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

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-44-14

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

Pacific Northern Gas (N.E.) Ltd.
Application regarding Natural Gas Commodity Charges effective April 1, 2014
for the Fort St. John/Dawson Creek and Tumbler Ridge Service Areas

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

March 20, 2014

O R D E R

WHEREAS:

A. On March 7, 2014, Pacific Northern Gas (N.E.) Ltd. [PNG(N.E.)] 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 its Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge Divisions, based on forecast natural gas prices using the average of five consecutive days forward gas price forecasts ending March 5, 2014 (the Report);

B. On March 13, 2014, PNG filed supplementary information to the Report;

C. 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(N.E.);

D. For the FSJ/DC Division, Order G-136-13 established the current gas commodity rates, GCVA commodity rate rider, and Company Use GCVA gas cost rate rider;

E. For the FSJ/DC Division, PNG(N.E.) in the Report forecasts that the ratio of gas commodity cost recoveries at current rates to forecast gas commodity costs over the following 12 months would be 0.590 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;

F. PNG(N.E.) requests approval for the FSJ/DC Division to increase gas commodity rates, effective April 1, 2014, to be limited such that they result in a Revenue to Cost Ratio (R/C Ratio) of 0.95 to mitigate commodity rate increases and to provide relief to customers;

G. For the FSJ/DC Division, PNG(N.E.)'s proposal to partially increase the gas commodity rates such that they result in a R/C Ratio of 0.95 would be $0.265/GJ less than the indicative gas commodity rates of a R/C Ratio of 1.00;

H. For the FSJ/DC Division, PNG(N.E.) requests approval to increase the GCVA commodity debit rate rider from $0.017/GJ to $0.578/GJ and to increase the Company Use GCVA gas cost credit rate rider from $0.005/GJ to a debit rate rider of $0.023/GJ, effective April 1, 2014;

I. For the FSJ/DC Division, Order G-216-13 established the current Company Use gas cost delivery rate and Company Use gas commodity price used for deferral accounting purposes;

J. PNG(N.E.) requests approval for the FSJ/DC Division to maintain the current Company Use gas cost delivery rate of $0.055/GJ and to maintain the Company Use gas commodity price of $3.236/GJ used for price deferral accounting purposes, effective April 1, 2014;

K. Based on the Guidelines to set the indicative gas commodity rate to a R/C Ratio of 1.00, the net impact on a FSJ/DC residential customer is a rate increase of $2.211/GJ, effective April 1, 2014, which is equivalent to an overall increase of approximately $238 or 24.8 percent per year for a typical FSJ/DC residential customer's annual bill based on an average annual consumption of 108 GJ;

L. For the Tumbler Ridge Division, Order G-216-13 established the current gas commodity rate, GCVA commodity rate rider, Company Use GCVA gas cost rate rider, Company Use gas cost delivery rate and Company Use gas commodity price used for deferral accounting purposes;

M. For the Tumbler Ridge Division, the Report forecasts that the ratio of gas commodity cost recoveries at current rates to forecast gas commodity costs over the following 12 months would be 0.650 which is outside the established 0.95 to 1.05 dead band range and the indicated rate changes are greater than the $0.50/GJ minimum threshold;

N. As with the FSJ/DC Division, PNG(N.E.) requests approval for the Tumbler Ridge 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;

O. For the Tumbler Ridge Division, PNG(N.E.)'s proposal to partially increase the gas commodity rates such that they result in a R/C Ratio of 0.95 would be $0.330/GJ less than the indicative gas commodity rates of a R/C Ratio of 1.00;

P. For the Tumbler Ridge Division, PNG(N.E.) requests approval to increase the GCVA commodity credit rate rider from $0.152/GJ to a debit rate rider of $0.910/GJ and increase the Company Use GCVA gas cost credit rate rider from $0.050/GJ to a debit rate rider of $0.045/GJ, effective April 1, 2014;

Q. PNG(N.E.) requests approval for the Tumbler Ridge Division to maintain the current Company Use gas cost delivery rate of $0.305/GJ and to maintain the Company Use gas commodity price of $4.408/GJ used for price deferral accounting purposes, effective April 1, 2014;

R. Based on the Guidelines to set the indicative gas commodity rate to a R/C Ratio of 1.00, the net impact on a FSJ/DC residential customer is a rate increase of $2.389/GJ, effective April 1, 2014, which is equivalent to an overall increase of approximately $198 or 16.5 percent per year for a typical Tumbler Ridge residential customer's annual bill based on an average annual consumption of 83 GJ; and

S. The Commission reviewed the Report with the Guidelines and determines that PNG(N.E.)'s proposal to set the gas commodity rates for the FSJ/DC and Tumbler Ridge Divisions such that they result in an R/C Ratio of 0.95 should be denied. In consideration of the evidence presented by PNG(N.E.), the Commission finds no compelling reasons to depart from the Guidelines as PNG(N.E.) did not provide any market analysis to support its recommended gas commodity rates and the Commission finds that the gas commodity rates should reflect proper price signals to customers.

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 (N.E.) Ltd. [PNG(N.E.)] Fort St. John/Dawson Creek (FSJ/DC) Division and in the PNG(N.E.) Tumbler Ridge Division, for the Reasons attached as Appendix A to this Order, PNG(N.E.)'s proposals to set the gas commodity rates such that they result in a Revenue to Cost Ratio (R/C Ratio) of 0.95 are denied.

2. In the PNG(N.E.) FSJ/DC 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 $4.735/gigajoule (GJ), $4.727/GJ, $4.704/GJ and $4.556/GJ for the residential (RS1), small commercial (RS2), large commercial firm (RS3) and small industrial sales (RS4) customers, respectively, effective April 1, 2014, is approved.

3. In the PNG(N.E.) FSJ/DC Division, an increase of the Gas Cost Variance Account (GCVA) commodity debit rate rider from $0.017/GJ to $0.578/GJ and an increase of the Company Use GCVA gas cost rate rider from a credit of $0.005/GJ to a debit rate rider of $0.023/GJ, effective April 1, 2014, is approved.

4. In the PNG(N.E.) FSJ/DC Division, no change to the Company Use gas cost delivery rate of $0.055/GJ and no change to the Company Use gas commodity price used for price deferral accounting purposes of $3.236/GJ, effective April 1, 2014, is approved.

5. In the PNG(N.E.) Tumbler Ridge 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 $5.640/GJ for the residential (RS1), small commercial (RS2) and large commercial (RS3) customers, effective April 1, 2014, is approved.

6. In the PNG(N.E.) Tumbler Ridge Division, an increase of the GCVA commodity credit rate rider from $0.152/GJ to a debit rate rider of $0.910/GJ and an increase of the Company Use GCVA gas cost credit rate rider from $0.050/GJ to a debit rate rider of $0.045/GJ, effective April 1, 2014, is approved.

7. In the PNG(N.E.) Tumbler Ridge Division, no change to the Company Use gas cost delivery rate of $0.305/GJ and no change to the Company Use gas commodity price used for price deferral accounting purposes of $4.408/GJ, effective April 1, 2014, is approved.

8. PNG(N.E.) must notify all affected 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

Pacific Northern Gas (N.E.) Ltd.
Application regarding Natural Gas Commodity Charges effective April 1, 2014
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

REASONS FOR DECISION

1.0 INTRODUCTION

Pacific Northern Gas (N.E.) Ltd. [PNG(N.E.)] reports its gas supply cost and Gas Cost Variance Account (GCVA) balance for the Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge Divisions 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(N.E.)'s requested gas commodity rate change for the FSJ/DC and Tumbler Ridge Divisions as they vary from the methodology as established by the Guidelines.

2.0 PNG(N.E.) REQUESTED RATE CHANGE

On March 7, 2014, PNG(N.E.) filed its 2014 First Quarter Report on gas supply costs and GCVA balances for the FSJ/DC and Tumbler Ridge Divisions.

For the FSJ/DC Division, PNG(N.E.) in the Report forecasts that the ratio of gas commodity cost recoveries at current rates to forecast gas commodity costs over the following 12 months would be 0.590 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.

For the Tumbler Ridge Division, PNG(N.E.) in the Report forecasts that the ratio of gas commodity cost recoveries at current rates to forecast gas commodity costs over the following 12 months would be 0.650 which is outside the established 0.95 to 1.05 dead band range and the indicated rate changes are greater than the $0.50/GJ minimum threshold.

For both the FSJ/DC and Tumbler Ridge Divisions, PNG(N.E.) requests approval 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(N.E.) 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(N.E.)'s proposal to partially increase the gas commodity rates such that they result in an R/C Ratio of 0.95 would be $0.265/GJ and $0.330/GJ less than the indicative gas commodity rates of an R/C Ratio of 1.00 for the FSJ/DC Division and the Tumbler Ridge Division, respectively.

3.0 COMMISSION DETERMINATION

The Commission reviewed the Report with the Guidelines and denies PNG(N.E.)'s proposal to set the gas commodity rates for the FSJ/DC and Tumbler Ridge Divisions 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 views 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(N.E.)'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(N.E.)'s proposal to set the gas commodity rates such that they result in R/C Ratio of 0.95.

In the PNG(N.E.) FSJ/DC Division, PNG(N.E) is directed to increase by the indicative (R/C Ratio of 1.00) gas commodity charges to $4.735/gigajoule (GJ), $4.727/GJ, $4.704/GJ and $4.556/GJ for the residential (RS1), small commercial (RS2), large commercial firm (RS3) and small industrial sales (RS4) customers, respectively, effective April 1, 2014.

In the PNG(N.E.) Tumbler Ridge Division, PNG(N.E.) is directed to increase by the indicative (R/C Ratio of 1.00) gas commodity charges to $5.640/GJ for the residential (RS1), small commercial (RS2) and large commercial (RS3) customers, effective April 1, 2014.