IN THE MATTER OF the
"Utilities Commission Act"
S.B.C. 1980, Chapter 60

and

IN THE MATTER OF an
Application by BC Gas Inc.
To Amend its Schedule of Rates

Rate Design Phase B

Volume 3

Written Evidence

BC Gas

June 1993

BC Gas Inc.
1111 West Georgia Street
Vancouver, British Columbia
Canada V6E 4M4

Tel (604) 443-6607
Fax (604) 443-6789

David M. Masuhara
Vice President
Legal and Regulatory Affairs

VIA COURIER

June 7, 1993

British Columbia Utilities Commission
6th Floor - 900 Howe Street
Vancouver, British Columbia
V6Z 2N3

Attention: R.J. Pellatt
Commission Secretary

Dear Sirs:

Re: BC Gas Inc. Rate Design Phase B Application
Volume 3 - Written Evidence

Pursuant to BCUC Order No. G-38-93, BC Gas files Written Evidence for witnesses in the above proceeding.

One copy of the above materials will be provided to registered intervenors and interested parties.

Yours truly,

per

David M. Masuhara

cc: Registered Intervenors
Interested Parties

bcuc13.93

BRITISH COLUMBIA UTILITIES COMMISSION

MAY 30 1991

→ PDL
SPC
ECE
JOW
CBJ
(F) Recons decision
BAM

Looks like Ocelot
lost the war.
– [illegible]

May 24, 1991

Mr. R. B. Wallace
Bull Housser & Tupper
Barristers & Solicitor
3000 Royal Centre
P.O. Box 11130
1055 West Georgia Street
Vancouver, B.C.
V6E 3R3

Dear Mr. Wallace:

Re: Pacific Northern Gas Ltd. ("PNG")
Request for Reconsideration
Commission Decision Order No. G-23-91

Further to your April 10, 1991 request for Commission reconsideration of its February 27, 1991 Decision and Order No. G-23-91 we enclose Commission Order No. G-42-91.

Yours truly,

[signature]

Robert J. Pellatt
Commission Secretary

RJP/lm
Encl.
cc: Mr. R.G. Dyce, Executive Vice President and General Manager
Pacific Northern Gas Ltd.
Registered Intervenors

PNG/Cor/Reconsider. Request-Wallace

BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-42-91

IN THE MATTER OF the Utilities Commission Act, S.B.C. 1980, c. 60, as amended

and

IN THE MATTER OF an Application by Ocelot Chemicals Inc. for Reconsideration of Commission Decision and Order No. G-23-91 dated February 27, 1991

and

IN THE MATTER OF a Complaint by Ocelot Chemicals Inc. against Pacific Northern Gas Ltd.

and

IN THE MATTER OF a Rate Design Application by Pacific Northern Gas Ltd.

BEFORE:	J.D.V. Newlands, Deputy Chairman; N. Martin, Commissioner; and W.M. Swanson, Q.C., Commissioner	)	May 23, 1991

O R D E R

WHEREAS:

A. On April 10, 1991, pursuant to Section 114 of the Utilities Commission Act, Ocelot Chemicals Inc ("Ocelot") filed a request that the Commission review, reconsider and vary its February 27, 1991 Decision and Order No. G-23-91; and

B. By letter dated April 16, 1991 the Commission sought the submissions of all Registered Intervenors concerning the request for reconsideration with such submissions to be received by the Commission no later than April 26, 1991; and

C. Such submissions were received; and

D. By letter dated May 2, 1991, the Commission invited those intervenors to the proceeding to review the submissions and provide the Commission with any responses by May 10, 1991; and

E. Such responses were received; and

F. The Commission has considered the Ocelot Application for Reconsideration, has reconsidered its Decision and Order, has considered the evidence adduced at the public hearings together with other information forming the basis of the original decision, and has issued a Decision, with Reasons, concurrent with and attached as Appendix A to this Order.

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-42-91

NOW THEREFORE the Commission orders as follows:

1. Paragraph 5 of Commission Order No. G-23-91 is rescinded and replaced with the following:

   Large industrial customer service rates shall decline on a one time basis by approximately $0.03 per gigajoule for Eurocan Pulp & Paper Co., and by approximately $0.03 per gigajoule for Alcan Smelters and Chemicals Ltd.

2. In all other respects the Decision and Order No G-23-91 of the Commission is confirmed.

DATED at the city of Vancouver, in the Province of British Columbia, this 27th day of May, 1991.

BY ORDER

J.D.V. Newlands
Deputy Chairman and
Chairman of the Division

/lm

Attachment

REASONS FOR DECISION

INTRODUCTION

On April 10, 1991 Ocelot Chemicals Inc. ("Ocelot") filed a request that the Commission review, reconsider and vary its February 27, 1991 Decision and Order No. G-23-91 in the matter of a Complaint by Ocelot Chemicals Inc. against Pacific Northern Gas Ltd. and in the matter of a Rate Design Application by Pacific Northern Gas Ltd. ("PNG"). By letter dated April 16, 1991 the Commission sought the submissions of all Registered Intervenors concerning the request for reconsideration. Submissions were received from PNG and Eurocan Pulp and Paper Co. Inc. ("Eurocan"). By letter dated May 2, 1991, the Commission invited the registered intervenors to review the submissions made and advise the Commission of any concerns by May 10, 1991. A response was received from Ocelot.

SUBMISSION BY OCELOT

In applying for a reconsideration of the Ocelot Complaint and PNG Rate Design Decision, Ocelot directed the Commission's attention to two particular matters. These were: (1) the proper treatment of the cost of gas when calculating revenue to cost ratios and (2) the timing of the implementation of value of service rates for industrial interruptible customers.

1. Cost of Gas and the Calculation of Revenue to Cost Ratios

With respect to the first issue, Ocelot noted that the revenue to cost ratio for Skeena Cellulose Ltd. ("Skeena"), a company which takes only transportation service from PNG and purchases its gas directly from the producer, was computed excluding the cost of gas while the cost of gas was included for all other classes of customers. This results in revenue to cost ratios amongst customer classes which are not directly comparable. Ocelot submits that the inclusion of the cost of gas in the revenue to cost ratios is inappropriate and results in ratios for industrial customers which are artificially low. Ocelot asks that the Commission recalculate the revenue to cost ratios for industrial customers excluding the cost of gas, and reflect the revised revenue to cost ratios in any rate reductions applied to industrial customers.

Because the revenue to cost ratios calculated for firm service included the cost of gas, Ocelot appears to imply that the rates for firm service to Ocelot, allowed by the Commission are not properly cost-based.

2. Value of Service

Ocelot argued in favour of value of service based interruptible rates during the hearing and the Commission adopted this approach in its Decision. However, Ocelot argues that it was implicit in its submission made during the public hearing that the Commission should not impose value of service based interruptible rates until such time as the revenue to cost ratios for firm service rates approach the mid-point of the Commission's zone of reasonableness. Because the revenue to cost ratios found by the Commission were not properly calculated in Ocelot's view, as indicated in Point 1 above, Ocelot submits that the revenue to cost ratios for industrial firm service rates fall outside this zone and that the Commission should not have set industrial interruptible rates on a value of service basis.

In particular, Ocelot argues that if firm service rates do not result in revenue to cost ratios approaching the mid-point of the zone, industrial interruptible rates should not be set such that revenues from industrial interruptible sales are maximized, i.e. should not be set on a value of service basis.

COMMISSION DECISION

1. Cost of Gas and the Calculation of Revenue to Cost Ratios

Based on the submissions made to it and the evidence adduced through the public hearing process, the Commission accepts the position put forth by Ocelot, with which PNG concurred, that the revenue to cost ratio set out for Skeena Cellulose Ltd. in Table 2 at page 38 of the Decision was calculated in a manner that is inconsistent with the revenue to cost ratios calculated for customers who take sales gas. Specifically, the ratio for Skeena, which takes only transportation service from PNG, does not include an imputed commodity cost of gas or the associated tolls on the Westcoast Energy Inc. ("Westcoast") system. Similarly, the ratio shown for Ocelot, which is a ratio based on the revenues and costs associated with both sales and transportation service, is inconsistent because an imputed cost of gas and Westcoast tolls were not included in the cost of transportation service Ocelot receives from PNG.

In order to achieve consistency, the Commission finds that the revenue to cost ratios calculated for customers who take transportation service, specifically Skeena and Ocelot, should include an imputed cost of gas and Westcoast tolls. In making this determination the Commission has considered that PNG's Application was based primarily on revenue to cost ratios which included the cost of gas and that the zone of reasonableness surrounding these ratios was established including the cost of gas. Accordingly, the revenue to cost ratios for Skeena and Ocelot are recalculated using an imputed cost of gas and Westcoast tolls and are shown in Table 1, attached to these Reasons.

As a result of the revised calculation, the revenue to cost ratio for firm transportation service to Skeena becomes 1.04 and for firm sales and transportation service to Ocelot becomes 1.08. Therefore, the Commission rescinds paragraph 5 of Commission Order No. G-23-91 and replaces it as follows:

> Large industrial customer service rates shall decline on a one time basis by approximately $.03 per gigajoule for Eurocan Pulp and Paper Co., and by approximately $.03 per gigajoule for Alcan Smelters and Chemicals Ltd.

2. <u>Value of Service</u>

In respect of Ocelot's second submission, as can be seen from the conclusion in Point 1 above, the Commission reaffirms its decision that revenue to cost ratios should include the cost of gas. The evidence before the Commission is that the 90% - 110% zone of reasonableness, traditionally employed in analyzing whether or not a particular customer or a particular class of customer is paying rates that are cost based, includes the cost of gas. As the revenue to cost ratio for Ocelot's firm rates, including an imputed cost of gas adjustment for transportation service as described in Point 1 above, is within the zone of reasonableness, the Commission finds that Ocelot's firm service rates are cost based and fair, just and reasonable. Therefore no adjustment should be made to the original Decision with respect to the Ocelot firm rates other than that resulting from the variance described in Point 1 above.

Because the Commission has set firm rates for Ocelot which result in a revenue to cost ratio which lies within the zone of reasonableness and interruptible rates have been properly set on a value of service basis, the Commission has implemented rates for both firm and interruptible service in the manner Ocelot requested.

The Commission has considered the request for an oral hearing. However, since the basic issue raised by Ocelot in this reconsideration application was canvassed through the evidence presented during the hearing, in argument at the hearing, and in thorough written submissions received as a result of the request for reconsideration, the Commission does not believe an oral argument would be of assistance.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of May, 1991.

J.D.V. Newlands, Deputy Chairman and
Chairman of the Division

N. Martin, Commissioner

W.M. Swanson, Commissioner

TABLE 1

COMMISSION COST OF SERVICE ESTIMATES

	Revenue	Gross Costs	Allocated Premium	Net Costs	Revenue Net Costs	Revenue Cost
Residential	6,086	10,386	(667)	9,719	(3,633)	0.63
Commercial	6,102	7,930	(678)	7,252	(1,150)	0.84
Small Industrial	4,327	4,208	(387)	3,821	506	1.13
NGV	186	140	0	140	46	1.33
Ocelot - Firm	41,988	38,805	(34)	38,771	3,217	1.08
Skeena - Firm	7,371	7,132	(66)	7,066	305	1.04
Eurocan - Firm	6,221	5,664	(81)	5,583	638	1.11
Alcan - Firm	677	611	(5)	606	71	1.12
Large Comm - Interruptible	330	226	104	330	0	1.00
Large Indust. - Interruptible	10,416	8,602	1,814	10,416	0	1.00
Total	83,704	83,704	0	83,704	0	1.00

NOTES:

1. The above Table is the same as Table 2 (page 38) of the BCUC Decision with the exception that the Revenue, Gross and Net Costs shown for Ocelot and Skeena have been adjusted to include the imputed purchase cost of gas for the firm transportation service volumes for each company.

2. The purchase cost of gas imputed for Ocelot's 140 10^3m^3 of firm transportation service was calculated as follows:

140 10^3m^3 x \$463.71/10^3m^3/month (i) x 12 months	=	\$779,033
1,904,000 GJ x \$0.561/10^3m^3(ii) / 38.5 GJ/10^3m^3	=	27,744
1,904,000 GJ x \$1.03/GJ (iii)	=	1,961,120
		\$2,767,897

3. The purchase cost of gas imputed for Skeena's 229.5 10^3m^3 of firm transportation service was calculated as follows:

229.5 10^3m^3 x \$463.71/10^3m^3/month (i) x 12 months	=	\$1,277,057
3,021,000 GJ x \$0.561/10^3m^3(ii) / 38.5 GJ/10^3m^3	=	44,020
3,021,000 GJ x \$1.03/GJ (iii)	=	3,111,630
		\$4,432,707

(i) Westcoast Demand Toll
(ii) Westcoast Commodity Toll
(iii) Gas Commodity Cost

BRITISH COLUMBIA UTILITIES COMMISSION

EM
Mar -6 1991 FYI
& Return
→ JOW / W.
SPC
ECE
return / Don

March 1, 1991

Mr. R.G. Dyce
Executive Vice President and
General Manager
Pacific Northern Gas Ltd.
Suite 1400
1185 West Georgia Street
Vancouver, B.C.
V6E 4E6

Dear Mr. Dyce:

Re: Pacific Northern Gas Ltd. ("PNG")
Ocelot Complaint - Rate Design - Commission Decision

With reference to the January 17, 1990 Ocelot Chemicals Inc. complaint regarding rates charged by PNG and subsequent evidence on rate design filed by PNG, the Commission has made its determination into the matter. We enclose Commission Order No. G-23-91 and the Commission Decision issued concurrently with the Order.

Yours truly,

M. Donn
for Robert J. Pellatt
Commission Secretary

RJP/lm
Enclosures
cc: Ocelot Chemicals Inc.
Registered Intervenors
Interested Parties

PNG/Cor/Ocelot Compl. Decision

BOX 250, #600, 900 HOWE STREET, VANCOUVER, B.C. V6Z 2N3 CANADA, TELEPHONE: (604) 660-4700, B.C. TOLL FREE, B.C. 1-800-663-1385, FAX: (604) 660-1102

IN THE MATTER OF
the Utilities Commission Act
S.B.C 1980, c. 60, as amended

and

IN THE MATTER OF
a Complaint by Ocelot Chemicals Inc.
against Pacific Northern Gas Ltd.

and
IN THE MATTER OF
a Rate Design Application
by Pacific Northern Gas Ltd.

<u>DECISION</u>

February 27, 1991

BEFORE:

J.D.V. Newlands, Deputy Chairman;
N. Martin, Commissioner; and
W.M. Swanson, Q.C., Commissioner

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APPEARANCES

D.L. RICE	Commission Counsel
R. SIRETT C. DONAHUE	Counsel for Pacific Northern Gas Ltd.
R.B. WALLACE	Counsel for Ocelot Chemicals Inc.
P. De MEO	Counsel for CanWest Gas Supply Inc.
MAYOR P.J. LESTER T. LEWIS J. MUSSALEM	City of Prince Rupert
R. BRODY W. McLELLAN U. PRITCHARD	District of Kitimat
R.G. DYCE T.W. WEAVER	Pacific Northern Gas Ltd.
J.L. TYSON K.E. VIDALIN	Ocelot Chemicals Inc.

D.W. EMES S.S. WONG P.W. NAKONESHNY	Commission Staff
Allwest Reporting Ltd.	Court Reporters and Hearing Officer

LIST OF EXHIBITS

LIST OF EXHIBITS
(cont'd)

1.0 BACKGROUND

1.1 Chronology of Application

On January 17, 1990, Ocelot Chemicals Inc. ("Ocelot") filed a complaint with the British Columbia Utilities Commission ("the Commission") pursuant to Section 64 of the Utilities Commission Act ("the Act") requesting that the Commission commence an immediate inquiry into the reasonableness of the Pacific Northern Gas Ltd. ("PNG") rate structure. Section 64 states:

> **"Commission may order amendment of schedules**
>
> 64. (1) The commission, on its own motion, or on complaint by a public utility or other interested person that the existing rates in effect and collected or any rates charged or attempted to be charged for service by a public utility are unjust, unreasonable, insufficient, unduly discriminatory or in contravention of this Act, regulations or any law, may, after a hearing, determine the just, reasonable and sufficient rates to be observed and in force, and shall, by order, fix the rates.
>
> (2) The public utility affected by an order under this section shall amend its schedules in conformity with the order and file amended schedules with the commission."

Sections 65 and 66 of the Act deal with the assertions of Ocelot and the remedies available. Sections 65 and 66 state as follows:

> **"Discrimination in rates**
>
> 65. (1) A public utility shall not make, demand or receive an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service furnished by it in the Province, or a rate that otherwise contravenes this Act, regulations, orders of the commission or other law.
>
> (2) A public utility shall not, as to rate or service, subject any person or locality, or a particular description of traffic, to an undue prejudice or disadvantage, or extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description, and the commission may, by regulation, declare the circumstances and conditions that the substantially similar.
>
> (3) It is a question of fact, of which the commission is the sole judge, whether a rate is unjust or unreasonable, or whether, in any case, there is undue discrimination, preference, prejudice or disadvantage in respect of a rate or service, or whether a service is offered or furnished under substantially similar circumstances and conditions.

(4) In this section a rate is "unjust" or "unreasonable" if the rate is

(a) more than a fair and reasonable charge for service of the nature and quality furnished by the utility,
(b) insufficient to yield a fair and reasonable compensation for the service rendered by the utility, or a fair and reasonable return on the appraised value of its property, or
(c) unjust and unreasonable for any other reason."

"Rates

66. (1) In fixing a rate under this Act or regulations
(a) the commission shall consider all matters that it considers proper and relevant affecting the rate,
(b) the commission shall have due regard, among other things, to the fixing of a rate that is not unjust or unreasonable, within the meaning of section 65, and
(c) where the public utility furnishes more than one class of service, the commission shall segregate the various kinds of service into distinct classes of service; and in fixing a rate to be charged for the particular service rendered, each distinct class of service shall be considered as a self contained unit, and shall fix a rate for each unit that it considers to be just and reasonable for that unit, without regard to the rates fixed for any other unit.

(2) In fixing a rate under this Act or regulations, the commission may take into account a distinct or special area served by a public utility with a view to ensuring, so far as the commission considers it advisable, that the rate applicable in each area is adequate to yield a fair and reasonable return on the appraised value of the plant or system of the public utility used, or prudently and reasonably acquired, for the purpose of furnishing the service in that special area, but, where the commission takes a special area into account, it shall have regard to the special considerations applicable to an area that is sparsely settled or has other distinctive characteristics.

(3) For this section, the commission shall exclude from the appraised value of the property of the public utility any franchise, licence, permit or concession obtained or held by the utility from a municipal or other public authority beyond the money, if any, paid to the municipality or public authority as consideration for that franchise, licence, permit or concession, together with necessary and reasonable expenses in procuring the franchise, licence, permit or concession."

A rate is defined in the "Interpretation" section of the Act as follows:

> "'rate' includes a general, individual or joint rate, fare, toll, charge, rental or other compensation of a public utility, a rule, practice, measurement, classification or contract of a public utility or corporation relating to a rate and a schedule or tariff respecting a rate."

Ocelot asserted that PNG's rates were unjust, unreasonable and unduly discriminatory, and in particular that the rates resulted in a cross-subsidy of some $4 million from Ocelot to other customers, primarily residential.

After reviewing letter submissions and responses from Ocelot and PNG, and related information, the Commission issued Order No. G-20-90, dated March 14, 1990, requiring PNG to file a Rate Design Application by July 6, 1990. It also ordered a public hearing into the complaint to commence August 21, 1990 in Prince Rupert, B.C.

Pursuant to the Order, on July 6, 1990, PNG filed this Rate Design Application.

The Commission heard evidence on the complaint and the Application in Prince Rupert on August 21, 22, and 23, 1990 and in Kitimat on August 28, 1990. The interested parties requested (and the Commission granted) a delay in the hearing of argument to allow the participants to negotiate a settlement which could then be brought forward for Commission consideration. No settlement was reached and argument was heard in Terrace on November 6, 1990.

1.2 The Applicant

PNG transmits and distributes natural gas in the west central portion of British Columbia. The 350 mile system begins at Summit Lake, near Prince George, where it interconnects with the Westcoast Energy Inc. ("Westcoast") pipeline system, and terminates at the deep water ports of Kitimat and Prince Rupert. It is primarily an industrial gas transmission system. Currently, residential customers comprise three to four percent of PNG's load, while commercial, small industrial and natural gas vehicle customers comprise eight to nine percent. The balance, approximately 88 percent, is load from four major industrial customers, namely Ocelot, Eurocan Pulp & Paper Co. ("Eurocan"), Skeena Cellulose Ltd. ("Skeena"), and Alcan Smelters and Chemicals Ltd. ("Alcan"). Approximately three-quarters of the large industrial load is firm, with the balance made up of interruptible sales.

The single largest customer on the PNG system is Ocelot. Ocelot comprises about 66 percent of PNG's total load, including approximately 75 percent of PNG's interruptible volumes. PNG service to Ocelot began in 1982 and caused the PNG system to be expanded. The expansion of the transmission system, which consisted of looping and compression, was initially expected to cost approximately $30 million but ultimately cost $43 million. Debt of approximately $40 million was issued in two parts: $30 million for a term of five years and at a coupon rate of 17.75 percent and $10 million until 1997 at a coupon rate of 18 percent.

PNG holds long-term contracts with each of its major industrial customers which are not due to begin expiring until 1999.

PNG's gas requirements are met through a long-term contract (expiry: October 31, 2002) with CanWest Gas Supply Inc. ("CanWest"), the provincial aggregator and the successor to the British Columbia Petroleum Corporation ("BCPC"). Pricing provisions of the contract are negotiated annually or bi-annually. The current pricing provisions, which run through October 31, 1991, require PNG to take all its supply from CanWest. However, beginning November 1, 1991, PNG will be permitted to buy up to 25 percent of its core market requirements from sources other than CanWest. This percentage may increase over time.

1.3 The Complainant

Ocelot operates two petrochemical plants in Kitimat, B.C., which have the capability of producing more than 500,000 tonnes of methanol and 190,000 tonnes of ammonia annually. Gas supply to the plants consist of 44 MMcf/day of firm gas sales, 2 MMcf of firm gas transportation, and interruptible gas sales which average about 15.5 MMcf/day.

The arrangements for selling gas to Ocelot are complex and can best be understood by following the flow of gas from the wellhead. Producers sell their gas to CanWest which sells the gas to Westcoast, which in turn transmits the gas to the inlet of PNG's transmission system, at which point Westcoast sells the gas to PNG. PNG then sells the gas back to CanWest, which assigns the gas to BCPC (Kitimat) which, in turn, sells the gas to Ocelot.

This arrangement allows BCPC (Kitimat), a subsidiary of BCPC, a government agency, to guarantee minimum payments to PNG equivalent to an 80 percent minimum take provision on firm sales volumes.

Ocelot's total firm contract demand for sales gas is 44 MMcf/d of which the first 80 percent (35.2 MMcf/d) is sold at a rate of $2.4920* per gigajoule. PNG sells the next 12.2 percent of contract demand (5.4 MMcf/d) at $1.9950* per gigajoule, with the balance (3.4 MMcf/d) sold at an incentive rate of $1.2050* per gigajoule. PNG recovers all of Westcoast's demand charges in the rates paid for the first 80 percent of contract demand while the incentive rate of $1.2050* per gigajoule for gas taken above 92.2 percent of contract demand reflects the variable cost of providing this gas, i.e. the actual gas charge of $1.03 per gigajoule, the Westcoast commodity charge of $0.015, and a margin of $0.16 to PNG to cover compressor fuel, incremental taxes, etc., and a small contribution to fixed charges (Exhibit 6, IR 31). All interruptible gas is priced at this rate ($1.2050* per gigajoule).

As a result of these arrangements, PNG's financial exposure in serving Ocelot is limited to firm volumes between 80 percent and 92.2 percent of contract demand (5.4 MMcf/d).

---

* Pre 1991 Interim Rates.

In addition to the sales volumes discussed above, Ocelot takes 2 MMcf/d of gas through a transportation service contract with PNG. Ocelot pays PNG $0.9510 per gigajoule for the first 92.2 percent of transportation volumes which is equal to PNG's margin on firm gas sales between 80 percent and 92.2 percent of firm contract demand discussed above. For gas taken in excess of 92.2 percent Ocelot pays $0.16 per gigajoule. This rate is equal to PNG's margin on incentive and interruptible gas sales.

2.0 THE APPLICATION

2.1 PNG Proposal

PNG's Application proposes to restructure its rates to residential and large industrial customers but leaves unchanged its rates to commercial, natural gas vehicle and small industrial customers, as follows:

1. <u>Residential Rates</u>

Increase residential rates five percent per year for three years commencing January 1, 1991. This would result in a $0.2366 per gigajoule increase in each of 1991, 1992 and 1993. In argument the proposal was amended to commence January 1, 1992.

2. <u>Ocelot</u>

Eliminate the incentive rate on firm gas sales and service in excess of 92.2 percent. This would increase the rate charged on sales and service for the last 7.8 percent of contract demand by $.7348 per gigajoule, making it equal to the current rate charged on sales and service between 80 percent and 92.2 percent of contract demand.

Increase the current interruptible rate by $0.055 per gigajoule.

Decrease Ocelot firm service rates by $0.055 in 1991, using the revenues generated from the elimination of the incentive rate and from the increase in the interruptible rate. The proposed rates are $2.4368 per gigajoule for the first 80 percent of contract demand and $1.9398 per gigajoule for sales above 80 percent of contract demand.

3. <u>Skeena Cellulose, Eurocan and Alcan</u>

Decrease interruptible rates charged to the large industrial customers, other than Ocelot, by 10 percent or $0.19 per gigajoule in 1991.

4. <u>All Large Industrials</u>

Reduce firm service rates for all large industrial customers using the additional revenues generated by the increase in residential rates in 1992 and 1993.

These proposals would increase the contribution to PNG revenue made by residential customers, decrease the contribution made by Skeena, Eurocan, and Alcan, and shift the contribution made by Ocelot from firm service to interruptible service while leaving the absolute contribution essentially unchanged. Total revenues collected by PNG would remain unchanged.

2.2 Ocelot Proposal

Ocelot in the alternative maintained that the large industrial customers are paying rates for firm service in excess of the cost of providing it and further, that residential customers, in particular, and commercial customers are paying rates that do not fully recover the cost of serving them. Ocelot stated that this results in a cross-subsidy from the large industrial customers to residential and commercial customers and urges the Commission to:

> "(1) Quantify the cross-subsidy from the large industrials to other customer classes.
>
> (2) Do all the Commission can to rebalance the rates to eliminate the cross subsidy."
>
> (Exhibit 10, Tab 1, Page 3)

Ocelot states that it does not expect the Commission to rectify the problem in its entirety, in either the short or intermediate term but, rather to make a beginning. Such a beginning might consist of a five percent to seven percent increase in residential, commercial and small industrial rates, the increased revenues from which could be used to lower industrial rates. In addition, Ocelot proposed that industrial rates be restructured to contain a demand charge and a commodity charge.