



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

and

An Application by Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd.
for Approval of Rate Changes effective July 1, 2000

BEFORE: P. Ostergaard, Chair)
B.L. Clemenhagen, Commissioner)
K.L. Hall, Commissioner) June 21, 2000
N.F. Nicholls, Commissioner)

O R D E R

WHEREAS:

- A. On June 19, 2000, Pacific Northern Gas Ltd. ("PNG") and Pacific Northern Gas (N.E.) Ltd. ("PNG(N.E.)") applied to the Commission for approval to flow through higher natural gas purchase costs under their approved gas supply portfolio for their service areas, effective July 1, 2000 ("the Application"); and
- B. The Application provided an analysis of PNG and PNG(N.E.)'s projected gas costs for the 2000 period based on forward gas prices for July 2000 through June 2001 that average US\$3.98/MMBtu and a currency exchange rate of US\$0.68/\$Cdn; and
- C. PNG has advised the Commission that the approved customer rates as a result of the 2000 Revenue Requirements and Alternative Dispute Resolution ("ADR") Settlement Agreement, approved by Orders No. G-37-00 and G-45-00, have generally not been implemented due to mixed rate signals that would be caused by the effect of lower rates from January 1, 2000 and higher rates from July 1, 2000. Instead, the Application proposes to incorporate the impact of the ADR Settlement Agreement into the July 1, 2000 rate changes; and
- D. The Application indicated approximately a 22 percent increase in typical residential annual bills for PNG customers, and a 36 to 39 percent increase for PNG(N.E.) residential customers. Annual bills for commercial customers would increase by 27 to 49 percent; and
- E. Order No. G-40-00 approved an increase in the propane Gas Supply Charge for Granisle customers to \$9.384/GJ, effective April 13, 2000. Rather than implement this rate change, in the Application PNG requested that the propane Gas Supply Charge increase from \$6.922 to \$7.783/GJ for January 1, 2000 and to \$12.00/GJ for July 1, 2000; and
- F. The difference between the gas and propane costs which are recovered in rates, and the actual cost of gas and propane will accumulate in PNG's gas supply cost deferral accounts; and
- G. The Commission has reviewed the Application and is satisfied that approval of changes to customer rates, as generally set out in the Application, is necessary.

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-64-00

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NOW THEREFORE pursuant to Section 61(4) of the Utilities Commission Act, the Commission orders as follows:

1. The interim rates in effect for January 1, 2000 for PNG and PNG(N.E.) customers are confirmed as permanent, with the components of the rates to be determined as set out in the Application.
2. The Commission rescinds Order No. G-40-00 and approves propane Gas Supply Charges for Granisle customers of \$7.783/GJ, effective January 1, 2000, and of \$11.60/GJ, effective July 1, 2000.
3. The Commission approves for PNG and PNG(N.E.) the other Gas Supply Charges and rates, effective July 1, 2000, as set out in the Application.
4. PNG and PNG(N.E.), by way of a Customer Notice, are to provide all affected customers with an explanation of the rate changes. PNG and PNG(N.E.) are directed to review their communication plan, advertisement plan, advertisements and bill inserts related to the gas price increase with Commission staff prior to release.
5. The Commission will accept, subject to timely filing, amended Gas Tariff Rate Schedules in accordance with the terms of this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 22nd day of June 2000.

BY ORDER

Original signed by:

Peter Ostergaard
Chair



N E W S R E L E A S E

For release June 22, 2000

BCUC Approves a Rate Increase of 22 to 39 Percent for Pacific Northern Gas Residential Customers

Vancouver – The B.C. Utilities Commission has approved very large rate increases for Pacific Northern Gas and Pacific Northern Gas (N.E.) customers in the Province starting July 1, 2000. The new rates will increase bills for natural gas service to residential customers by 22 to 39 percent, with increases of 27 to 49 percent for commercial customers who purchase their gas commodity from the utility. Residential customers will typically pay about \$240 to \$360 per year more for gas.

The entire increase is attributable to the rapid rise in market prices for natural gas. Natural gas is a commodity whose price at the gas well and at wholesale trading points is not controlled by governments or regulation. Elimination of government control of natural gas commodity prices in 1985 and free trade have created a North American market for natural gas, with prices in different areas varying largely as a result of transportation costs from gas wells to major trading points. The monopoly transmission and distribution pipelines remain regulated.

The company's forecast of gas prices from July to December has been validated against other forecasts, as part of the Commission's responsibility to ensure that utilities buy natural gas at the lowest overall cost.

For the past few years, gas customers in British Columbia have been shielded from the full impact of gas price increases. There was a surplus of gas production capability in British Columbia and Alberta and insufficient pipeline capacity to move this surplus gas to markets in Eastern Canada and the United States. The recent construction of major new pipeline facilities is exposing British Columbia consumers to the full impact of open market price increases.

Natural gas commodity prices increased significantly in 1999, and have subsequently risen dramatically in 2000. Since early 2000, PNG's gas supply costs have increased by 53 percent. PNG buys natural gas from producers and marketers and passes on the cost, without markup, to its customers. Any increase or

decrease in costs is carried in a separate account to either be credited to customers if gas prices fall, or recovered at a future date from customers if gas prices turn out to be higher than forecast.

For July 2000, PNG applied to the Commission for rate increases to pay for the higher cost of gas commodity purchases that it forecasts for the rest of 2000. The Utilities Commission Act permits a utility to file new rates that recover increases in non-controllable costs such as gas supplies. The Commission has now approved higher Gas Supply Charges effective July 1, 2000 that are based on current forecasts of gas prices and currency exchange rates.

PNG may apply to the Commission to have rates for January 2001 adjusted for utility costs related to the transportation and delivery of natural gas to customers, for natural gas commodity price forecasts at that time, and for the recovery of past underpayments.

Particularly in these times of high costs due to growing demand and tight supplies for natural gas, the Commission encourages customers to take advantage of opportunities to minimize gas consumption. To avoid very high bills in winter months, consumers may also wish to consider PNG's equal payment plan, which levelizes utility payments over the full year.

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Also see Attached Backgrounder "Approved Natural Gas Rate Increases, Effective July 2000"

For further information:

Bill Grant, Executive Director, (604) 660-4700



APPROVED NATURAL GAS RATE INCREASES

Effective July 2000

Natural gas is a commodity whose price at the wellhead and at wholesale trading points is not controlled by governments or regulation. In 1985 the federal government and the producing provinces agreed to eliminate government control of natural gas commodity prices. Free trade between Canada and the United States has created a North American market for natural gas, with prices in different areas varying largely as a result of transportation costs from gas wells to major trading points. The monopoly transmission and distribution pipelines remain regulated, but natural gas commodity prices are established in the open market.

North American gas prices increased significantly in 1999, due to a number of factors that included:

- very warm weather in eastern North America in the summer of 1999 and high air conditioning loads across much of the continent, so that more natural gas was consumed to generate electricity rather than being stored for the winter;
- concerns that natural gas demands for the 1999/2000 winter would strain gas production, pipeline and storage systems, particularly if winter weather was colder than normal; and
- lower than normal drilling activity in 1998 to obtain new sources of supply, especially in the U.S., due to low oil prices which reduced reinvestment levels.

In 1999, British Columbia consumers also became exposed to the full impact of open market price increases. For the previous few years, gas customers in Western Canada had been shielded from the full impact of gas price increases. There was a surplus of gas production capability in British Columbia and Alberta and insufficient pipeline capacity to move this surplus gas to markets in Eastern Canada and the United States. This changed with the recent construction of major new pipeline facilities.

Natural gas prices have continued to increase dramatically in 2000, for reasons that include:

- underground gas storage facilities across the continent were drawn down in early 2000 to levels that are lower than in 1999. The need to refill storage increases total gas demand;
- long range weather forecasts indicated a warmer than normal summer in 2000;
- supply additions in the United States have not been sufficient to meet the growth in demand; and
- the high price of crude oil is also contributing to higher gas prices, due to oil customers with fuel switching capability (gas/oil thermal electric generation stations, for example) switching to gas.

January 2000 rate increases were mostly to cover increases in the cost of gas purchases, but also included small adjustments to the charges for transporting and delivering the gas commodity to customers. The utilities receive a regulated return on their investment in the pipeline distribution system.

The increases approved for July 2000 are entirely to cover increases in the wholesale cost of the natural gas commodity purchased by BC Gas, Pacific Northern Gas and Centra Gas for their customers. Utilities purchase natural gas from producers and marketers and pass on the cost, without markup, to customers.

BC Gas, Pacific Northern Gas and Centra Gas record actual costs and revenues related to the natural gas commodity in their gas cost reconciliation accounts. If natural gas rates do not fully cover actual costs, the deficiency is recorded in these accounts, for future recovery from customers. If natural gas rates recover more than actual costs, the difference is returned to customers when the new rates are set. Rate increases in 1999 did not keep up with increases in gas costs, and debit balances (amounts that must be paid to the utility) have built up in these accounts. Rates for 2000 include rate riders that start to repay the account balances.

The increases in the gas rates effective July 1, 2000, as a percent of a typical average annual bill and in dollar amounts, are shown below. The new rate amounts are approximate, as they include monthly fixed charges and will vary with consumption.

		Increase %	Increase \$/GJ ¹	New Rate \$/GJ
BC Gas	Residential	33%	\$2.35	\$9.55
	Commercial	36-41%		
	General Service	47-48%		
PNG-West	Residential	22%	\$1.80	\$10.15
	Commercial	27%		
PNG(N.E.) (Fort St. John)	Residential	37%	\$2.02	\$7.56
	Commercial	42%		
Centra Gas (New Customers)	Residential	9%	\$0.97	\$12.37
	General Service	12-16%		

A typical residential annual bill will increase by about \$240 to \$290 for BC Gas, \$240 for PNG customers, \$360 for PNG(N.E.) customers, and \$70 for Centra Gas New Customers.

Centra Gas' rates are set according to a Special Direction from the Provincial Government to the Commission that permits Centra Gas to flow through increases in the cost of gas supplies to New Customer classes. Centra Gas' residential customers pay the highest natural gas rates in the Province.

The Commission reviews natural gas purchase contracts to ensure that the prices and terms are prudent and that BC Gas, Pacific Northern Gas and Centra Gas are buying gas at the lowest overall cost. The Commission also confirms that increases in the utilities' gas costs flow through to consumers without markup.

British Columbia Utilities Commission Staff
June 22, 2000

¹ A gigajoule ("GJ") is a unit of energy. One GJ is about the amount of energy contained in 915 cubic feet of natural gas, or 29 litres of gasoline, or 278 kilowatt hours of electricity, or 0.16 barrels of oil. The amount of natural gas used by individual residential customers varies widely; a typical customer consumes about 120 GJ annually for space heating and domestic hot water.