BCPIAC
Public Interest Advocacy Centre

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Our File: 7647

June 5, 2018

VIA EMAIL

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: Pacific Northern Gas Ltd. ("PNG West")
2018-2019 Revenue Requirements Application

Please be advised that we make the following final submissions in regards to the above noted Revenue Requirements Application on behalf of the ratepayer groups known in this regulatory process as BCOAPO or BCOAPO et al. The member groups of BCOAPO et al. represent the interests of low and fixed income residential energy ratepayer groups before the BC Utilities Commission (BCUC or Commission) and, more specifically in this process, the interests of PNG's low and fixed income natural gas ratepayers. As such, BCOAPO's member organizations have a direct and material interest in the outcome of this RRA.

PNG West's Rate Proposals

On November 30, 2017, PNG West filed its 2018-2019 Revenue Requirements Application with the BCUC indicating it was seeking approval of an increase to recover a forecast revenue deficiency of $0.481 for F2018 and $0.491 for F2019 along with a short term interest bearing rate deferral account to be fully amortized in 2019 in order to levelize the impact of this rate change over the two year test period. In late February, PNG filed an amended application that recorded a revenue sufficiency of $1.9 million for 2018 and a revenue deficiency of $2.5 million in 2019, with a rate indication of -5.6% in 2018 and +7.9% in 2019 with a cumulative total net revenue deficiency of $0.7 million for the two-year period. Due to this rate volatility, PNG West proposed that the $0.7 million would be levelized over the two years by recording $1.450 million of the F2019 revenue deficiency in an interest bearing account in 2018 and against the anticipated revenue sufficiency in 2018. The effect of this rate deferral mechanism is that there would be a rate decrease of 1.3% in F2018 and 1.4% in F2019.

In addition, PNG West applied for approval:

- to move the 2016 UAF losses above 1.0% from the temporary UAF deferral account to the UAF volume deferral account to be recovered from PNG West customers via a rate rider;
- for no amortization of the LNG Partners Option Fee Payment deferral account in the test years and to record the $321,000 of GST that PNG West has remitted to the CRA in this deferral account, and to record future option fees received in this account;
- for a new rate base deferral account for EMAT ILI costs with an amortization period of 10 years;
- for a new rate base deferral account to record compressor engine overhaul costs and to begin a five year amortization once the asset is put into service;
- to eliminate the Investigative Digs – Pre 2013 deferral account, the Common Equity Thickness – 2012 deferral account, the NPPRB Regulatory Asset deferral account, and the Legacy Deferred Income Taxes deferral account;
- to record the proposed revenue sharing arising from the PLP Project Amendment and fully amortize it in 2019;
- of the depreciation expense in this Application based on the new depreciation study found therein; and
- to continue the UAF volume deferral account with the UAF volume forecast set at zero with the utility recording variances between zero and a loss of up to one percent without having to seek Commission approval.[1]

BCOAPO notes that although there is a cumulative net revenue deficiency over the two year test period that would normally result in an increase in rates PNG West's proposal calls for delivery rate decreases for both years. While BCOAPO does not typically contest situations where a utility is seeking to decrease its rates, it is unclear to our clients how rate decreases, in combination with a deferral account that shifts a deficiency in the second year as an offset to a sufficiency in the first year can resolve a net deficiency. To BCOAPO, it appears to capture the interest on the funds in the proposed deferral account, shifting the amortization of other one time ratepayer credits such as the $200,000 associated with the PLP Project from 2018 to 2019[2].

Under PNG West's proposal, the utility will over-collect in F2018 and under collect in F2019, albeit in a more levelized fashion. Assuming recent cost trends continue, this implies that a larger than otherwise rate increase in F2020's revenue requirement is likely because of the failure to recover the F2019 revenue deficiency. In BCOAPO's view, this aspect of the utility's proposal is an issue.

In addition, we note that the proposal to amortize the PLP Project in 2019 creates a cumulative net deficiency of $500,000 to be recovered in rates over the two year period, implying that any alternative rate recovery would even smaller changes than the alternatives discussed below.

Alternatives to PNG West's Proposal

[1] Exhibit B-1, pp10-11.
[2] Exhibit B-3, BCUC IR 1.37.6.

It goes without saying, as an intervener group representing the interests of PNG West's low and fixed income ratepayers, BCOAPO appreciates rate decreases. However, in this instance, BCOAPO's concern is that the proposed rate decreases will buy short term gain for longer term pain: higher future rate increases. This is based on the fact that PNG West's evidence is that 2019 rates at the 2017 level, or lower as per the proposal, result in a F2019 deficiency on a standalone basis. This will result in a higher rate increase in F2020 than would otherwise be the case than if the revenue deficiency in this test period was recovered in the rates for F2019.

In the two rounds of IR's, BCOAPO suggested that an alternative to PNG's proposal night be a small, equal rate change in each year to address that net deficiency. In Exhibit B-8, 1.1 and 2.1-2.3, BCOAPO sought confirmation that a 0.924% rate increase in both test years would result in the same rates in F2019 as under the utility scenario absent the proposed rate deferral mechanism.

PNG West noted in its responses that the BCOAPO proposal would result in over-collection over the test period. BCOAPO concedes that point because although the 2019 rates would be "right", the 2018 sufficiency would be exacerbated with the hypothetical 0.924% increase as opposed to the decrease required to eliminate the 2018 sufficiency. Therefore, under the 0.924% increases suggested, there would be a need to for a deferral account, presumably an interest bearing one, to book the over collection as a credit for customers.

In the alternative, even smaller equal annual rate increases taking into account the F2018 revenue sufficiency and the interest created thereon could be calculated and applied to cover the overall revenue deficiency.

This is not to say that BCOAPO unequivocally opposed PNG West's rate proposals or that the alternatives we discussed represent a perfect solution to the utility's situation in the test period. Instead, BCOAPO submits that alternatives such as the one discussed above and in our IR's deserve the utility's consideration.

The Balance of PNG West's RRA Proposals

The IR's on these were extensive, raising no concerns for our clients but BCOAPO's focus in this process is not these proposals so we elect to take no position on them.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

Original on file signed by

Leigha Worth
Executive Director, General Counsel