



**LETTER No. L-24-04**

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Log No. 4772

**VIA FACSIMILE**  
250, 401-4101

April 23, 2004

Mr. Mike Redfearn  
Chief Administrative Officer  
District of Chetwynd  
Box 357  
Chetwynd, B.C. V0C 1J0

Dear Mr. Redfearn:

Re: Terasen Gas Inc. ("Terasen Gas")  
Complaint by the District of Chetwynd

In a letter dated December 18, 2003 the District of Chetwynd ("the District", "Chetwynd"), filed a complaint to the Commission pursuant to Section 58 of the Utilities Commission Act regarding Terasen Gas' rates for consumers within the District. The Commission, in its letter dated January 29, 2004, requested comment on the complaint from Terasen Gas and invited subsequent reply comment from the District. The Terasen Gas comment was received on February 20, 2004 and the District's reply was received on March 11, 2004.

In its complaint, the District submits that the rates for natural gas service to customers within the municipal boundaries of the District are unjust, unreasonable and unduly discriminatory, and requests that the Commission establish rates that are just, reasonable and sufficient. Alternatively, if the Commission cannot determine such rates, Chetwynd asks that the Commission require Terasen Gas to file sufficient information to enable the Commission to make such a determination.

The District's complaint arises in the context of negotiations regarding renewal of the operating agreement between the District and Terasen Gas. Chetwynd is currently served by Terasen Gas under an operating agreement dated May 22, 1980. That agreement expired on June 30, 2001 but has been extended by three separate one year extensions approved by the Commission. The District states that it cannot determine whether the renewal of the agreement is in the public interest of the residents of the District until the issue of rates is resolved.

The Commission notes that, while the context of the complaint may be the negotiations surrounding renewal of an operating agreement between Terasen Gas and Chetwynd, the District's complaint is specifically about the rates under which natural gas is supplied to its residents. Chetwynd submits that its complaint that rates to the district are too high is supported by cost of service analysis, comparison to rates in other communities in the region and by comparison to the cost of other fuels.

Terasen Gas supplies customers in the Lower Mainland, Inland and Columbia service areas. The delivery charges to Terasen Gas' customers are the same to each customer class throughout the three service areas ("postage-stamp rates"). The gas supply portion of Terasen Gas' rates are different for each service area to reflect some of the differences in the cost of supplying and transporting gas to each region. Chetwynd is located at the northern extreme of the Inland service area (which is north of the Lower Mainland and Columbia service areas).

Chetwynd provides data from the BC Gas 2001 Rate Design Application's Regional Cost Allocation Study to show that revenue to cost and margin to cost ratios were higher in the Inland North region (Chetwynd to Savona) than in the Lower Mainland, Inland South, and Columbia regions also served by Terasen Gas. While Chetwynd notes that revenue to cost ratios fall roughly within the ranges the Commission has traditionally considered acceptable, it argues that margin to cost ratios, which exclude the cost of gas, are a more appropriate indicator and that the margin to cost ratios are well beyond the range of reasonableness. A stand-alone analysis for the District, undertaken by Terasen Gas at the District's request, showed an overall margin to cost ratio of 1.3 with the majority of customers being close to one (residential) and commercial and industrial customers being about 1.3.

Chetwynd and Terasen Gas disagree about the accuracy of the stand-alone analysis provided by Terasen Gas. Terasen Gas submits that the results of the stand-alone cost allocation exercise for Chetwynd and surrounding areas are insufficient to conclude that the rates for the customers in Chetwynd are unfair and unjust. Terasen Gas states that in the stand-alone analysis the residential margin to cost ratio is 1.02 and continues to support its conclusions in its last rate design application. Terasen Gas believes that Chetwynd's total cost as a separate utility would likely be higher due to its location and small size. Chetwynd further argues that Terasen Gas' stand-alone analysis is selective and based on a number of assumptions that make it difficult to assess the accuracy of Terasen Gas' analysis.

Chetwynd also compares its rates from Terasen Gas to those of the surrounding communities of Fort Nelson and Prince George, which are also served by Terasen, and to Fort St. John, Dawson Creek and Tumbler Ridge, all served by Pacific Northern Gas Ltd. Based on April 1, 2003 rates, Chetwynd's rates are higher than those of Fort Nelson, Dawson Creek and Fort St. John, the same as those in Prince George and lower than those in Tumbler Ridge.

Further, Chetwynd submits that the natural gas rates in Chetwynd are approaching and may exceed the efficiency adjusted price of electricity for space heating, depending on the assumed efficiency of the gas furnace.

#### Commission Determinations

Allocating the total cost of service among the different ratepayers so as to avoid arbitrariness and cross-subsidization is important, but not the only factor to be considered when determining the reasonableness of rates. Other important factors include administrative simplicity, understandability and stability of rates.

The Commission notes that the District found the revenue to cost ratios provided in the BC Gas 2001 Rate Design Application to be within the range of reasonableness, although it had greater concerns about the margin to cost ratios. The Commission also notes that Terasen Gas and Chetwynd differed on the accuracy of the stand-alone cost analysis.

The BC Gas 1993 Rate Design Decision endorsed “postage-stamp” rates as appropriate across the Lower Mainland and Inland service areas. The 2001 settlement agreement (approved by the Commission and attached to Order No. G-116-01) in the matter of the BC Gas 2001 Rate Design Application was silent on the issue of postage-stamp versus regional rates, but accepted postage-stamp rates applicable to the delivery charges for the Lower Mainland, Inland and Columbia service areas.

The Commission is not persuaded that the cost of service analysis provides sufficient justification to require Terasen Gas to amend the rates to the District of Chetwynd. As noted above, there are other important considerations to consider when setting rates such as administrative simplicity, stability and understandability. To set a rate for a single municipality or district raises serious issues about how far the boundaries of the rates should extend, and how the utility would adjust its rates for other customers if the rates to one district were changed. The appropriate forum for considering the rates charged to various customer classes (whether those classes are defined by geographic area or by customer characteristics) is within a rate design hearing so that other affected customers may respond, as well as the utility. Therefore, the Commission dismisses Chetwynd’s complaint.

The Commission acknowledges the District’s position that, even though there is some regional differentiation in the gas supply portion of Chetwynd’s rates, those rates still may include some Duke Energy Transmission tolls and fuel gas charges for services that Chetwynd doesn’t need. This could occur because of Chetwynd’s location just north of Station 2 on the Duke Energy Transmission system. Therefore, if Chetwynd wishes to raise this issue in the next Terasen Gas Rate Design proceeding, it is invited to do so.

Yours truly,

*Original signed by:*

Robert J. Pellatt

JWF/mmc

cc: Mr. Scott Thomson  
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