Guidelines;

- E. For PNG-West, the indicative rate changes calculated as per the Guidelines include an increase in the GCVA commodity credit rate rider from \$0.156/GJ to \$0.208/GJ and a change in the Company Use gas price and unaccounted for gas (UAF) volume deferral account GCVA debit rate rider of \$0.031/GJ to a credit rate rider of \$0.042/GJ, effective October 1, 2017;
- F. The net impact of the indicative rate changes in the Gas Cost Report to a PNG-West residential customer is a rate decrease of \$0.626/GJ, effective October 1, 2017. This represents a decrease of approximately \$43.82, or 3.1 percent, for a typical residential customer's annual bill based on current rates with an average annual consumption of 70 GJ;
- G. PNG requests that no commodity rate changes be implemented effective October 1, 2017 for PNG-West. PNG submits that this particular circumstance of indicated commodity rate decreases effective October 1, 2017, and anticipated delivery rate increases coupled with the potential for commodity rate increases effective January 1, 2018, will contribute to significant rate volatility in the months ahead;
- H. For PNG-West, PNG requests to maintain the current Company Use gas cost delivery rate of \$0.067/GJ and the current Company Use gas commodity price of \$2.388/GJ used for deferral accounting purposes, effective October 1, 2017;
- I. For Granisle, PNG forecasts the R/C Ratio to be 0.983, which is within the established 0.95 to 1.05 dead band range. The indicative October 1, 2017 gas cost commodity rate and GCVA rate rider changes required to achieve an R/C Ratio of 1.00 by September 30, 2018 are less than the \$0.50/GJ threshold set out in the Guidelines. PNG recommends that no changes be made to the current Granisle rates since the forecasted R/C Ratio is within the dead-band range and the minimum rate change requirement has not been met;
- J. PNG requests that the information related to the upcoming revenue requirements application be held confidential, on the basis that the public dissemination of the information could prove to be a distraction to PNG's normal course of business; and
- K. The Commission reviewed PNG's Gas Cost Report and considers that, with regards to PNG-West, the application should be denied and the indicative rate changes based on the calculations in accordance with the Guidelines should be approved, and with regards to Granisle, no rate change is warranted at this time.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act* and for the reasons attached as Appendix A, the Commission orders the following, effective October 1, 2017:

1. In the PNG-West service area, the natural gas commodity rates are set as follows:

Customer Rate Class	Commodity Rate
Residential (RS1)	\$2.381/GJ
Commercial Firm (RS2, RS3)	\$2.406/GJ
Small Industrial (RS4)	\$2.251/GJ
Commercial Interruptible (RS5)	\$1.908 /GJ
Seasonal Off Peak (RS6)	\$1.853/GJ
NGV (RS7)	\$1.998/GJ

2. In the PNG-West service area, the Gas Cost Variance Account (GCVA) commodity rate rider is set as a credit rate rider of \$0.208/GJ and the Company Use GCVA rate rider is set as a credit rate rider of \$0.042/GJ.

3. In the PNG-West service area, the Company Use gas cost delivery rate and Company Use commodity price are retained at \$0.067/GJ and \$2.388/GJ respectively.
4. In the Granisle service area, no changes are required to the current propane commodity rate and the GCVA commodity rate rider and they will remain unchanged effective October 1, 2017.
5. PNG must notify all affected customers of the rate changes by way of a bill insert or bill message with the next monthly billing.
6. The Commission will hold the information related to PNG's upcoming revenue requirement application confidential.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of September 2017.

BY ORDER

Original signed by:

B. A. Magnan
Commissioner

Attachment

Pacific Northern Gas Ltd.
Third Quarter 2017 Report on Gas Supply Costs
for PNG-West and Granisle Service Areas

REASONS FOR DECISION

1.0 BACKGROUND

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). 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 the rate setting process.¹

The methodology set out in the Guidelines involves using quarterly reports to determine a commodity rate change to recover projected gas costs and outstanding gas cost deferral account balances over a twelve month period based on forward prices for the period. As outlined in the Guidelines the difference between revenue from the gas cost recovery rates and gas costs incurred accumulates in the gas cost deferral account.

The mechanism for changes to gas commodity rates was established in L-5-01 with a rate adjustment being triggered if the ratio of expected 12 month gas cost recovery revenue to the sum of the expected 12 month gas cost and the gas cost deferral account balance (R/C Ratio) was less than 0.95 or more than 1.05.² In L-40-11, modifications to the mechanism for changes to gas commodity rates included the addition of a minimum rate change threshold. More specifically the “rate change trigger mechanism will be the \pm 5 percent trigger ratio plus a minimum rate change threshold of \pm \$0.50/GJ.”³ The Commission explained that the addition of a second parameter of a minimum \$/GJ rate change threshold value would have the effect of keeping the deadband from becoming too narrow during periods when the price of natural gas remains low, thereby providing slightly more stability to the existing mechanism during low price environments for natural gas. This provided a balance of maintaining manageable deferral balances, providing appropriate price signals to customers, and avoidance of minor gas commodity rate changes in low price environments.

The Guidelines 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.”⁴

2.0 PNG’S REQUEST for PNG-West

On September 11, 2017, Pacific Northern Gas Ltd. (PNG) filed with the Commission its 2017 Third Quarter Report on gas supply costs and Gas Cost Variance Account (GCVA) balances for its PNG-West and Granisle service areas, based on the average of five consecutive days of forward natural gas price forecasts ending September 7, 2017, and propane price forecasts from the forward strip dated September 7, 2017 (the Gas Cost Report).

¹ L-5-01, Appendix I, p. 1.

² L-5-01, Appendix I, p. 2.

³ L-40-11, p. 2.

⁴ Ibid.

The last change to the natural gas commodity rates for the PNG-West service area was an overall rate increase effective January 1, 2017 as established by Order G-189-16. These rates were then maintained through G-36-17 and L-9-17 effective April 1, 2017 and July 1, 2017 respectively.

PNG explains that the underlying analysis in compliance with the rate change mechanism stipulated in the Guidelines indicate a commodity rate decrease effective October 1, 2017 for PNG-West. Contrary to the indications of the analysis, PNG is proposing that no commodity rate changes be implemented effective October 1, 2017 for PNG-West.

PNG explains that its primary concern at this present time is the matter of rate stability and implications to the expected size of the GCVA deferral account. PNG further explains that its forecast revenue requirements for its 2018-2019 revenue requirements application indicate that delivery rate increases will be required effective January 1, 2018. In PNG's view, this particular circumstance of indicative commodity rate decreases effective October 1, 2017, and anticipated delivery rate increases coupled with the potential for commodity rate increases effective January 1, 2018, will contribute to significant rate volatility in the months ahead.

PNG submits that the Guidelines are only guidelines and "not inflexible rules, allowing the utility to retain its discretion in terms of the rate changes requested in any application."⁵

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 the rate setting process.

While rate stability and implications to the expected size of the GCVA deferral account are concerns for PNG and are both considered in the Guidelines, price transparency should also be considered. The Commission determined in L-5-01 that a quarterly process for adjusting gas cost rates provides a good price signal to customers and helps to keep the deferral account at manageable levels.⁶ The minimum \$/GJ rate change threshold value, designed to help provide stability to the mechanism during low price environments, has been exceeded for PNG-West. The Commission notes that gas costs are flow-through costs and finds by leaving rates unchanged effective October 1, 2017, PNG would distort the price signal to customers and further increase deferral account balances for PNG-West, all of which are currently in surplus.

The Commission acknowledges that utilities retain the discretion in terms of the rate changes requested in any application and also acknowledges that the Commission retains the discretion to deviate from the mechanistic approach to quarterly gas cost rate adjustment. However, based on the information presented, the Commission finds that PNG has not presented a compelling reason to depart from the standard commodity rate setting mechanism set out in the Guidelines at this time. **PNG is directed to set the gas cost rates, effective October 1, 2017, as outlined in directives of the order to which this appendix is attached.**

⁵ PNG Third Quarter 2017 Gas Cost Report, p. 2.

⁶ L-5-01, p. 2