



Janet P. Kennedy
Vice President, Regulatory Affairs & Gas Supply

Pacific Northern Gas (N.E.) Ltd.
2550 - 1066 West Hastings Street
Vancouver, BC V6E 3X2
Tel: (604) 691-5680
Fax: (604) 697-6210
Email: jkennedy@png.ca

Via Web Upload and Courier

June 19, 2018

B.C. Utilities Commission
Suite 410 - 900 Howe Street
Vancouver, BC V6Z 2N3

File No.: 4.2.7 (2018)

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

**Re: Pacific Northern Gas (N.E.) Ltd.
Fort St. John/Dawson Creek and Tumbler Ridge Divisions
2018-2019 Revenue Requirements Application
Applicant's Reply Argument**

Accompanying, please find copies of the above referenced written argument which was uploaded to the Commission's website earlier today.

Printed copies of this submission will be distributed by courier, including 10 copies to the Commission's office and a single copy to each of the parties noted below who registered as interveners into this application.

Please direct any questions regarding the application to my attention.

Yours truly,

A handwritten signature in black ink that reads 'Janet Kennedy'. The signature is written in a cursive, flowing style.

J.P. Kennedy

cc. Leigha Worth (BCPIAC) – BCOAPO
James Wightman (BCPIAC) – BCOAPO

PACIFIC NORTHERN GAS (N.E.) LTD.

**APPLICATION
to the
B.C. UTILITIES COMMISSION**

**FOR APPROVAL OF THE
FORT ST. JOHN/DAWSON CREEK
AND
TUMBLER RIDGE DIVISION
2018-2019 REVENUE REQUIREMENTS**

APPLICANT'S REPLY ARGUMENT

June 19, 2018

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1. INTRODUCTION AND OVERVIEW

1. Pacific Northern Gas (N.E.) Ltd. (PNG(NE)) filed its 2018-2019 revenue requirements application with the British Columbia Utilities Commission (Commission) on November 30, 2017, seeking, among other things, approval of rates on an interim basis effective January 1, 2018.¹ On February 28, 2018, PNG(NE) filed an updated application (Amended Application) with the Commission to, among other things, seek approval of rates for its Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) divisions effective January 1, 2018 and January 1, 2019.²

2. The regulatory timetable approved for the proceeding³ included provision for two rounds of information requests. On April 26, 2018, PNG(NE) responded to the first round information requests from the Commission and the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre (collectively, BCOAPO), the sole Intervener in the proceeding. On May 25, 2018, PNG(NE) responded to the second round information requests from the Commission and BCOAPO.

3. In accordance with the regulatory timetable, PNG(NE) filed its Final Argument in this proceeding on June 1, 2018. On June 12, 2018, BCOAPO filed its final argument.

4. In the remainder of this Reply Argument, PNG(NE) responds to the issues raised by the BCOAPO in its final argument.

¹ Exhibit B-1

² Exhibit B-1-1

³ Exhibit A-5

2. REPLY SUBMISSIONS

5. PNG(NE) recognizes that increases in the delivered cost of gas impacts its customers. Given the small customer base and isolated nature of the Tumbler Ridge division, PNG(NE) is particularly cognizant of the cost of service impacts on the resultant rates applicable to its TR customers.

6. PNG(NE) has responded by taking all reasonable and prudent measures to control its costs and submits that there are no unnecessary, unreasonable or excessive costs included in PNG(NE)'s applied for cost of service for 2018 or 2019. PNG(NE) further submits that its forecast costs of service are prudently incurred, normal course business expenses that should be fully recoverable from ratepayers.

7. In this regard, the following are the reply submissions of PNG(NE) with respect to the issues raised by BCOAPO in its final submission.

2.1 GENERAL

2.1.1 Rate Deferral Mechanism

8. Consistent with the proposal for the Pacific Northern Gas Ltd. (PNG) PNG-West division, PNG(NE) has proposed a rate deferral mechanism to provide customers with rate stability by reducing rate volatility for the test years under review. PNG(NE) appreciates BCOAPO not taking issue with this proposal in this proceeding.

2.1.2 Recovery of AltaGas Inter-affiliate Charge

9. At several points in its final submission, BCOAPO alludes to PNG(NE) making "claims to recover prior disallowed inter-affiliate charges".⁴ PNG(NE) is surprised that this has been raised as a concern as neither PNG or PNG(NE) have ever indicated that future claims would be made for amounts previously disallowed by the Commission. For clarity, as noted in the PNG-West Amended Application,⁵ while PNG ultimately expects to seek recovery of all costs

⁴ BCOAPO Final Argument, page 6, para. 3; page 10, para. 2; page 12, para. 2

⁵ PNG-West 2018-2019 Revenue Requirements Proceeding, Exhibit B-1-1, page 52, para. 3

allocated by its parent company associated with maintaining its capital structure, providing access to capital and delivering the various other corporate services as the economic circumstances of PNG-West's business improves, PNG has not indicated and does not anticipate making retroactive claims for amounts previously disallowed by the Commission.

2.1.3 Depreciation Study Implementation

10. PNG(NE) reiterates its recommendation to not implement negative salvage estimates in depreciation rates at this time. PNG(NE) appreciates BCOAPO's understanding and support on this issue as well as BCOAPO's support for PNG(NE)'s proposed implementation of the findings of the Depreciation Study completed by Concentric Advisors ULC.⁶ PNG(NE) is cognizant of the significant rate increases before its ratepayers for 2018 and 2019, and submits that its position on the issue of negative salvage is grounded on the significant adverse rate impacts that would result from incorporating these estimates at this time.

2.1.4 Rate Relief for Low Income Customers

11. BCOAPO closes its final argument expressing disappointment that, absent government or regulatory direction that is not yet forthcoming, PNG(NE) is unwilling to contemplate specific rate relief for its low income customers.⁷ The BCOAPO has urged PNG(NE) to consider the proposals submitted as evidence by BCOAPO in regard to BC Hydro's 2015 Rate Design Application. PNG(NE) submits that it is aware of the submissions made by the BCOAPO in the BC Hydro proceeding and of the Commission's decisions on the proposals advanced, and is interested in the outcome of BC Hydro's Customer Emergency Fund pilot program.

12. PNG(NE) reiterates the view presented in response to information requests on this matter,⁸ that the provisions of the *Utilities Commission Act* do not permit discrimination in rates in favour of the financial circumstances of its ratepayers. Further, PNG(NE) is of the view that now is not the time for a

⁶ BCOAPO Final Argument, page 6, para. 4

⁷ BCOAPO Final Argument, page 13, para. 5

⁸ Exhibit B-10, BCOAPO TR IR 2.1.1; Exhibit B-11, BCOAPO FSJ/DC IR 2.9.1

utility of its size to engage additional resources and incur costs to create and administer such a program that would be recovered in its cost of service and result in greater rate increases than those forecast for the period under review. That said, PNG(NE) is well aware of the financial challenges of low- and fixed-income individuals residing within its service areas and will follow developments within the Commission's jurisdiction on this matter.

2.2 FORT ST. JOHN / DAWSON CREEK DIVISION

2.2.1 Rate Base / Capital Expenditures

13. The final submissions of BCOAPO express concern with the growth in rate base in recent years, noting the increase in rate base for 2019 with that applied for in 2011, the test year prior to PNG(NE)'s acquisition by AltaGas Ltd., and comparing this to the increase in throughput on the FSJ/DC system. BCOAPO makes the observation that rate base for 2019 is forecast to be almost double that of 2011, while deliveries are forecast to only increase modestly, by about 30% in this same period.⁹

14. The final submissions of BCOAPO go on to acknowledge that the 2017 closing rate base is the starting point for rate base in the test period under review in this proceeding, and that this amount reflects historical approvals, expenditures, depreciation, removals, etc. and as such, is not open to debate in this proceeding.¹⁰

15. PNG(NE) agrees with the BCOAPO on this last assertion, that rate base elements prior to 2018 have been subject to review and approval by the Commission, both on a forecast and actual basis, and are not the focus of review in this proceeding. Further, PNG(NE) observes that variances in actual amounts from those approved by the Commission for 2016 and 2017 have been subject to review in this proceeding. PNG(NE) also notes that it does not agree with BCOAPO's implied assertion that an increase in rate base needs to be correlated with an equivalent increase in deliveries as capital expenditures incurred by PNG(NE) are for customer growth as well as to maintain the

⁹ BCOAPO Final Argument, page 7, paras. 2-4

¹⁰ BCOAPO Final Argument, page 13, para. 2

integrity of PNG(NE)'s transmission and distribution system. Further, given the declines in residential use per account in the Fort St. John/Dawson Creek division over the period referenced by BCOAPO, rate base per unit of deliveries would have grown without any customer growth. PNG(NE) has no further comment on the BCOAPO's observations on this matter and submits that the concerns raised in this regard may have been more appropriately addressed through the information request aspect of this proceeding rather than being raised as a concern in final argument.

2.2.2 Over Forecasting of Capital Expenditures

16. In regard to the BCOAPO's final submissions on the matter of forecasting capital expenditures, PNG(NE) suggests that the BCOAPO may have taken some liberties in interpreting PNG(NE)'s response to BCOAPO FSJ/DC IR 1.5.1.¹¹ The referenced information request sought clarity as to whether an underspend on forecast capital expenditures results in an over collection in rates for equity return and debt costs due to higher rate base.

17. In the noted information request response, PNG(NE) agreed that an underspend on capital expenditures would theoretically result in an over-collection in rates of the equity return and debt costs, however it did not assert that there was a financial incentive to over forecast its capital expenditures. PNG(NE) observed that capital expenditures are one element of the rate base calculation that gets incorporated into the cost of service, and noted that variances on this one element cannot be cherry-picked and addressed in isolation given the cost of service methodology by which PNG(NE)'s customer rates are determined.

18. PNG(NE)'s response noted that under the cost of service methodology employed, it is impossible for actual results to be exactly equal to forecast amounts and that there will be variances from actual for most cost of service components as well as in customer deliveries, variances that may be favourable or unfavourable to either ratepayers or the utility. PNG(NE) reiterates the conclusion contained in its response to BCOAPO FSJ/DC IR 1.5.1, that in four of

¹¹ BCOAPO Final Argument, page 7, para. 5

the prior five years PNG(NE) was not able to achieve its allowed return, evidencing that the risks assumed by PNG(NE) under its regulatory construct actually resulted in an under collection in rates.

19. The BCOAPO's final submissions continue on to present information on variances in PNG(NE) forecast to actual capital expenditures to those approved for 2016 and 2017, with a focus on the underspend on New Services and New Distribution Lines, yet ignoring significant overspending on the Distribution Mains – Other category, which goes to the point made by PNG(NE) previously that in actual experiences favourable or unfavourable variances will be realized.

20. As PNG(NE) has noted,¹² many of the lower than forecast capital expenditures for FSJ/DC in 2016 and 2017 can be attributed to an economic downturn in the region during those periods that could not be anticipated at the time the underlying forecasts were prepared in late-2015, a downturn largely precipitated by lower natural gas commodity prices.¹³

21. Based on the foregoing and the evidence presented in the course of this proceeding, PNG(NE) reiterates that the identified capital expenditures for 2018 and 2019 are considered prudent and necessary to ensure that PNG(NE) is able to continue to provide its customers with safe, reliable and secure gas delivery service in 2018, 2019 and into the future, and that they should be approved as applied for.

2.2.3 Automotive Costs

22. The final submissions of BCOAPO address the matter of Vehicle Maintenance/Automotive costs, and question the increase in 2018 forecast costs in Account 685 that is in excess of the 2016 cost plus 2%.¹⁴

23. To reiterate its response to BCUC TR IR 1.12.2.1, PNG(NE) submits that it continues to apply the practice of generating its Automotive cost forecast on a consolidated basis in consideration of recent cost experience and anticipated

¹² Exhibit B-9, BCUC FSJ/DC IR 2.79.1.2

¹³ See graphs provided in Exhibit B-5, PNG(NE)'s response to BCUC IR 1.50.2.1

¹⁴ BCOAPO Final Argument, page 9, para. 2

changes in underlying costs (i.e. trend in fuel costs, etc.). Further, as a budgeting convention, the consolidated Automotive costs forecast are allocated to PNG-West and the PNG(NE) divisions on a prorata basis based on forecast O&M and Capital labour costs. Further, the determination of the consolidated expense for 2018, as a 2% increase over 2016, was presented in response to BCUC TR IR 2.38.2.

24. PNG(NE) submits that the forecast increase in FSJ/DC Automotive costs for 2018 is greater than a 2% increase over Actual 2016 costs primarily due to a greater prorata allocation based on forecast operating labour costs for 2018 (i.e. 18.3% + 15.2% = 33.5% of consolidated labour) over the actual pro-rata allocation to operating costs (i.e. 10.7% + 16.2% = 26.9%) as determined by the applied forecast and cost allocation methodology.

2.2.4 Geographic Information System / Asset Records Modernization

25. In its Final Argument, PNG(NE) has provided a summary of the necessity for the Geographic Information System (GIS) and asset records modernization initiatives and of the evidence submitted in the course of this proceeding. While acknowledging that these projects may have increased benefits in terms of streamlining processes, improving communications and asset data access, the final submissions of BCOAPO question whether these improvements should be wholly or even partially ratepayer-funded when the project involves no quantifiable ratepayer financial impacts.¹⁵

26. PNG(NE) wishes to clarify that it has never taken the position that the GIS project will not result in quantifiable ratepayer financial benefits, rather PNG(NE) has elected not to attempt to quantify those benefits. PNG(NE) provided a business case for the GIS implementation project¹⁶ that includes a number of case studies of the benefits realized by implementers of GIS systems. In all instances the return on investment of a GIS was significant.

27. Further, PNG(NE) submits its view that the BCOAPO's sole focus on financial benefits from these projects is short sighted and inconsistent with

¹⁵ BCOAPO Final Argument, page 8, para. 5; page 13, para. 4

¹⁶ Exhibit B-5, BCUC FSJ/DC IR 1.42.5 (Attachment BCUC 1.42a)

industry practices and trends. As noted, all major gas utilities in Canada and a significant number of gas and municipal utilities much smaller than PNG(NE) employ a GIS in the management of their assets.¹⁷ To be clear, PNG(NE) considers these projects necessary from the perspective of compliance and risk and has historically made very little investment in these key areas of the utility's business. From the evidence submitted in this proceeding, PNG(NE) has established that these projects are essential to PNG(NE)'s operations and also to PNG(NE)'s adoption of systems and standards that are in line with current industry practice and expectations. PNG(NE) has provided specific examples of risk reduction activities supported by an enterprise GIS that include: (i) spatial analysis of in-line inspection tool data allows for a more efficient integrity management program; (ii) accurate and current asset, social and environmental information enhances the effectiveness of PNG(NE)'s emergency response program; and (iii) more efficient and faster response to BC One Call requests reduces the risk of third party damage.¹⁸

28. PNG(NE) submits that the proposed GIS will avoid additional costs associated with compliance with future regulations. As noted in the GIS business case submitted as evidence in this proceeding, regulatory developments in the U.S. pertaining to additional requirements for tracking and traceability of pipeline materials are expected to be implemented in some form in Canada. Compliance with similar regulations requires additional effort on the part of utilities to collect, manage and analyze the associated materials and locational data. PNG(NE) submits that without a GIS with which to manage this spatial data it would have to implement more labour intensive processes, and therefore greater costs, to support compliance with these and other pipeline integrity-related regulations.¹⁹

29. PNG(NE) further reiterates the need to modernize its asset records to keep up with technological change and to meet regulatory requirements for more robust records management to support integrity management programs,

¹⁷ Exhibit B-9, BCUC FSJ/DC IR 2.87.2

¹⁸ Exhibit B-9, BCUC FSJ/DC IR 2.85.2

¹⁹ Exhibit B-5, BCUC FSJ/DC IR 1.42.5 (Attachment BCUC 1.42a, pp. 6-7)

and to comply with codes, standards and regulations for pipeline safety.²⁰ Without proper engineering resources, PNG(NE) faces a serious risk of non-compliance with pipeline codes, standards, and regulations. Based on the foregoing, PNG(NE) considers that the costs for these projects are prudent and necessary to providing safe, secure and efficient service and that they should be borne by its ratepayers.

30. The BCOAPO's has also noted concern that these initiatives will require additional human resources. PNG(NE) takes exception to the BCOAPO assertion that the two new positions sought are solely to accommodate these projects. PNG(NE) reiterates that the PNG-West records management and the PNG(NE) engineering position have not previously existed and will provide broad-based operational support. The records management role is necessary to support the improvement of physical and electronic records processes to ensure compliance with regulatory requirements, and the additional dedicated engineering resources new to PNG(NE) is required to manage both capital and O&M project priorities specific to the FSJ/DC and TR divisions.²¹ Further, PNG(NE) reiterates that its engineering and drafting resources are below a minimum level required for a utility of PNG(NE)'s size and submits that absent these projects, additional labour and costs will be required for what will be more intensive manual processes necessary to manage physical records in order to support compliance with integrity-related regulations.²²

31. Lastly, PNG(NE) would like to correct the representation by BCOAPO in its final submission, that "the annual operating costs have already increased by 75%, from \$125K to \$200K."²³ The increase from \$125,000 to \$200,000 referenced in PNG(NE)'s response to BCUC FSJ/DC IR 2.90.1 is a consolidated figure (PNG-West and PNG(NE)) and can be attributed to a correction of an error in the GIS business case whereby only \$125,000 forecast for PNG-West was included in the analysis and \$75,000 forecast for PNG(NE) was overlooked. The noted change was not due to an increase in forecast costs. Lastly, PNG(NE)

²⁰ Exhibit B-5, BCUC FSJ/DC IR 1.42.5; Exhibit B-11, BCOAPO FSJ/DC IR 2.3.1

²¹ Exhibit B-5, BCUC FSJ/DC IR 1.13.7

²² Exhibit B-9, BCUC FSJ/DC IR 2.84.1.1

²³ BCOAPO Final Argument, page 9, para. 1

notes that as per the response to BCUC FSJ/DC IR 2.89.4 and as included in the summary of proposed adjustment/corrections in PNG(NE)'s Final Argument,²⁴ due to an error in the forecast model, costs allocated to PNG(NE) are actually \$47,205 less than those reflected in the Amended Application.

2.3 TUMBLER RIDGE DIVISION

2.3.1 Significant Rate Increases

32. The fact that residential customers residing in the TR division are faced with forecast rate increases of 19.1% in 2018 and 18.1% in 2019 is a major concern for PNG(NE). PNG(NE) agrees with BCOAPO that rate increases of this magnitude do constitute rate shock. PNG(NE) submits that it has considered alternatives to mitigate these increases, however, PNG(NE) also submits that it is constrained by the realities of serving a very small customer base attached to an isolated system. The situation is primarily the result of the compounding of two unrelated events: (i) a significant decrease in industrial customer demand as a result of poor economic conditions in the region and extremely low natural gas commodity prices at this time; and (ii) the requirement for PNG(NE) to expend significant maintenance capital on the TR transmission system in order to maintain safe and reliable service. As an illustration of the reality of the TR system's sensitivity to these types of events, PNG(NE) notes that a cost of service increase of \$11,500 translates to an increase in TR residential customer rates of approximately 1%.

33. PNG(NE) is aware that an element of the forecast rate increases is the allocation of costs to TR for proposed corporate-wide (PNG and PNG(NE)) initiatives (i.e. GIS, digital mapping, asset management system) the need for which has been supported by evidence on record for this proceeding, and submits that the allocation of these costs to TR is both reasonable and necessary to ensure that TR ratepayers pay for costs of systems that they will be benefiting from.

²⁴ PNG(NE) Final Argument, Section 13.2

2.3.2 Revenue Requirements and Cost of Service

34. Similar to final submissions made for FSJ/DC, the BCOAPO draws attention to the increase in the cost of service in recent years, comparing the Total Cost of Service (excluding Company use gas) for 2018 with that applied for in 2011, the test year prior to PNG(NE)'s acquisition by AltaGas Ltd., noting an increase of 43.396% over the seven-year period. BCOAPO goes on to focus on the cost of service elements of "Other Administrative and General" expenses and "Return on Equity", and observes that the delivery charge for residential customers has almost doubled over this period.²⁵

35. In regard to the increase in Total Cost of Service (excluding Company use gas), PNG(NE) observes that the most significant contributing factor, representing \$309,000 or 64% of the \$483,000 increase, is the change in Amortization expense, from a credit amortization of \$170,000 in 2011 to a debit amortization of \$139,000. As per the regulatory record for 2011, the large credit amortization in that year was due to the full amortization of a "reserve for damages" deferral account (\$159,000) for self-insurance purposes that was established prior to PNG(NE)'s acquisition of this division and was no longer considered necessary due to PNG(NE)'s insurance coverage.²⁶ The 2018 debit amortization primarily reflects a debit amortization of the Industrial Customer Deliveries deferral account (ICDDA) of \$243,000 due to lower than forecast deliveries to PNG(NE)'s large industrial customer as the result of the economic downturn referred to previously and the resultant impact of lower natural gas commodity prices on this customer's operations. This ICDDA amortization is offset in part by PNG(NE)'s proposal to fully amortize the remaining credit balance of \$115,000 in the Legacy Deferred Income Taxes deferral account in 2018.

36. In the cost of service, PNG(NE) submits that a more appropriate focus for costs within the utility's control would be Total Operating, Maintenance, Administrative and General (excluding Company use gas cost). PNG(NE) notes that this line item is forecast to increase by \$128,000 or 13.7% over the seven-

²⁵ BCOAPO Final Argument, page 10, paras. 3-4

²⁶ PNG(NE) 2011 Tumbler Revenue Requirements Application (November 30, 2010), page 16, para. 5

year period referenced, from \$932,000 in 2011 to \$1,060,000 in 2018. This represents an average annual increase of approximately 2% which is in line with inflationary pressures.

37. In its final submission, the BCOAPO has asked PNG(NE) to address the \$58,000 increase in “Other Administrative and General” expenses, from \$86,000 in 2011 to \$144,000 in 2018, in this reply. For clarity and understanding, PNG(NE) provides the table that follows to illustrate the changes in the elements constituting these expenditure amounts.

(\$000)	Test Year 2018	Test Year 2011	Change
721 Administration	2	1	1
Shared Services from Parent	94	56	38
722 Audit, legal & consulting fees	6	3	3
723 Insurance	8	9	(1)
728 Shared Services from Parent	20	7	13
Regulation	13	9	4
Donations	1	1	0
Subtotal general and administrative	144	86	58

38. As shown, the increase in “Other Administrative and General” expenses is primarily due to increased shared services cost allocations from PNG-West. The \$38,000 increase in the BCUC 721 Shared Services from Parent amount is primarily due to changes to the shared services cost allocation model to reflect a more accurate allocation of PNG-West costs to PNG(NE) that was implemented and approved by the Commission in its decision on the 2013 revenue requirements application. The \$13,000 increase in the BCUC 728 Shared Services from Parent amount reflects underlying changes to the shared services cost allocation model and includes the AltaGas inter-affiliate charge. PNG(NE) notes that its 2018 provision for “Other Administrative and General” of \$144,000 represents a 7% decrease from its average actual expenditures for the prior five-year period of 2013 to 2017 and considers this evidence that PNG(NE) is making a significant effort to manage costs.

39. The final submissions of BCOAPO also note an increase in residential customer delivery rates, from \$4.560 per GJ in 2011 to \$8.911 per GJ forecast for 2018,²⁷ as well as a 40% decrease in energy sales and gas deliveries over this same period.²⁸ PNG(NE) submits that the determination of customer rates is a mathematical exercise involving the forecast revenue requirements and forecast deliveries, and that the increase in rates forecast for 2018 is primary attributable to the significant decrease in forecast deliveries, from 978,221 GJ in 2011 to 583,245 GJ for 2018. This is primarily due to the significant decrease in deliveries to its large industrial customer as well as other commercial customers and a decrease in the use per account for its core customers. PNG(NE) reiterates its submissions that the underlying elements of the forecast rates are supported by sound forecasting methods and that the forecast rates are required so that PNG(NE) may recover the costs of serving its customers.

2.3.3 Rate Base

40. Similar to the final submissions for FSJ/DC, BCOAPO attempts to link rate base with deliveries, and expresses concern with the increase in rate base despite the significant decrease in deliveries discussed previously in this reply.²⁹ As noted previously, the final submissions of BCOAPO go on to acknowledge that the 2017 closing rate base is the starting point for rate base in the test period under review in this proceeding, and that this amount reflects historical approvals, expenditures, depreciation, removals, etc. and as such, is not open to debate in this proceeding.³⁰

41. PNG(NE) reiterates its agreement with the BCOAPO's assertion that rate base elements prior to 2018 have been subject to review and approval by the Commission, both on a forecast and actual basis, and are not the focus of review in this proceeding. PNG(NE) also reiterates that it does not agree with BCOAPO's implied assertion that an increase in rate base needs to be correlated with an equivalent increase in deliveries as capital expenditures incurred by PNG(NE) are for customer growth as well as to maintain the

²⁷ BCOAPO Final Argument, page 10, para. 4

²⁸ BCOAPO Final Argument, page 11, para. 2

²⁹ BCOAPO Final Argument, page 11, para. 2

³⁰ BCOAPO Final Argument, page 13, para. 2

integrity of PNG(NE)'s transmission and distribution system. In the case of TR, PNG(NE) notes that the majority of capital expenditures have been incurred for the system integrity of the pipeline and for the gas processing plant. PNG(NE) also reiterates that the TR division has seen a very significant decrease in deliveries primarily from its large industrial customer.

2.3.4 Over Forecasting of Capital Expenditures

42. The BCOAPO's final submissions for TR reiterate the concerns noted for FSJ/DC on the matter of forecasting capital expenditures. PNG(NE) reiterates its suggestion that the BCOAPO may have taken some liberties in interpreting PNG(NE)'s response to BCOAPO FSJ/DC IR 1.5.1.³¹ While PNG(NE) agreed that an underspend on capital expenditures would theoretically result in an over-collection in rates of the equity return and debt costs, PNG(NE) did not assert that there was a financial incentive to over forecast its capital expenditures. PNG(NE) reiterates its view that that capital expenditures are one element of the rate base calculation and that variances on this one element cannot be cherry-picked and addressed in isolation given the cost of service methodology by which PNG(NE)'s customer rates are determined. PNG(NE) also reiterates that it is impossible for actual results to be exactly to forecast amounts and that there will be variances from actual for most cost of service components as well as in customer deliveries, variances that may be favourable or unfavourable to either ratepayers or the utility.

43. As with FSJ/DC, the BCOAPO's final submissions for TR present information on variances in PNG(NE) forecast to actual capital expenditures for 2016 and 2017. As PNG(NE) has noted in the evidence submitted in this proceeding, the fact that 2016 and 2017 capital expenditures were less than approved is primarily due to delays from additional project scoping for the TR transmission line repair due to the complexities of the situation and also due to delayed completion of permitting activities in 2017.³² As indicated in response to information requests on this matter, PNG(NE) submits that this project is on track for completion in 2018, and while no costs had been incurred at the time

³¹ BCOAPO Final Argument, page 7, para. 5

³² Exhibit B-1-1, TR Amended Application, pp. 56, 71-72

of submitting responses to second round information requests, the construction contract has been awarded and the planned construction window is for a two week period in August 2018.³³ Given the foregoing and the critical nature of this project, PNG(NE) finds the BCOAPO's recommendation that the Commission reduce the allowed capital expenditures for 2018 by 50%³⁴ to be unreasonable and would contravene the Commission's duties in approving rates for TR.

44. Based on the foregoing and the evidence presented in the course of this proceeding, PNG(NE) reiterates that the identified capital expenditures for 2018 and 2019 are considered prudent and necessary to ensure that PNG(NE) is able to continue to provide its TR customers with safe, reliable and secure gas delivery service.

3. CONCLUSION

45. The Commission has a statutory obligation to fix rates that permit PNG(NE) the opportunity to recover all of its costs of providing service, including the fair rate of return on common equity already approved for PNG(NE) by the Commission. PNG(NE) recognizes that increases in the delivered cost of gas impacts its customers and has taken all reasonable and prudent measures to control its costs.

46. PNG(NE) submits that there are no unnecessary, unreasonable or excessive costs in its applied-for 2018 and 2019 cost of service. PNG(NE) submits that increased operating, maintenance, and administrative and general costs are prudently incurred, normal course business expenses that should be fully recoverable from ratepayers as no provision has been made in the setting of PNG(NE)'s rate of return on common equity to account for the disallowance of such costs. PNG(NE) further submits that the forecast capital additions for 2018 and 2019 are reasonable given that the projects required are necessary to ensure the safety, security and reliability of the pipeline systems and to meet service requirements of new customers.

³³ Exhibit B-3, BCUC TR IR 1.26.5

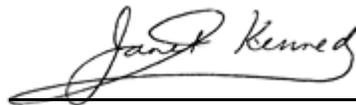
³⁴ BCOAPO Final Argument, page 12, para. 1

47. PNG(NE) submits that it has provided substantial evidence in this proceeding to demonstrate that the rates sought for Fort St. John/Dawson Creek and Tumbler Ridge for 2018 and 2019 are just and reasonable, and that this evidence will enable the Commission to conclude that the approvals sought, as set out in PNG(NE)'s Amended Application and in PNG(NE)'s Final Argument in this proceeding, are warranted and in accordance with the provisions of the *Utilities Commission Act*.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated at Vancouver, British Columbia this 19th day of June 2018.

PACIFIC NORTHERN GAS (N.E.) LTD.



J.P. Kennedy

Vice President, Regulatory Affairs and Gas Supply