



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

and

The December 1998 Application by BC Gas Utility Ltd.
for a Certificate of Public Convenience and Necessity
regarding its Southern Crossing Pipeline Project

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair) June 21, 1999
K.L. Hall, Commissioner)
F.C. Leighton, Commissioner)

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

WHEREAS:

- A. On December 11, 1998, BC Gas Utility Ltd. ("BC Gas", "the Utility") applied to the Commission ("the Application"), pursuant to Section 45 of the Utilities Commission Act ("the Act"), for a Certificate of Public Convenience and Necessity ("CPCN") to construct and operate certain pipeline and compression facilities referred to as the Southern Crossing Pipeline ("SCP") project. BC Gas estimated the cost of the SCP at \$376 million "as spent" dollars, including overhead and allowance for funds used during construction; and
- B. The Application included a Firm Tendered Transportation Service Agreement with PG&E Energy Trading, Canada Corporation ("PG&E Energy Trading") for transportation capacity on the SCP. By letter dated January 8, 1999, BC Gas filed a Firm Tendered Transportation Service Agreement and a Transportation South Capacity Agreement, both dated November 27, 1998, and an Umbrella Letter Agreement dated January 7, 1999, all made with British Columbia Hydro and Power Authority ("B.C. Hydro"); and
- C. By a second letter dated January 8, 1999, BC Gas filed copies of Peaking Gas Purchase Agreements with B.C. Hydro and PG&E Energy Trading dated November 27 and 30, 1998, respectively; and
- D. In a submission dated February 17, 1999, BC Gas requested that the Commission approve the transportation and peaking agreements with B.C. Hydro and PG&E Energy Trading; and
- E. Order No. G-21-99, dated February 22, 1999, established an oral public hearing to review the Application, commencing Monday, March 29, 1999 and ending with completion of oral argument on April 13, 1999; and
- F. In the public hearing, BC Gas requested approval of the Transportation South Capacity Agreement with B.C. Hydro; and
- G. The Commission considered the Application, the evidence and the argument presented at the public hearing, and issued its Decision dated May 21, 1999 ("Decision") and Order No. G-51-99; and
- H. Order No. G-51-99 provides that issuance of a CPCN for the SCP project and approval of the related agreements will be in the public interest provided certain conditions precedent are met; and

- I. By letter dated June 15, 1999 (attached as Appendix B to this Order), BC Gas responded to Order No. G-51-99 stating that it intended to complete the project by November 1, 2000 and that it would accept the other conditions precedent set out in the Order; and
- J. As indicated in the Reasons for Decision (attached as Appendix A to this Order), the Commission has determined that the BC Gas response meets the conditions precedent set out in Order No. G-51-99.

NOW THEREFORE pursuant to Sections 45, 60, 61 and 71 of the Act and the Rules for Energy Supply Contracts ("the Rules"), the Commission orders as follows:

1. Pursuant to Section 45 of the Act, a CPCN is granted to BC Gas to construct and operate the SCP project in accordance with the Application.
2. Additions to Rate Base related to the SCP project will be limited to a maximum of 110 percent of the capital cost estimate in the Application, and savings below 90 percent of the estimate will accrue to the shareholder, in accordance with the mechanism set out in the Decision.
3. Commencing August 1999, BC Gas is to file with the Commission monthly progress reports on the SCP project schedule and costs, followed by a final report upon project completion. BC Gas will determine the form and content of the reports in consultation with Commission staff.
4. Pursuant to Sections 60 and 61 of the Act, the Commission approves the Firm Tendered Transportation Service Agreement dated November 30, 1998 between BC Gas and PG&E Energy Trading, as amended by the amending letter of January 6, 1999, and the Firm Tendered Transportation Service Amending Agreement dated June 9, 1999, subject to timely filing of the Transportation Agreement and amendments in standard Tariff Supplement format.
5. Pursuant to Sections 60 and 61 of the Act, the Commission approves the Firm Tendered Transportation Service Agreement dated November 27, 1998 between BC Gas and B.C. Hydro, as amended by the Firm Tendered Transportation Service Amending Agreement dated June 9, 1999, subject to timely filing of the Transportation Agreement and amendment in standard Tariff Supplement format.
6. Pursuant to Section 71 of the Act and the Rules, the Commission accepts for filing the Transportation South Capacity Agreement dated November 27, 1998 between BC Gas and B.C. Hydro, as amended by the Transportation South Capacity Amending Agreement dated June 9, 1999.
7. Pursuant to Section 71 of the Act and the Rules, the Commission accepts for filing the Peaking Gas Purchase Agreement between BC Gas and B.C. Hydro dated November 27, 1998.
8. Pursuant to Section 71 of the Act and the Rules, the Commission accepts for filing the Peaking Gas Purchase Agreement between BC Gas and PG&E Energy Trading dated November 30, 1998.

DATED at the City of Vancouver, in the Province of British Columbia, this 22nd day of June, 1999.

BY ORDER

Original Signed by

Peter Ostergaard
Chair

Attachments

BC GAS UTILITY LTD.
SOUTHERN CROSSING PIPELINE PROJECT
FILING PURSUANT TO ORDER NO. G-51-99

REASONS FOR DECISION

On December 11, 1998, BC Gas Utility Ltd. ("BC Gas") applied to the Commission for a Certificate of Public Convenience and Necessity ("CPCN") under Section 45 of the Utilities Commission Act (the "Act") to construct and operate the Southern Crossing Pipeline ("SCP") project. In addition to the Application for a CPCN, BC Gas also requested Commission approval of Firm Tendered Transportation Service Agreements ("Transportation Agreements") with British Columbia Hydro and Power Authority ("B.C. Hydro") and with PG&E Energy Trading, Canada Corporation ("PG&E Energy Trading"), Peaking Gas Purchase Agreements ("Peaking Agreements") with B.C. Hydro and with PG&E Energy Trading, and the Transportation South Capacity Agreement with B.C. Hydro.

The Commission, in Order No. G-21-99, established a limited oral public hearing to review the Application. The public hearing commenced on March 29, 1999 and, after eight hearing days, concluded on April 13, 1999. Following the public hearing, the Commission issued its Decision on May 21, 1999 ("Decision") along with Order No. G-51-99.

In Order No. G-51-99, the Commission stated that the issuance of a CPCN for the SCP project and approval of the related agreements would be in the public interest provided certain conditions precedent were met. These conditions were that BC Gas:

1. File by June 15, 1999 a statement regarding its willingness to accept a CPCN for the SCP that includes, as a condition, the mechanism to limit ratepayer exposure to capital cost overruns that is described in the Decision.
2. File by June 15, 1999 executed amendments to the Transportation Agreements with B.C. Hydro and PG&E Energy Trading, which limit the total term of each of these agreements to a maximum of 20 years.
3. File by June 15, 1999 an executed amendment to the Transportation South Capacity Agreement with B.C. Hydro, which clarifies that, in accordance with earlier Commission directives, assignments of Westcoast Energy Inc. ("Westcoast") Transportation South capacity to core market customers wishing to purchase gas directly from non-utility suppliers, take precedence over B.C. Hydro's right of first refusal.
4. Advise the Commission by June 15, 1999 of its intended date of completion of the SCP project, and confirm that all related agreements will accommodate that date.

In a letter dated June 15, 1999 (attached as Appendix B), BC Gas responded to Order No. G-51-99 and filed amending agreements relating to the Transportation Agreements and the Transportation South Capacity Agreement. The amending agreements with B.C. Hydro and PG&E Energy Trading amend the

Transportation Agreements to limit the total term of those agreements to a maximum of 20 years. The amending agreement to the Transportation South Capacity Agreement clarifies that, in accordance with earlier Commission directives, assignments of Westcoast Transportation South capacity to core market customers wishing to purchase gas directly from non-utility suppliers take precedence over the right of first refusal of B.C. Hydro.

In its June 15, 1999 letter, BC Gas states that it is willing to accept a CPCN that includes as a condition the mechanism described in the Decision to limit ratepayer exposure to capital cost overruns. The rate base addition for the SCP project will be a maximum of \$414 million (as adjusted in the manner described in the Decision if a November 2001 in-service date were to be adopted).

In the letter, BC Gas also advises the Commission that it intends to complete the SCP project by November 1, 2000, and that all related agreements will accommodate that completion date. BC Gas also states that it may revise the completion date to November 1, 2001 depending on the bids for materials, construction and installation of the SCP project, and if so, it will inform the Commission and also confirm that all related agreements will accommodate the revised date.

The Commission has reviewed the BC Gas letter and attachments and finds that BC Gas has satisfied the conditions precedent in Order No. G-51-99. Under Section 45 of the Act, the Commission therefore approves the issuance of a CPCN. BC Gas is directed to file monthly progress and cost reports on the SCP, followed by a final report upon project completion. Under Sections 60 and 61 of the Act, the Commission approves for filing the Firm Tendered Transportation Service Agreement between BC Gas and PG&E Energy Trading, as amended, and the Firm Tendered Transportation Service Agreement between BC Gas and B.C. Hydro, as amended. Under Section 71 of the Act and the Rules for Energy Supply Contracts, the Commission accepts for filing the amended Transportation South Capacity Agreement between BC Gas and B.C. Hydro, the Peaking Gas Purchase Agreement between BC Gas and B.C. Hydro, and the Peaking Gas Purchase Agreement between BC Gas and PG&E Energy Trading.

BC Gas Utility Ltd.

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Canada V6E 4M4

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email dmasuhara@bcgas.com

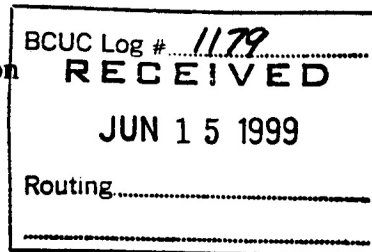
David M. Masuhara
Vice President
Legal, Regulatory & Logistics
and Secretary

June 15, 1999

Via Courier



British Columbia Utilities Commission
6th Floor, 900 Howe Street,
Box 250
Vancouver, B.C.
V6Z 2N3



Attention: Robert Pellatt, Commission Secretary

Dear Mr. Pellatt:

**Re: Southern Crossing Pipeline Project
BCUC Order G-51-99**

This letter responds to matters raised in the Commission's May 21, 1999 Decision (the "Decision") and Order G-51-99 relating to the Southern Crossing Pipeline ("SCP") project. The Decision and Order set out the Commission's finding that the issuance of a Certificate of Public Convenience and Necessity for the SCP project and approval of the related agreements will be in the public interest provided that certain conditions precedent are met. BC Gas Utility Ltd. ("BC Gas") provides this letter to meet the conditions precedent.

1. BC Gas hereby states that it is willing to accept a Certificate of Public Convenience and Necessity for the Southern Crossing Pipeline that includes, as a condition, the mechanism to limit ratepayer exposure to capital cost overruns that is described in the Decision. The rate base addition for the SCP project will be a maximum of \$414 million (as adjusted in the manner described in the Decision if a November 2001 in-service date were to be adopted).

The BC Gas acceptance of a mechanism to limit ratepayer exposure to capital cost overruns assumes that the Commission will act expeditiously in circumstances where further orders or acts of the Commission are needed to assist in the progress of the project.

As the mechanism to limit ratepayer exposure that is described in the Decision shifts the risk of capital cost overruns above the described limits to BC Gas and its shareholders, BC Gas anticipates that it will be allowed flexibility in the treatment of capital costs above the limits (if any such costs were to occur) since those capital costs would not be in rate base and would not be recovered from ratepayers.

2. Filed herewith are amending agreements respecting the Firm Tendered Transportation Service Agreements with British Columbia Hydro and Power Authority ("B.C. Hydro") and with PG&E Energy Trading, Canada Corporation. The amending agreements amend Sections 8.1 and 8.2 of the Firm Tendered Transportation Service Agreements to limit the total term of each of those Agreements to a maximum of 20 years.
3. Filed herewith is an amending agreement respecting the Transportation South Capacity Agreement with B.C. Hydro. That amending agreement amends Section 2.2 of the Transportation South Capacity Agreement to clarify that, in accordance with earlier Commission Directives, assignments of Westcoast Energy Inc. Transportation South capacity to core market customers wishing to purchase gas directly from non-utility suppliers take precedence over the right of first refusal of B.C. Hydro under the Transportation South Capacity Agreement.
4. BC Gas hereby advises that its intended date of completion of the SCP project is on or before November 1, 2000 and BC Gas hereby confirms that all related agreements will accommodate that completion date. BC Gas will be seeking bids for materials (such as pipe and compression) and for construction and installation; and may seek bids based on alternatives such as completion of the SCP in 2000 or in 2001. Depending on the results of those bids, BC Gas may revise aspects of the project, including revision of the expected date of completion to November 1, 2001. BC Gas will advise the Commission if there is a change in the date by which BC Gas intends to complete the SCP and will confirm that all related agreements will accommodate a revised completion date.

BC Gas submits that the foregoing satisfies the conditions precedent listed in Order G-51-99 and accordingly requests that the Commission issue the Certificate of Public Convenience and Necessity for the SCP project and approve the related agreements.

Yours truly,

BC GAS UTILITY LTD.



for
D.M. Masuhara
Vice President
Legal, Regulatory & Logistics and Secretary

CJ/RB/sam

cc: Intervenor

THIS FIRM TENDERED TRANSPORTATION SERVICE AMENDING AGREEMENT is made as of June 9, 1999,

BETWEEN:

BC GAS UTILITY LTD. ("BC GAS"), a company incorporated under the laws of British Columbia having its registered office at 1111 West Georgia Street, Vancouver, British Columbia

AND:

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY ("Shipper"), a Crown Corporation established pursuant to an Act of the Province of British Columbia and continued under the *Hydro and Power Authority Act*, R.S.B.C. 1996, c. 212

WHEREAS:

- A. BC Gas and Shipper entered into a Firm Tendered Transportation Service Agreement made as of November 27, 1998 and executed on the 7th day of January, 1999 (the "Firm Tendered Transportation Service Agreement");
- B. BC Gas applied to the British Columbia Utilities Commission (the "Commission") for a Certificate of Public Convenience and Necessity to construct the Southern Crossing Pipeline project;
- C. On May 21, 1999 the Commission issued its Decision regarding the application of BC Gas for a Certificate of Public Convenience and Necessity for the Southern Crossing Pipeline project, which Decision set out that the Commission is prepared to approve the Firm Tendered Transportation Service Agreement provided that it is amended to limit the total term to a maximum of 20 years;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT BC Gas and Shipper agree to amend the Firm Tendered Transportation Service Agreement as follows:

1. Section 8.1 is amended by revising the last sentence of that section to read:

"If this Agreement is extended pursuant to Section 8.2 or Section 8.3, then this Agreement shall continue in force until the expiry of the applicable extension period(s), provided that the term over which this Agreement may continue in force shall not exceed 20 years from the Commencement Date."

2. Section 8.2 is amended by adding the phrase: "Subject to Section 8.1," at the beginning of that section so that the revised Section 8.2 reads:

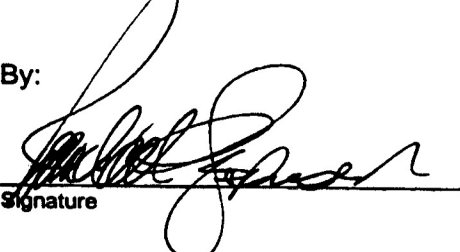
"Subject to Section 8.1, Shipper shall have the right at the end of the Primary Term and at the end of each extended term thereafter, to extend the term of this Agreement for a further period of 1 Contract Year, by providing written notice to that effect. The written notice shall be given not less than 24 months prior to the expiration of the Primary Term or any extended term."

3. The above amendments to the Firm Tendered Transportation Service Agreement are effective as of the date set forth on page 1 of this Firm Tendered Transportation Service Amending Agreement.

IN WITNESS WHEREOF the Parties have executed this Firm Tendered Transportation Service Amending Agreement on the day of June, 1999.

BC GAS UTILITY LTD.

By:


Signature

Randy Jespersen
Name **Senior Vice President**
Energy Delivery Services

BRITISH COLUMBIA HYDRO AND
POWER AUTHORITY

By:


Signature

MICHAEL COSTELLO
CEO
Name/Title



THIS FIRM TENDERED TRANSPORTATION SERVICE AMENDING AGREEMENT is
made as of June 9, 1999,

BETWEEN:

BC GAS UTILITY LTD. ("BC GAS"), a company incorporated under the laws of British Columbia having its registered office at 1111 West Georgia Street, Vancouver, British Columbia

AND:

PG&E ENERGY TRADING, CANADA CORPORATION ("Shipper"), a body corporate under the laws of the Province of Alberta, having its office and principal place of business at 335 - 8th Avenue S.W., Royal Bank Tower, Calgary, Alberta

WHEREAS:

- A. BC Gas and Shipper entered into a Firm Tendered Transportation Service Agreement made as of November 30, 1998 (the "Firm Tendered Transportation Service Agreement");
- B. BC Gas applied to the British Columbia Utilities Commission (the "Commission") for a Certificate of Public Convenience and Necessity to construct the Southern Crossing Pipeline project;
- C. On May 21, 1999 the Commission issued its Decision regarding the application of BC Gas for a Certificate of Public Convenience and Necessity for the Southern Crossing Pipeline project, which Decision set out that the Commission is prepared to approve the Firm Tendered Transportation Service Agreement provided that it is amended to limit the total term to a maximum of 20 years;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT BC Gas and Shipper agree to amend the Firm Tendered Transportation Service Agreement as follows:

1. Section 8.1 is amended by revising the last sentence of that section to read:

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2. Section 8.2 is amended by adding the phrase: "Subject to Section 8.1," at the beginning of that section so that the revised Section 8.2 reads:

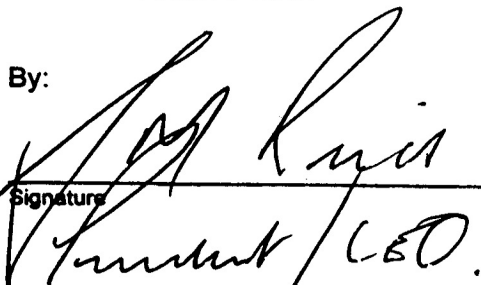
"Subject to Section 8.1, Shipper shall have the right at the end of the Primary Term and at the end of each extended term thereafter, to extend the term of this Agreement for a further period of 1 Contract Year, by providing written notice to that effect. The written notice shall be given not less than 24 months prior to the expiration of the Primary Term or any extended term."

3. The above amendments to the Firm Tendered Transportation Service Agreement are effective as of the date set forth on page 1 of this Firm Tendered Transportation Service Amending Agreement.

IN WITNESS WHEREOF the Parties have executed this Firm Tendered Transportation Service Amending Agreement on the day of June, 1999.

BC GAS UTILITY LTD.

By:

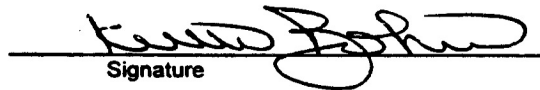


Signature

Name/Title

PG&E ENERGY TRADING, CANADA
CORPORATION

By:



Signature

Name/Title

KEITH BOHN / SENIOR VICE PRESIDENT

Name/Title

THIS TRANSPORTATION SOUTH CAPACITY AMENDING AGREEMENT is made as of June 9, 1999,

BETWEEN:

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY, ("Hydro") a Crown Corporation established pursuant to an Act of the Province of British Columbia and continued under the *Hydro and Power Authority Act*, R.S.B.C. 1996, c. 212

AND:

BC GAS UTILITY LTD. ("BC GAS"), a company incorporated under the laws of British Columbia having its registered office at 1111 West Georgia Street, Vancouver, British Columbia

WHEREAS:

- A. BC Gas and Hydro entered into the Transportation South Capacity Agreement made as of November 27, 1998 and executed on the 7th day of January, 1999 (the "Transportation South Capacity Agreement");
- B. BC Gas applied to the British Columbia Utilities Commission (the "Commission") for a Certificate of Public Convenience and Necessity to construct the Southern Crossing Pipeline project;
- C. On May 21, 1999 the Commission issued its Decision regarding the application of BC Gas for a Certificate of Public Convenience and Necessity for the Southern Crossing Pipeline project, which Decision set out that the Commission is prepared to approve the Transportation South Capacity Agreement provided that it is amended to clarify that, in accordance with earlier Commission directives, assignments to core market customers wishing to purchase gas directly from non-utility suppliers would take precedence over assignments under the Transportation South Capacity Agreement;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT Hydro and BC Gas agree to amend the Transportation South Capacity Agreement as follows:

1. Section 2.2 is amended by adding at the end of Section 2.2 the following:

"The RFR does not apply to Assignable Capacity the disposition of which is restricted by directives of the British Columbia Utilities Commission existing as of September 30, 1998; and more particularly assignments of Transportation South Capacity to core market customers wishing to purchase gas directly from non-utility suppliers shall take precedence to the RFR."

2. The above amendment to the Transportation South Capacity Agreement is effective as of the date set forth on page 1 of this Transportation South Capacity Amending Agreement.

IN WITNESS WHEREOF the Parties have executed this Transportation South Capacity Amending Agreement on the day of June, 1999.

**BRITISH COLUMBIA HYDRO AND
POWER AUTHORITY**

By:



Signature

MICHAEL COSTELLO
CEO

Name/Title

BC GAS UTILITY LTD.

By:

A handwritten signature in black ink, appearing to read "Randy Jespersen", written over a horizontal line.

Signature

Randy Jespersen
Senior Vice President
Energy Delivery Services

Name/Title