



LETTER NO. L-24-95

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ROBERT J. PELLATT
COMMISSION SECRETARY

June 12, 1995

Mr. D.M. Masuhara
Vice President
Legal and Regulatory Affairs
BC Gas Utility Ltd.
1111 West Georgia Street
Vancouver, B.C.
V6E 4M4

Dear Mr. Masuhara:

BC Gas Utility Ltd.
Review of Rate Discounting in Competitive Situations

This is to acknowledge receipt of your May 24, 1995 letter which was filed in response to a direction in Order No. G-75-94 to report on the advantages and disadvantages of discounting the gas sales price or the delivery charge, or both, when negotiating a competitive burner-tip price.

In the letter, BC Gas sets out circumstances where negotiated rates may be appropriate and notes that discounting has generally been short term and has resulted from attempts to retain margin contributions. BC Gas' stated preference in such a case is to discount the price of the gas. Notwithstanding the broad objective of maintaining a level playing field between system sales and direct purchase options, this approach appears supportable for existing customers during the year when the risk of losing the delivery first materializes. Discounting the price for interruptible sales in subsequent years may also be acceptable when the utility is otherwise unable to realize the full market value of the gas.

In other situations, such as for new firm customers, any discounts should be applied preferentially to the delivery charge in order to avoid predatory pricing.

Overall, the circumstances of each customer are somewhat different and the Commission accepts BC Gas' recommendation that a flexible approach be taken to deal with the lack of uniformity. Any discounted rates which result from negotiations will continue to be subject to Commission review and approval.

Your truly,

A handwritten signature in black ink, appearing to read "R. Pellatt", is written over the typed name.

Robert J. Pellatt

JBW/yk