



LETTER NO. L-42-02

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TO: REGISTERED INTERVENORS

Re: BC Gas Utility Ltd.
Application for Approval of 2003 Revenue Requirements

On June 17, 2002, BC Gas Utility Ltd. ("BC Gas") filed a 2003 Revenue Requirements and Multi-Year Performance-Based Ratemaking Application. After holding a Workshop and Pre-hearing Conference and reviewing submissions from Intervenor, the Commission, by Order No. G-63-02, referred the 2003 Revenue Requirements component of the Application to an oral public hearing process. The purpose of the hearing is to hear sufficient evidence to approve a Schedule of Rates for BC Gas, effective January 1, 2003. The Order also requested Intervenor to submit a list of issues, with suitable descriptions and reasons, which they intended to pursue at the hearing. Intervenor were also asked to list those issues that they felt might be amenable to discussion and resolution in advance of the oral public hearing. Intervenor responded with wide-ranging lists of issues, including normal revenue requirement issues and others.

The Commission wishes to provide all parties an opportunity to assess all relevant issues to establishing BC Gas' 2003 revenue requirements. Therefore, all issues which are normally reviewed in a revenue requirements proceeding are included. However, upon review of the issues lists submitted, the Commission finds that, based upon those issues identified by registered Intervenor, a number of the issues are not directly related to a hearing into a one-year revenue requirement for BC Gas. In the interest of efficiency and control of costs for all concerned, the Commission finds that it would be useful to identify and exclude those issues that are based on other current or pending processes, on Orders and Decisions already made by the Commission, or are otherwise not directly relevant to this one-year revenue requirement application. Exclusion of the following issues will result in a more effective hearing, focussed on the cost categories and activities of BC Gas that are relevant to the 2003 revenue requirements:

1. Customer Works

These contracts have been approved by Order No. G-29-02. The approved costs and expected cost offsets should be apparent in the Application evidence.

2. Gas Supply Cost Allocation Methodology and Gas Cost Reconciliation Account ("GCRA")

These items were approved by the Phase A and Phase B Rate Design Decisions in 1992 and 1993. The Commission has invited the gas utilities to provide suggestions later this year to improve and streamline the Quarterly Reporting Guidelines as set out in Letter No. L-05-01, for the setting of gas commodity rates and the management of GCRA balances.

3. Service Quality Indicators

Service Quality Indicators are relevant only to a Performance-Based Ratemaking proceeding.

4. **Unbundling**

If the provincial Energy Policy and legislation support unbundling, the Commission will put in place a process to implement unbundling for November 2004. If BC Gas applies for more flexible pricing options in the meantime, other parties will be provided the opportunity for input.

5. **Rate Design**

Rate design reviews of BC Gas rates have been undertaken several times in the past. The most recent review of BC Gas rates took place in 2001 and was resolved by a negotiated settlement that was approved by Commission Order No. G-116-01. In the current application BC Gas has proposed no new rate design changes, except for the request to allocate revenue decreases arising from reduced consumption levels by customers whose volumes fall under the Revenue Stabilization Account Mechanism ("RSAM"). Therefore, except for the question of how to allocate the effects of consumption decreases by RSAM customers, rate design is not a subject of this hearing.

6. **Southern Crossing Pipeline ("SCP")**

The SCP was approved by Order No. G-51-99. Issues of third-party access to SCP capacity and the proportion of SCP costs to be placed into the delivery margin of customer bills were resolved by a negotiated settlement that was approved by Order No. G-74-00. Consequently issues related to approval of the SCP or allocation of SCP costs are not issues for this hearing. Questions relating to revenue expectations from SCP in 2003, however, are relevant.

7. **Inland Pacific Connector ("IPC")**

BC Gas has not applied to the Commission for approval to construct its proposed IPC so that project is not an issue. However, the possible use of utility personnel on non-regulated projects is an issue.

8. **\$2 Million Gift**

The \$2 million "gift" to needy customers, booked in 2002 against the shareholders account, is not a customer cost and is not part of the 2003 Revenue Requirement.

9. **Revenue Requirements or Multi-Year Performance-Based Rates Beyond 2003**

BC Gas has applied to establish a one-year revenue requirement and it will be up to BC Gas to determine, at a future date, whether it will apply for a multi-year revenue requirement commencing in 2004.

10. **Return on Equity ("ROE")**

While the Commission's Generic ROE mechanism is not part of this hearing, participants may wish to cross-examine BC Gas on the make-up of its proposed capital structure or any changes to the Utility's risk profile, which should be reflected in the BC Gas ROE risk premium.

Commission Order No. G-63-02 also requested Intervenor to identify issues amenable to discussion and resolution in advance of the hearing.

The Commission promotes the efficient use of regulatory resources through the use of accountable, results-based regulatory processes. The Commission wishes to establish working groups to engage Key Stakeholders, who are most knowledgeable and familiar with the specific issues, to help clarify, simplify and resolve certain issues prior to the hearing. The clarification of issues prior to the public hearing will benefit all participants, especially if an issue is highly technical, specific to only certain Intervenor, or can

be articulated by a subset of Intervenor with specific knowledge or experience related to an issue. Other participants will not be disadvantaged since reports from the working groups will be filed by BC Gas in advance of the hearing and any participant may ask questions about the reports.

Four possible working groups were suggested and two are to be established as follows:

1. **Tariff wording changes that mainly affect Transportation customers.**

A working group is to be established to include the following Key Stakeholders: BC Gas (Chair), Transportation Customers and their representatives, BCUC staff.

2. **Load Forecasts for Residential, Commercial and Large Commercial Customers.**

A working group is to be established to include the following Key Stakeholders: BC Gas (Chair), The British Columbia Public Interest Advocacy Centre, BCUC staff.

3. **Code of Conduct and Transfer Pricing Issues.**

No working group will be established as the Commission is concerned that BC Gas' reasons for flexibility are not fully articulated and the positions of the registered Intervenor are not sufficiently clear. The issue will be canvassed at the hearing.

4. **Unbundling.**

No working group will be established since the Commission has excluded unbundling as a subject for discussion at this hearing.

The Commission has directed staff to invite Key Stakeholders to participate in the two working groups, with the intention to discuss and resolve the transportation service tariff wording and load forecasts prior to the hearing. BC Gas is requested to chair the working groups, and to file a report on the outcomes of the work of each group by November 5, 2002.

Yours truly,

Original signed by:

Robert J. Pellatt

JJH/cms

cc: Mr. David M. Masuhara
Vice President, Regulatory, Environment
& Safety, Supply Chain & Logistics
BC Gas Utility Ltd.
Interested Parties