BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-27-08

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

and

An Application by Terasen Gas Inc.
(Fort Nelson Service Area)
for Approval to Amend its Schedule of Rates

BEFORE: L.F. Kelsey, Commissioner
P.E. Vivian, Commissioner
A.A. Rhodes, Commissioner

February 28, 2008

O R D E R

WHEREAS:

A. Commission Order No. G-17-04 approved for Terasen Gas Inc. Fort Nelson Service Area ("Terasen Fort Nelson" or the "Company") its 2004 Revenue Requirement Application, which included the implementation of a Rate Stabilization Adjustment Mechanism ("RSAM") effective January 1, 2004; and

B. The approved RSAM utilizes a deferral account to record the difference on a use per customer basis between forecast delivery margin used for rate making purposes and actual margin received from residential and commercial customers. For industrial (Rate 25) customers, the RSAM account records margin variations arising from the difference between forecast and actual deliveries. The amounts recorded in the RSAM account are to be amortized over the subsequent three-year period and recovered from or refunded to customers by way of a positive or negative rider on rates; and

C. On November 30, 2007, Terasen Fort Nelson filed a summary application for approval of its 2008 Revenue Requirements (the "Application") on a permanent and interim basis, pursuant to Section 89 of the Utilities Commission Act (the "Act"), effective January 1, 2008. The Company committed to file a more detailed Application by Friday, December 21, 2007; and

D. The Application sought approval, on a permanent basis, effective January 1, 2008, to increase the RSAM rate rider from $0.073/GJ by $0.042/GJ for a total rate rider of $0.115/GJ. The Application also sought a revenue requirement increase of $371,000 for the 2008 test year, effective January 1, 2008, resulting in an average 5.9 percent rate increase for all sales rate classes or a 32.9 percent increase on a delivery margin basis for all customers; and

E. On December 11, 2007, Terasen Fort Nelson calculated that reducing the 2008 forecast combined federal/provincial income tax rate from 32.5 percent to 31.5 percent based on an announced federal corporate income tax reduction of 1 percent in 2008 would reduce the 2008 revenue deficiency from $371,000 to $369,000 resulting in a 5.8 percent rate increase for all sales rate classes or a 32.7 percentage increase on a delivery margin basis for all customers. The RSAM rider would also be reduced to reflect an increase of $0.041/GJ for a total rate rider of $0.114/GJ; and

F. By letter dated December 12, 2007, Chris Morey, Mayor of the Town of Fort Nelson and Chair of the Northern Rockies Regional District expressed concerns about the proposed Terasen Fort Nelson rate increases and the effects on the community; and

G. Terasen Fort Nelson considered that a written hearing process would be appropriate for the review of the Application and proposed a regulatory timetable that included a deadline for Intervenor registration and Intervenor comments regarding the regulatory review process; and

H. On December 13, 2007, the Commission issued Order No. G-158-07, approving the requested permanent RSAM rider increase from $0.073/GJ to $0.114/GJ effective January 1, 2008. The Order also approved an interim refundable average rate increase of 5.8 percent for all sales rate classes or a 32.7 percent increase on delivery margin for all customers effective February 1, 2008. Both the approved RSAM rider increase and the interim rate increase were based on the announced federal/provincial income tax rate of 31.5 percent and Order No. G-158-07 provided for deferral account recovery for the difference in tax rates in the event that the enabling legislation was not passed; and

I. Order No. G-158-07 also established a Preliminary Regulatory Timetable for the registration of Intervenors and for the preliminary review of the Application, and for Intervenors to make written submissions regarding a formal review process. The Order also required Terasen Fort Nelson to publish a notice in such local news publications during the weeks of December 21, 2007 and January 9, 2008 as would provide adequate notice to the public of the Application, the deadline for intervenor registration and submissions on the type of review process and the regulatory timetable. No intervenors registered or made submissions on the review process or the regulatory timetable; and

J. On December 21, 2007, Terasen Fort Nelson filed its detailed 2008 revenue requirements application which contained updated information on property taxes, capital additions and income taxes and which reduced the 2008 revenue deficiency to $348,000; and

K. In accordance with the Preliminary Regulatory Timetable, the Commission issued Information Request No. 1 on January 16, 2008 to which Terasen Fort Nelson responded on January 30, 2008. On January 30, 2008 Terasen Fort Nelson also submitted a revised application which incorporated the revisions identified in its response to Information Request No. 1 and addressed the announced indefinite closure of two Canfor Corp. ("Canfor") facilities served under Rate Schedule 25 (the "Revised Application"); and

L. Terasen Fort Nelson receives shared services from Terasen Gas Inc. with the cost of those shared services allocated between Terasen Fort Nelson and Terasen Gas Inc. on the basis of sales volumes. Terasen Fort Nelson confirmed that an allocation of 0.4 percent has been fixed since a 1992 Terasen Gas Inc. (formerly BC Gas Inc.) Revenue Requirements Decision and results in a 2008 shared services allocation of $417,000. If shared services were allocated based on the number of customers, the 2008 allocation to Terasen Fort Nelson would 0.3 percent and if rate base was the allocator the 2008 allocation to the Company would be 0.2 percent. Terasen Fort Nelson estimates that a 0.1 percent reduction would result in a $100,000 reduction to the shared services allocation to the Company; and

M. The Revised Application estimates that the closure of the Canfor facilities will occur in early to mid 2008 and, combined with the revisions identified in the response to Information Request No.1, will increase the 2008 revenue deficiency to $482,000 ("the Revised Revenue Deficiency"). The Revised Revenue Deficiency would require a delivery margin increase of 49.2 percent or an average rate increase of 8.8 percent to all sales rate classes and an increase to the RSAM rate rider from $0.114/GJ to $0.144/GJ effective January 1, 2008. Terasen Fort Nelson submits that the 2008 rates should be increased to reflect this updated information; and

N. Terasen Fort Nelson calculated that the changes reflected in the January 30, 2008 Revised Application will result in an average residential delivery margin rate of $2.132/GJ including rate riders as compared to residential customers in the other three Terasen Gas service areas who have an average delivery margin of $3.964/GJ; and

O. On February 8, 2008, the Commission issued Order No. G-19-08 that determined the review of the Revised Application would occur through a written hearing process, set a deadline of February 14, 2008 for the response to the Commission's three verbal information requests and a deadline of February 21, 2008 for Terasen Fort Nelson's Comments; and

P. Terasen Fort Nelson filed its response to three verbal Commission information requests by the deadline and submitted its Comments on February 15, 2008. In its Comments Terasen Fort Nelson proposes to recover the increased revenue deficiency reflected in the Revised Revenue Deficiency from residential and commercial customers by a rate rider effective from April 1 to December 31, 2008. The proposed rate rider would recover the 2008 revenue deficiency remaining after deduction of the interim rate revenues for January 1 to March 31, 2008. For Rate 25 customers, Terasen Fort Nelson proposes to increase their rate effective January 1, 2008 and re-bill them for the January 1 to March 31, 2008 period; and

Q. In its Comments, Terasen Fort Nelson requested that the cost of shared services from Terasen Gas Inc. continue to be allocated on the basis of the 0.4 percent factor from the 1992 Terasen Gas Inc. Decision. The Company submitted that if the Commission determines that a change to the basis of allocation should be made then the increased shared service costs to Terasen Gas Inc. should be treated as an exogenous factor under the Terasen Gas Inc. 2004-2007 Multi-Year Performance Based Rate Plan Settlement Agreement and the 2008-2009 extension; and

R. On February 25, 2008 Canfor announced that its Tackama plywood plant which was to shut down at the end of April 2008 will remain open after Canfor received concessions from both the B.C. government and the union representing the mill's workers according to a Vancouver Sun article; and

S. The Commission has considered the Revised Application, the evidence adduced in relation thereto and the submissions.

NOW THEREFORE pursuant to Section 58 of the Act, the Commission orders as follows:

1. Terasen Fort Nelson's Revised Application is approved except as adjusted in Directives 2 and 3 of this Order.

2. Shared services received by Terasen Fort Nelson from Terasen Gas Inc. for 2008 are to be allocated to the Company on the basis of number of customers. The cost of shared services that Terasen Gas Inc. is unable to recover from Terasen Fort Nelson as a result of this change in the basis of allocation are to be treated as an exogenous factor under the Terasen Gas Inc. 2004-2007 Multi-Year Performance Based Rate Plan Settlement Agreement and the 2008-2009 extension.

3. The requested RSAM adjustments are approved as filed in the Revised Application, subject to a recalculation of Rate 25 volumes and margin. Terasen Fort Nelson's 2008 revenue deficiency as adjusted by Directive 2 and the updated forecast of Rate 25 volumes due to the February 25, 2008 Tackama plywood plant announcement is recoverable from customers effective February 1, 2008. Terasen Fort Nelson is to recalculate the 2008 revenue deficiency and submit rate change calculations that will take effect on April 1, 2008 for residential and commercial customers and February 1, 2008 for Rate 25 customers.

4. Terasen Fort Nelson is to inform all affected customers of the final rates by way of a bill insert or customer notice, to be submitted to the Commission in draft form prior to its release.

5. Terasen Fort Nelson is to file amended Gas Tariff Rate Schedules in accordance with this Order in a timely manner.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of February 2008.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner