



National Energy
Board

Office national
de l'énergie

Reasons for Decision

BC Gas Utility Ltd.

RH-2-2001

October 2001

Tolls

File 4775-W005-1-15
6 November 2001

Parties to RH-2-2001

**BC Gas Utility Ltd.
RH-2-2001 Reasons for Decision dated October 2001**

It has come to the National Energy Board's attention that, due to a printing error, the English Reasons for Decision contain several inaccuracies. The appropriate revisions are set out on the attached errata sheet, which should be inserted in the English version of the Reasons for Decision. The French version of the Reasons for Decision is correct and is not subject to the errata.

Yours truly,

Michel L. Mantha
Secretary

Attachment

ERRATA
NATIONAL ENERGY BOARD
REASONS FOR DECISION

BC Gas Utility Ltd.
RH-2-2001

Page (i)

The first reference to “List of Appendices” should say “List of Figures”.

Page 1

In the third paragraph in section 1.1, add “per day” after the volume of 5666 10³m³.

In the fourth paragraph in section 1.1, add “per day” after the volume of 8450 10³m³.

Page 7

In section 2.3, replace “heathy” with “healthy”.

Page 11

The last sentence in section 3.1 is replaced with: “Nonetheless, it must still be recognized that there is a risk that Westcoast’s facilities north of Kingsvale may be under-utilized after 1 November 2003.”

National Energy Board

Reasons for Decision

In the Matter of

BC Gas Utility Ltd.

Application dated 8 May 2001 for certain orders pursuant to subsection 21(1) of the *National Energy Board Act* (the Act) for review and variance of the Board's RH-2-98 Reasons for Decision and Order TG-2-99 and for orders pursuant to Part IV of the Act establishing the terms and conditions, including tolls, for service from Kingsvale and Hope to Huntingdon, British Columbia.

RH-2-2001

October 2001

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Cat. No. NE22-1/2001-6E
ISBN 0-662-31118-3

This report is published separately in both official languages.

Copies are available on request from:

The Publications Office
National Energy Board
444 Seventh Avenue SW
Calgary, Alberta, T2P 0X8
E-Mail: publications@neb-one.gc.ca
Fax: (403) 292-5576
Phone: (403) 299-3562
1-800-899-1265

For pick-up at the NEB office:

Library
Ground Floor

Printed in Canada

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N° de cat. NE22-1/2001-6F
ISBN 0-662-86304-6

Ce rapport est publié séparément dans les deux langues officielles.

Exemplaires disponibles sur demande auprès du:

Bureau des publications
Office national de l'énergie
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En personne, au bureau de l'Office:

Bibliothèque
Rez-de-chaussée

Imprimé au Canada

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Abbreviations

Act	<i>National Energy Board Act</i>
B.C.	British Columbia
BC Gas	BC Gas Utility Ltd.
BC Hydro	BC Hydro and Power Authority
BCUC	British Columbia Utilities Commission
CAPP	Canadian Association of Petroleum Producers
EUG	Export Users Group
IDA	Inland Delivery Area
IPC	Inland Pacific Connector
Mcf	thousand cubic feet
MMcfd	million cubic feet per day
NEB or Board	National Energy Board
SCP	Southern Crossing Pipeline
T-North	Zone 3 Transportation North
T-South	Zone 4 Transportation South
Westcoast	Westcoast Energy Inc.

Recital and Appearances

IN THE MATTER OF the *National Energy Board Act* (the Act) and the Regulations made thereunder;
and

IN THE MATTER OF an application dated 8 May 2001 by BC Gas Utility Ltd. for certain orders pursuant to subsection 21(1) of the Act for review and variance of the Board's RH-2-98 Reasons for Decision and Order TG-2-99 and for orders pursuant to Part IV of the Act establishing the terms and conditions, including tolls, for service from Kingsvale and Hope to Huntingdon, British Columbia; and

IN THE MATTER OF Hearing Order RH-2-2001.

HEARD in Vancouver, British Columbia on 10 to 12 September 2001.

BEFORE:

K.W. Vollman	Presiding Member
R.J. Harrison	Member
C.L. Dybwad	Member

APPEARANCES:

C.K. Yates	BC Gas Utility Ltd.
M.L. Henderson	
D. Bursey	British Columbia Large Industrial Gas Users Natural Gas Steering Committee
N.J. Schultz	Canadian Association of Petroleum Producers
R.W. Lusk, Q.C.	Industrial Gas Users Association
B. Fraser	AEC Marketing
M. McCordic	Avista Energy Canada, Ltd.
R.W. Lusk, Q.C.	B.C. Hydro and Power Authority
T. Jennings	Centra Gas British Columbia Inc.
F. Weisberg	Export Users Group
B. Woods	Imperial Oil Resources
T. Lange	Mirant Group
F.C. Basham	Talisman Energy Inc.
F. Fast	Unocal Canada Limited

D. Humber	West Fraser Mills Ltd.
J. Lutes R. Sirett	Westcoast Energy Inc.
B. Brownell	British Columbia Utilities Commission
C. McKinnon J. Saunders	Board Counsel

Chapter 1

Background and Application

1.1 Background

This application is a review of the National Energy Board's (Board's) decision in the RH-2-98 proceeding. In that proceeding, BC Gas Utility Ltd. (BC Gas) had applied to the Board for the establishment of a receipt point on the Westcoast Energy Inc. (Westcoast) system at Kingsvale, British Columbia (B.C.) and for a point-to-point toll for the service from Kingsvale to Huntingdon, B.C. Up to the time of that proceeding, the only receipt point for the Westcoast T-South¹ mainline was at Station 2. At the time of the RH-2-98 proceeding BC Gas said that it intended to construct a new pipeline, known as the Southern Crossing Pipeline (SCP), which would connect with the Westcoast system through the BC Gas line at Kingsvale. The project had not yet been approved by the Province. In the RH-2-98 Decision the Board directed Westcoast to establish a receipt point at Kingsvale. The SCP project was subsequently approved by the British Columbia Utilities Commission and the SCP was placed into service in November 2000.

The application for a point-to-point toll treatment for Kingsvale to Huntingdon service was also considered by the Board in RH-2-98. Westcoast argued that the full zonal toll would be appropriate due to the risk of stranded capacity on the T-South line north of Kingsvale if BC Gas constructed the SCP and connected with the Westcoast line at Kingsvale. The Board determined that, in view of the circumstances that existed at the time, the full zonal toll was the appropriate toll for service from Kingsvale to Huntingdon.

On 19 April 2001, Westcoast announced two open seasons for proposed expansions of its system on the Southern Mainline (T-South) and its Alberta facilities. The T-South expansion would add additional transportation service of 5666 10³m³ per day (200 MMcfd), for a projected in-service date of 1 November 2003. The additional capacity was fully contracted for in Westcoast's open season.

BC Gas Inc. announced its own open season for its proposed Inland Pacific Connector (IPC) project on 7 May 2001. The project would provide more than 8450 10³m³ per day (300 MMcfd) of firm transportation service from Yahk, B.C. to the Huntingdon/Sumas export delivery point. BC Gas indicated that there was some expression of interest during the open season but that no firm commitments had been made by shippers.

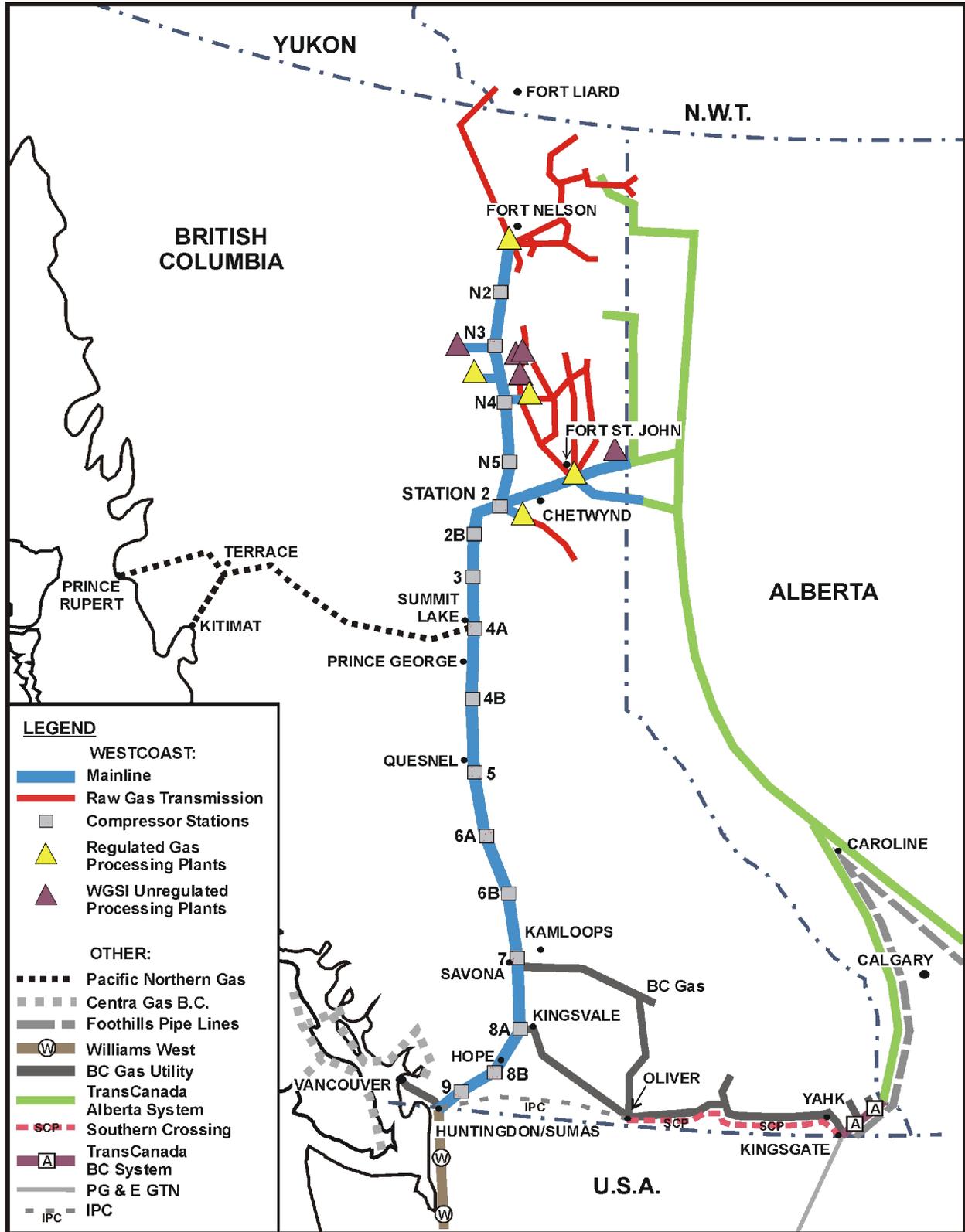
1.2 Application

On 8 May 2001, BC Gas applied to the Board:

- (i) Pursuant to subsection 21(1) of Part I of the *National Energy Board Act* (the Act) for review and variance of the RH-2-98 Decision and Order TG-2-99; and

¹ Transportation South, also known as Zone 4.

Figure 1-1
Pipeline Location Map



- (ii) Pursuant to sections 59, 70 and 71 of Part IV of the Act for an order establishing the terms and conditions, including tolls, under which Westcoast shall receive, transport and deliver natural gas from Kingsvale and Hope to Huntingdon, B.C.

BC Gas indicated that the grounds for the review and variance of the RH-2-98 Decision and Order are the changed circumstances and new facts that have arisen since the close of the RH-2-98 proceeding and which raise doubt as to the correctness of that Decision and Order. The changed circumstances and new facts include:

- (a) recent developments in natural gas markets that have signalled an urgent need for expansion of pipeline capacity to the British Columbia Lower Mainland and the United States Pacific Northwest;
- (b) the Westcoast Pipeline Expansion open seasons announced on 19 April 2001, in response to growing market demand;
- (c) the construction and commencement of operation of the BC Gas SCP; and
- (d) the BC Gas Inc. IPC open season announced on 7 May 2001¹.

On 17 May 2001, the Board directed that interested persons file submissions on whether BC Gas had raised a doubt as to the correctness of the Board's Decision and Order in the RH-2-98 proceeding, on the basis of the changed circumstances and new facts that have arisen since the close of the original proceeding. The Board also requested submissions on the need for a process and, as appropriate, the nature and timing of such a process to consider BC Gas' requests under Part I and Part IV of the Act.

On 26 June 2001, the Board found that, on balance, the changed circumstances and new facts identified by BC Gas supported BC Gas' request for a review. The Board considered that the changed circumstances and new facts, when taken together and if tested and found to be true, could have a bearing on matters relative to the Board's RH-2-98 Decision. In the Board's view, BC Gas had discharged its onus under section 21 of the Act.

On 5 July 2001, the Board issued Hearing Order RH-2-2001, which set down BC Gas' application for a hearing commencing 10 September 2001 and established the Directions on Procedure and a preliminary List of Issues. On 3 August 2001, after considering the submissions of parties, the Board finalized the List of Issues for the hearing (see Appendix I).

The Board heard evidence in Vancouver, B.C. on 10 and 11 September 2001 and final argument on 12 September 2001.

¹ For ease of reference, when the Board is referring to the proposed IPC project and open season in these Reasons for Decision, the abbreviation "BC Gas" means either BC Gas Inc. or BC Gas Utility Ltd., whichever is the relevant entity.

Chapter 2

Positions of the Parties

2.1 BC Gas Utility Ltd.

BC Gas proposed that the appropriate, just and reasonable toll for firm transportation service from Kingsvale to Huntingdon should be a point-to-point toll reflective of the proportional distance from the Kingsvale interconnect of the Westcoast and BC Gas systems to the interconnection point between Westcoast and Huntingdon International Pipeline Company, adjusted for volume.

BC Gas also sought a point-to-point toll for firm transportation on Westcoast from Hope, a potential connecting point for its proposed IPC project, to Huntingdon, and for firm transportation from Station 2 to Kingsvale, as well as for interruptible transportation.

In support of its proposed toll design, BC Gas asserted that point-to-point, distance-based tolls, in addition to reflecting the toll methodology approved by the Board in the RH-6-85 Decision for Westcoast's Zone 4, would:

- enhance the reliability and security of supply to B.C. and United States gas markets;
- minimize incremental contract demand obligations and hence unnecessary facility increments to meet demand growth on Westcoast;
- optimize takes from B.C. and Alberta gas sources to minimize costs to gas consumers in B.C. and the United States;
- maximize the efficient use of the Westcoast pipeline to benefit all shippers and Westcoast;
- increase inter-market access and flexibility between the Westcoast/Northwest Pipe and the TransCanada PipeLines/PG&E Gas Transmission, Northwest Corporation pipeline corridors to contribute to fully functioning market dynamics;
- create effective alternatives so that the marketplace can select the most competitive means to serve subsequent growth in demand; and
- ensure adequate flexibility to keep and/or restore reasonable gas balances on Westcoast.

Westcoast's proposed expansion has eliminated the Board's concerns expressed in the RH-2-98 Decision about the potential stranding of existing Westcoast facilities upstream of Kingsvale, leaving the cost of providing service from Kingsvale to Huntingdon as the volume/distance, point-to-point toll now proposed by BC Gas. However, Westcoast, in sizing its facility expansion, should not assume that BC Gas would release capacity upstream of Kingsvale. Both the SCP and IPC are to serve a growing market and would provide access to an alternate supply source from that traditionally sourced by the Westcoast system.

BC Gas argued that the delivery area differential toll proposed by Westcoast is inappropriate because it has no relationship to the cost of providing that service. It would involve a receipt point being charged a delivery toll. Further, it would reflect the distance from the load centre of the Inland Delivery Area (IDA) to Huntingdon, not from Kingsvale to Huntingdon, an additional distance of approximately 255 km. Historically, the tolls to each delivery point in the IDA have been calculated on a volume/distance basis, but since all delivery points in the area were for one customer (BC Gas) which

did not differentiate gas costs to its customers, for administrative convenience, a single toll was established which reflected the load centre for the delivery area. BC Gas also noted that when applied to Hope, this methodology would yield a zero toll.

Westcoast's requirement that BC Gas extend the contract term of its existing capacity, or term up, as a condition for Westcoast to provide expansion capacity to BC Gas is unreasonable, discriminatory and anticompetitive. The proposal would penalize BC Gas' customers twice: firstly, through reduced flexibility in supply choices; and secondly, through the imposition on those customers of the risk of actions, such as decontracting, of other Westcoast shippers that have not been required to term up. Termination on Westcoast would not be in the interest of the customers of BC Gas unless there was a consequent risk reduction to Westcoast.

Regarding Westcoast's belief that BC Gas is intending to shift volumes from the Westcoast system to its own system to support construction of the IPC, BC Gas stated that its current plans do not include the turning back of any Westcoast T-South capacity. It has sought new service on Westcoast since the SCP was placed in service and its future decisions will be driven by its obligations to secure least-delivered cost of gas for its customers.

With respect to service from Hope to Huntingdon, BC Gas suggested that its current application is about accepting point-to-point tolls as a principle and parameter for determination of capacity expansion. The principle, once established, should be applicable to IPC and Hope to Huntingdon service. In that sense, BC Gas would prefer that the Board determine that point-to-point tolls should apply provided there is no stranding of capacity.

In support of its request for a toll from Hope to Huntingdon, BC Gas explained that uncertainty over the appropriate toll will cause unnecessary delay and will result in sub-optimal decisions for IPC customers or interested parties in the Lower Mainland. It would be beneficial for the market at large to know and understand whether the Hope to Huntingdon portion of the proposed IPC project could be provided by further expansion on Westcoast facilities or whether new facilities would be required.

Concerning its request for expanded capacity from Kingsvale to Huntingdon, BC Gas stated that it does not want to delay the Westcoast expansion involving 200 MMcfd. It would like its request for expansion capacity to be addressed by Westcoast as part of Westcoast's ongoing expansion process. BC Gas is seeking equitable treatment by Westcoast once the parameters for expansion have been determined. It requested the Board to exercise its jurisdiction under subsection 71(3) of the Act to require Westcoast to provide adequate and suitable facilities for the receipt, transmission and delivery of 105 MMcfd of gas from Kingsvale to Huntingdon at a point-to-point toll on the same date as for other expansion shippers. In reply argument, BC Gas clarified that it is requesting an order from the Board directing Westcoast to include the additional 105 MMcfd Kingsvale to Huntingdon expansion in its facilities expansion application.

2.2 Westcoast Energy Inc.

There are two scenarios under which SCP-sourced gas could be transported for BC Gas from Kingsvale to Huntingdon. The first scenario is where BC Gas uses existing Westcoast capacity to move gas from Kingsvale to Huntingdon. The second scenario is where Westcoast builds expansion facilities and provides expansion service to BC Gas.

Under the first scenario, Westcoast's position is that the toll should be equal to the full T-South toll to Huntingdon, as determined by the Board in the RH-2-98 Decision. This toll recognizes the competing nature of the SCP and compensates Westcoast and its shippers for the cost of Westcoast T-South facilities upstream of Kingsvale which could be rendered unusable as a result of BC Gas using existing Kingsvale to Huntingdon T-South capacity to deliver SCP-sourced gas to Huntingdon.

Under the second scenario, Westcoast is willing to construct 105 MMcfd of expansion capacity for BC Gas to accommodate the delivery of SCP-sourced gas from Kingsvale to Huntingdon. For this expansion service, Westcoast proposed that the toll be equal to the difference between the full T-South toll to Huntingdon and the T-South toll to the IDA, calculated in accordance with Westcoast's existing Board-approved toll methodology, but subject to whatever Board decision may follow the comprehensive review of Westcoast's transmission tolls that is currently underway.

Westcoast's offer, however, is conditional on BC Gas signing a 15-year expansion contract for the 105 MMcfd Kingsvale to Huntingdon service, as well as extending the term of its existing T-South service agreements by five years. Westcoast considered these conditions to be fair and reasonable and to be reflective of the dual role of BC Gas as a customer and competitor on the Westcoast system. The conditions would also recognize the inherent risks to Westcoast and its other shippers of providing the service.

In support of its proposed toll, Westcoast stated that it is calculated in accordance with Westcoast's existing Board-approved toll methodology for interruptible service, agrees with toll design assumptions made by BC Gas and the SCP shippers when the feasibility of the SCP was discussed, and avoids substantial cross-subsidization by existing customers of Westcoast. Further, it is an interim solution while the comprehensive review of Westcoast's transmission tolls is underway.

Westcoast argued that BC Gas' proposed volume/distance toll would be inappropriate because it is not cost-based. It does not reflect that the expansion costs south of Kingsvale are considerably more expensive than those north of that point, partly because of the terrain through the Coquihalla and partly because of issues related to the highly populated area of the Fraser Valley. Further, the cost of looping south of Kingsvale is considerably more than it is north of Kingsvale. An incremental toll based only on the cost of expansion facilities would be four times the toll proposed by BC Gas. In intersecting the Westcoast system at the south end at Kingsvale, BC Gas would capture all of the benefits of scale and scope arising from the construction of facilities upstream without contributing to the costs of the upstream facilities.

The term up requirement is meant to address the situation where Westcoast is asked to spend significant amounts of money on new facilities for a party who plans to build a competing pipeline and then has both the means and the motive to decontract from the Westcoast system. This situation raises serious

concerns about full utilization of the new facilities. BC Gas has the ability on short notice (13 months) to transfer volumes from the Westcoast system to its own competing pipeline project as well as to decontract virtually all of its capacity on Westcoast's system.

As a result, Westcoast concluded that its term up requirement is reasonable given that BC Gas is a competitor, that BC Gas asserts that its proposed IPC project will service an incremental market and that BC Gas has long-term markets that will support a five-year contract extension, subject to the market erosion flexibility that Westcoast is willing to provide.

Concerning a toll for service from Hope to Huntingdon, Westcoast stated that, in the absence of knowing all the facts concerning potential IPC deliveries to Hope, including the likelihood that BC Gas will transfer existing Westcoast volumes to the IPC, it is not possible for either Westcoast or the Board to determine the appropriate toll and terms and conditions for this service. There is no evidence as to whether BC Gas would use existing T-South capacity downstream of Hope or require new Westcoast capacity. There is also no evidence on the source of gas, the shippers involved and the proposed terms and conditions of service.

Westcoast's willingness to provide expansion service from Kingsvale to Huntingdon is tailored to the current case-specific circumstances of the proposed service, and should not be taken as a precedent for service from Hope to Huntingdon as well as to other shippers.

BC Gas can achieve its objective of getting expansion capacity from Kingsvale to Huntingdon by negotiating a transportation service agreement with Westcoast, which will enable Westcoast to bring an application to the Board under either section 58 or 52 of the Act. If BC Gas does not accept Westcoast's offer, it could submit a subsection 71(3) application to the Board.

In this proceeding, Westcoast is not seeking an order of the Board to force BC Gas to term up its existing service agreements. However, if BC Gas does sign an expansion contract and does term up its existing Westcoast service agreements, Westcoast will apply to the Board for the required facilities between Kingsvale and Huntingdon.

2.3 British Columbia Large Industrial Gas Users Natural Gas Steering Committee

The Natural Gas Steering Committee supported BC Gas' application, stating that it works toward the timely and rational development of an economic pipeline infrastructure and availability of transportation options, which are important elements of a healthy, competitive gas market.

2.4 Canadian Association of Petroleum Producers

In argument, the Canadian Association of Petroleum Producers (CAPP) provided its position on BC Gas' application under the following eight points:

First, Westcoast should be prepared to include facilities for an expansion of 105 MMcfd of short-haul capacity from Kingsvale to Huntingdon along with their announced expansion of 200 MMcfd. This recognizes that the SCP has been built and would provide Westcoast the opportunity to better match

upstream capacity increases on both the TransCanada B.C. and TransCanada Alberta systems expansions.

Second, BC Gas should be prepared to execute a 15-year firm service contract. Fifteen years was the minimum term required by Westcoast for its open season; therefore, this is not offering preferential treatment to BC Gas.

Third, the delivery area differential toll should be approved. The existing toll methodology is based on zones and delivery areas within zones. The overall issue of toll design was not before the Board because it was excluded prior to the hearing. Further, it is not possible to introduce point-to-point tolling for one customer for one service without upsetting the entire zonal concept.

Fourth, CAPP urged the Board to make this decision “situation-specific”, so as not to set a precedent for other Westcoast shippers. The concern is that if the Board set a precedent for other shippers on the Westcoast system, it would open the floodgate for other shippers on both the T-South and T-North who would be interested in obtaining point-to-point tolls. The Board should therefore recognize that the decision it is making is based on the positions that are put forward in this case and that the decision is not intended to be one of general application.

Fifth, BC Gas should not be required to term up its existing gas contracts on the Westcoast system. However, CAPP believes that Westcoast’s concerns are legitimate and that the Board should acknowledge those concerns. By doing so, the Board would be signalling that it was prepared to review the tolls charged to BC Gas if, and when, circumstances change with regard to its capacity on the Westcoast system. This recognizes that, in CAPP’s view, BC Gas is both a customer and a competitor on Westcoast and that it has options that are not open to other Westcoast customers, such as building a competing pipeline.

Sixth, all other aspects of the BC Gas application should be dismissed.

Seventh, BC Gas should be given a short time frame to respond to the decision of the Board so as not to hold up the Westcoast expansion plans indefinitely.

Finally, to proceed with its expansion, Westcoast would file a Part III application that would more appropriately address the issues of supply, demand, environment and economic feasibility.

CAPP argued that the IPC is, at this time, a phantom proposal. The IPC was one of the reasons that BC Gas came to the Board. In essence, its request for review and variance was to ask the Board for a point-to-point toll that equates to 5¢/Mcf. Westcoast believes that the IPC is a threat to its system, albeit one that seems to be in the planning stage with no real commitments being made by either BC Gas or potential shippers. Due to the uncertainty surrounding the IPC, there should be no tolls set for service from Hope to Huntingdon.

2.5 BC Hydro and Power Authority

BC Hydro and Power Authority (BC Hydro) is a firm service shipper on the BC Gas system from Yahk to Huntingdon. BC Hydro participated in the RH-2-98 hearing supporting tolling on a point-to-point, volume/distance basis from Yahk to Huntingdon.

BC Hydro indicated that it continues to support such tolling for both firm and interruptible service from Kingsvale to Huntingdon.

2.6 Export Users Group

The Export Users Group (EUG) argued that the combined effect of Westcoast's proposed 200 MMcfd expansion from Station 2 to Huntingdon and BC Gas' requested expansion of 105 MMcfd from Kingsvale to Huntingdon would be to provide a potentially cost-effective way to add needed capacity to the Lower Mainland market, while at the same time eliminating possible stranded capacity on the Westcoast system.

While the EUG supported the requirement that BC Gas commit to a 15-year contract on its requested expansion, it stated that the Board should reject Westcoast's condition that BC Gas term up all of its existing T-South service agreements, on the grounds that the term up of contracts for existing supplies is unrelated to the proposed expansion projects. The term up is not necessary, as the Board's economic feasibility test and the 15-year contract term would be sufficient to ensure long-term utilization of the expansion capacity. The EUG was of the opinion that Westcoast was using BC Gas' request for expansion service as leverage to change the terms of other unrelated service. Finally, the EUG suggested that Westcoast's business risk would not be reduced by the term up condition, pointing out that Westcoast intends to seek both increased depreciation rates and a higher return on equity in a future application.

In view of the fact that Westcoast intends to bring forward an application for a comprehensive toll design, the Board should direct the application to be made no later than 1 July 2002. In this circumstance, the uncertainty faced by BC Gas would not be any greater than the uncertainty facing any of Westcoast's other shippers. The Board should direct Westcoast to specifically include the Kingsvale receipt point in such a proposal and to propose appropriate adjustments to other tolls on the Westcoast system. With regard to a Hope to Huntingdon toll, the EUG stated that as the construction of the IPC project remains an open question, a decision respecting the tolls for the Hope to Huntingdon segment of Westcoast is premature. On the issue of tolls, the EUG argued that the delivery area differential tolling methodology proposed by Westcoast is arbitrary and should not be used.

Finally, the EUG requested that the Board frame any relief granted to BC Gas in such a way that the rights of customers that have already contracted for the upcoming 200 MMcfd expansion will not be affected and that the expansion will not be delayed.

Chapter 3

Views of the Board

3.1 Changed Circumstances and Relevant Facts

It was not the purpose of the hearing to examine broad tolling principles for the Westcoast system, nor was the evidence submitted on this basis. The scope of the proceeding was limited to a consideration of the appropriate toll treatment for transportation of BC Gas volumes from Kingsvale to Huntingdon and Hope to Huntingdon.

The Board notes that Westcoast and its customers have identified certain concerns with the current toll design as a result of changes in the business environment in which it operates. Westcoast has begun a process, in consultation with its customers, that may lead to significant revisions to its current toll design. Westcoast stated that it expects to have an application before the Board by 2003.

Clearly, a broad-based review of tolls is preferable to a piecemeal approach whereby individual shippers file separate applications seeking more favourable toll treatment. Such an approach would frustrate the consultative process currently underway to address tolls on a generic basis and could result in a series of individual decisions. At the same time, the Board recognizes that BC Gas needs a signal regarding the costs of shipping gas from Kingsvale to Huntingdon in order to make important business decisions. In reaching its decision, the Board has borne these two competing interests in mind.

In its decision in the RH-2-98 proceeding, the Board approved a toll for transportation service between Kingsvale and Huntingdon that was based on the entire distance from Station 2 to Huntingdon. That decision reflected the Board's view at the time that there was a significant risk that volumes that would flow under this service would come from the SCP and would displace volumes on Westcoast north of Kingsvale. The Board noted, however, that it could reconsider its decision if circumstances were to change.

The Board is of the view that market circumstances have, in fact, changed considerably since the time of the RH-2-98 Decision. The SCP has been constructed and placed in operation without having an impact on volumes flowing on Westcoast. Further, there is considerable demand for additional capacity on Westcoast. In response to an "open season" held in the spring of this year in which Westcoast requested bids for 200 MMcfd of transportation service on Zone 4, the capacity was fully subscribed, with shippers signing precedent agreements for an average of 27 years. This indicates that there is high demand for new capacity on Westcoast and that the risk of under-utilization of the Westcoast system in the near term has diminished.

At the same time, BC Gas currently has transportation contracts for approximately 575 MMcfd of transportation service on Westcoast, of which about 300 MMcfd is up for renewal in two years. BC Gas has announced intentions of expanding the SCP and potentially building a new interconnect between the SCP and Westcoast or, alternatively, building a new project that would by-pass Westcoast entirely. In the Board's view, BC Gas is clearly both a shipper on Westcoast and a competitor to Westcoast.

BC Gas maintained that, according to its current plans, it does not intend to shift volumes off Westcoast to the SCP at this time and that, in any event, expected market growth in the Lower Mainland and Pacific Northwest markets would ensure that Westcoast stays fully utilized. Westcoast, however, was of the view that the market outlook is more uncertain and that, combined with the potential for BC Gas to shift volumes off its system, Westcoast was still at considerable risk, particularly if BC Gas proceeds with the IPC project.

While the Board is of the view that there is little risk of under-utilization of Westcoast facilities north of Kingsvale over the next two years, the Board agrees with Westcoast that BC Gas does have some motivation to decontract and shift volumes after its current contracts start to expire in 2003. This is supported by the table entitled "Reference Case" SCP and Phase 2 SCP Portfolio (96/97 to 05/06), which shows BC Gas' projections for usage of T-North and T-South capacity. While BC Gas' T-South volumes are shown to increase over the period from 1996 to 2006, its T-North volumes are shown to decline. In the view of the Board, the evidence suggests the possibility that BC Gas would only be fully utilizing the T-South system south of Kingsvale, leaving capacity north of Kingsvale under-utilized. While it is possible that growth in the overall gas market might be sufficient to make up for any volumes that BC Gas switched, the degree of market growth that will occur is uncertain at this time.

In conclusion, the Board believes that market circumstances have changed since the Board's decision in the RH-2-98 proceeding and that these changes have resulted in reduced risk to Westcoast. Nonetheless, it must still be recognized that there remains a risk that Westcoast's facilities north of Kingsvale will be under-utilized after 1 November 2003.

3.2 Kingsvale to Huntingdon Firm Toll

In approving tolls in a cost-of-service environment, the Board has primary regard to the degree to which the tolls reflect the actual cost of providing service, while being just and reasonable to all parties.

BC Gas argued that a point-to-point, volume-based toll from Kingsvale to Huntingdon would best reflect the cost of providing this service once the requested additional 105 MMcfd of capacity is in place. Westcoast, however, noted that the costs of constructing new facilities to provide this service would be about \$65 million, which on an incremental basis would yield a toll of about 20¢/Mcf. The Board recognizes that the incremental cost of expansion can vary significantly, depending for example on the exact configuration of looping and compression that is required. However, it is clear that a toll of 5¢/Mcf, as proposed by BC Gas, would not compensate Westcoast for the cost of providing transportation service between Kingsvale and Huntingdon and that some of these costs would be borne by other shippers.

The Board also agrees with Westcoast that transportation between Kingsvale and Huntingdon would not be possible unless the entire Westcoast system was in place. The Board does not believe that it would be appropriate for BC Gas to benefit from this situation by paying a 5¢ toll when there is the potential that it could result in toll increases to other shippers. In the circumstances of this case, a toll that would impose significant increased costs on other shippers would not be just and reasonable.

On the other hand, the toll of 26¢/Mcf represents the cost of shipping gas from Station 2 to Huntingdon and was based on the concern that shipments from Kingsvale to Huntingdon would result in

under-utilization of Westcoast facilities north of Kingsvale. The Board is of the view that the risk of under-utilization has been reduced since the RH-2-98 Decision and, therefore, the toll of 26¢ would no longer be appropriate to apply to volumes that would flow following an expansion of Westcoast's facilities.

The Board notes that Westcoast submitted that a toll of 12¢/Mcf would be reasonable for transportation service between Kingsvale and Huntingdon, provided that to do so would not result in the under-utilization of capacity upstream of Kingsvale. The Board agrees that the 12¢ toll, which is based on the delivery area differential between the Station 2 to Huntingdon toll and the Station 2 to the IDA toll, is appropriate. The 12¢ toll is consistent with the existing tolling methodology, will reasonably compensate Westcoast for the cost of providing this service, and is just and reasonable to both BC Gas and other shippers on the system in the particular circumstances of this application.

Currently, it is not possible for a shipper to contract for firm service between Kingsvale and Huntingdon because the capacity is fully contracted. Therefore, the delivery area differential toll of 12¢/Mcf will only apply to any contracted volumes following an expansion of Westcoast's system. Until an expansion of Westcoast's system takes place, the existing Zone 4 toll from Station 2 to Huntingdon will still apply. Therefore, no toll order is required at this time.

3.3 Term Up Issue

Westcoast offered to construct 105 MMcfd of capacity between Kingsvale and Huntingdon to accommodate volumes from the SCP at a toll of 12¢/Mcf provided that, among other things, BC Gas agrees to term up its existing transportation contracts with Westcoast for a period of five years.

The Board understands that Westcoast wishes to protect itself and its shippers from the adverse consequences if BC Gas were to decrease the volume of gas that it transports on Westcoast's mainline from Station 2 and increase its volumes shipped from the SCP. Although BC Gas stated that it is not its intention to decontract on Westcoast's mainline, the Board is of the view that Westcoast faces a risk of decontracting. As noted above, the Board continues to be of the view, as stated in the RH-2-98 Decision, that BC Gas is both a shipper and a competitor to Westcoast and that BC Gas would have some incentives to move volumes from Westcoast to the SCP.

Although the Board acknowledges that Westcoast faces some risk of decontracting, it does not believe that it is either appropriate or necessary at this time for it to order BC Gas to term up its committed volumes on Westcoast. The Board notes that the toll of 12¢/Mcf will only apply once an application is made to the Board for additional pipeline facilities on Westcoast and these facilities are constructed. When this application is made, it will be necessary for the applicant to demonstrate to the Board that the new facilities will be required for the present and future public convenience and necessity. The Board may also consider whether approval of the new facilities would result in existing facilities being under-utilized. This may require evidence that Westcoast does not face an imminent prospect of decontracting.

Although a commitment by BC Gas to term up all of its currently contracted volumes on Westcoast could be one way of providing such assurances, there may be other alternatives that both satisfy Westcoast and better meet the business needs of BC Gas.

3.4 Remedy for Kingsvale to Huntingdon Expansion

Given the Board's decision with respect to the appropriate toll for service from Kingsvale to Huntingdon and its views on the term up issue, the Board agrees with Westcoast that BC Gas has two options to achieve its objective of obtaining 105 MMcf/d of expansion capacity between Kingsvale and Huntingdon. BC Gas can either negotiate a transportation service agreement with Westcoast which will enable Westcoast to file an application with the Board under either section 58 or 52 of the Act to construct those facilities, or it can file its own subsection 71(3) application with the Board.

Until BC Gas has assessed those two options and made a decision on how it wishes to proceed, the Board concludes that no further action is required on its part at this time.

3.5 Hope to Huntingdon Firm Toll

Even though the possibility of connecting to the Westcoast system at Hope was not formally put to its shippers as part of its IPC open season documents, BC Gas sought a Board decision on what would be the toll for service from a new receipt point at Hope to Huntingdon. As it explained, BC Gas' intention was to ensure that it would take optimal expansion decisions regarding its IPC project. BC Gas added that the Board should consider the request in terms of accepting point-to-point tolls as a toll design principle.

For the same reasons as described above, the Board does not believe that a point-to-point toll is appropriate for Hope to Huntingdon service at this time. In the Board's view, it would not be appropriate to undertake a piecemeal approach to tolling while a comprehensive toll design study is underway. Further, the Board agrees with Westcoast and EUG that a toll decision for service between Hope and Huntingdon is premature, given that the specifics of the IPC project are not known with certainty.

As a result, the Board is not prepared to rule at this time on what could be an acceptable toll for firm service from Hope to Huntingdon.

3.6 Interruptible Tolls and Other Toll Matters

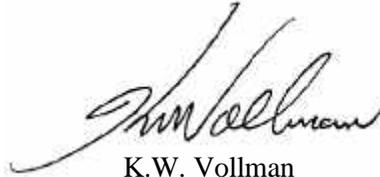
BC Gas applied for a number of toll decisions that are related to a decision to accept the point-to-point toll for firm transportation service from Kingsvale to Huntingdon. As detailed in the List of Issues for this proceeding, these decisions concern interruptible transportation on T-South and certain toll adjustments associated with removing Kingsvale from the IDA.

Given the Board's decision, outlined above, to reject point-to-point tolls in favour of a delivery area differential toll for firm service from Kingsvale to Huntingdon, the Board has decided to deny the requests of BC Gas to amend the current interruptible toll design for T-South. Further, the Board has also decided to deny the requests of BC Gas to modify other aspects of the firm toll design for T-South associated with removing Kingsvale from the IDA.

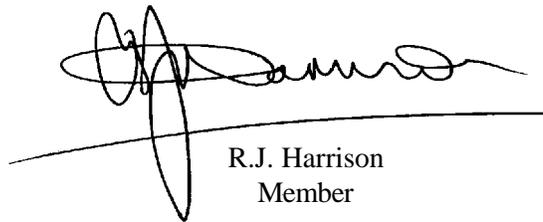
Chapter 4

Disposition

The foregoing chapters constitute our Decision and Reasons for Decision on matters considered in the RH-2-2001 proceeding.



K.W. Vollman
Presiding Member



R.J. Harrison
Member



C.L. Dybwad
Member

Calgary, Alberta
October 2001

Appendix I

List of Issues

The Board has identified, but does not limit itself to, the following issues for discussion at the hearing.

1. The appropriate toll methodology and terms and conditions that would apply for firm and interruptible transportation service between:
 - (a) the Kingsvale receipt point and the Huntingdon delivery point;
 - (b) Westcoast's Station 2 and the Kingsvale receipt point;
 - (c) a new receipt point at Hope and the Huntingdon delivery point.
2. The appropriateness of requiring Westcoast to receive gas at Station 2 and to transport such gas on a firm basis under a point-to-point toll to the Kingsvale receipt/delivery point.
3. The appropriateness of removing Kingsvale from the Inland Delivery Area and of removing the allocation units from the Inland Delivery Area toll calculation and recalculating the toll to be charged for firm service for all other Inland Delivery Area deliveries except those to Kingsvale.
4. The appropriate interruptible commodity tolls for service between the restructured Inland Delivery Area and the Kingsvale receipt/delivery point.
5. The appropriate remedy, if any, to address BC Gas' objective of obtaining 105 MMcfd of short-haul expansion capacity, while maintaining the timely progress of the overall expansion process itself.