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Via Web Upload and Courier

May 10, 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 Ltd.
PNG-West Division
2018-2019 Revenue Requirements Application
PNG Responses to BCOAPO IR No. 2**

Accompanying, please find copies of responses to the above noted Information Requests uploaded to the Commission's website earlier today.

Printed copies of the responses will be distributed by courier on Friday, May 11, 2018, 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'.

J.P. Kennedy

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

REQUESTOR NAME: BCOAPO *et al.*
INFORMATION REQUEST ROUND NO: #2
TO: PNG West
DATE: April 26, 2018
APPLICATION NAME: 2018-19 Revenue Requirements Application

1.0 Reference: Exhibit B-5, BCOAPO IR 1.2.0, and Exhibit B1-1, page 7, Proposed Rate Deferral Mechanism

The referenced page states:

Without the proposed rate deferral mechanism, PNG-West's calculations indicate a Revenue sufficiency of \$1.9 million for Test Year 2018 and a revenue deficiency of \$2.5 million for Test Year 2019, with a cumulative total net revenue deficiency of \$0.7 million for the two-year period. These results would necessitate a residential delivery rate decrease of 5.6% in 2018 and a subsequent increase of 7.9% in 2019.

- 1.1 Please confirm that a decrease of 5.6% in 2018 would eliminate the 2018 sufficiency attributed to residential ratepayers. If unable to so confirm, please explain.

Response:

PNG is unclear on this question. For the Amended Application, PNG's regulatory models indicate that without the proposed rate deferral mechanism for Test Year 2018, there is a revenue sufficiency calculated to be \$1.9 million which would result in a **decrease in all** customer rates. For residential customers, this would translate to an approximate **5.6% decrease** in their delivery rate.

- 1.2 Please confirm that subsequent to the 5.6% decrease in 2018, a 7.9% increase in residential rates would eliminate the 2019 revenue deficiency attributed to residential ratepayers. If unable to so confirm, please explain.

Response:

PNG is unclear on this question. For the Amended Application, PNG's regulatory models indicate that without the proposed rate deferral mechanism for Test Year 2019, there is a revenue deficiency calculated to be \$2.5 million which would result in an **increase in all** customer rates and for residential customers, this would translate to an approximate **7.9% increase** in their delivery rate.

- 1.3 Please confirm that a residential delivery rate decrease of 5.6% in 2018, which would eliminate the 2018 sufficiency, could be interpreted as indicating that existing rates would over-recover the revenue requirement in 2018. If unable to so confirm, please explain.

Response:

PNG does not confirm that a residential delivery rate decrease of 5.6% in 2018 would eliminate the 2018 sufficiency.

However, PNG does agree that if the existing 2017 rates are maintained and no other mechanisms are proposed, PNG would over-recover in 2018 by the amount of the calculated revenue sufficiency. PNG points out that it is not proposing to do this.

- 1.4 Equivalently, please confirm that only 94.4% (i.e., $1 - 0.056$) of the revenue raised in 2018 from residential delivery rates if existing rates were maintained would be required to eliminate the 2018 sufficiency. If unable to so confirm, please explain.

Response:

PNG is unclear on this question. PNG would like to note that the calculated revenue deficiency or sufficiency would apply to all its customer classes based on the same methodology that has been applied in all its rate applications (See Section 2.15 of Amended Application). In the narrative to its applications, PNG traditionally highlights the rate impacts to its core market residential and small commercial customers and not all customer classes.

In response to this question, PNG notes that its models indicate that the calculated revenue sufficiency for 2018 would translate to an approximate 5.6% decrease in a residential customer's delivery rates. For residential customers, in a scenario where the existing 2017 rates were maintained and no other rate mechanism is implemented, PNG's models indicate that it would "over collect" revenues in 2018. In order to not over collect, PNG would be "required" to collect 95.1% of the forecast revenues. In an attempt to follow the logic of this question, this would be achieved through the calculated decrease to customer rates.

- 1.5 Please confirm that a delivery rate decrease of 5.6% in 2018 followed by a delivery rate increase of 7.9% in 2019, implies a net increase in residential delivery rates of $[(1 - 0.056)(1 + 0.079) - 1] = 0.018576$ or 1.8576% for the two-year period. If unable to so confirm, please explain.

Response:

Confirmed. PNG notes the following numerical example:

2017: residential delivery rate: \$12.372/GJ
2018: 5.6 % decrease to 2017 rate: \$11.679/GJ
2019: 7.9% increase to 2018 rate: \$12.602/GJ

Change in rate from 2017 to 2019: 1.86% rate increase

- 1.6 Please confirm that an increase of 0.9245% in 2018 and a similar increase in 2019, would raise 2019 residential rates such that the 2019 rates would be at the same level as they would be under the no-deferral account scenario, i.e., after a decrease of 5.6% in 2018 followed by an increase of 7.9% in 2019. If unable to so confirm, please explain.

Response:

Confirmed. PNG provides the following numerical example:

2017: residential delivery rate: \$12.372/GJ
2018: 0.924 % increase to 2017 rate: \$12.486/GJ
2019: 0.924% increase to 2018 rate: \$12.602/GJ

Change in rate from 2017 to 2019: 1.86% rate decrease

- 1.7 If able to confirm the preceding, please explain why increases of 0.9245% in 2018 and in 2019 – which would lead to over-recovery in 2018 and forecasted revenue requirement recovery in 2019 – would not be a feasible alternative to a decrease of 5.6% in 2018 followed by an increase of 7.9% in 2019.

Response:

As noted in the previous responses, an increase of 0.9245% in residential delivery rates in Test Year 2018 and a further increase of 0.9245% in Test Year 2019 would result in an over-collection of margin by PNG.

Based on PNG's regulatory models and PNG's proposal for a smoothing rate mechanism, PNG is seeking Commission approval for a rate decrease of 1.25% in Test Year 2018 and a rate decrease of 1.38% in Test Year 2019 as noted below and in Table 2, in Section 1.4 of the Amended Application.

2017: residential delivery rate: \$12.372/GJ

2018: 1.25% decrease to 2017 rate: 12.217/GJ

2019: 1.38% increase to 2018 rate: \$12.048/GJ

Change in rate from 2017 to 2019: 2.62% rate decrease

PNG is unclear on BCOAPO's proposal to increase rates in both Test Years 2018 and 2019 when PNG is proposing a rate decrease in both Test Years 2018 and 2019 with its proposed rate deferral mechanism.

As noted in its Amended Application, without the proposed rate deferral mechanism PNG would apply for a rate decrease in Test Year 2018, followed by a rate increase in Test Year 2019. However, PNG is proposing a mechanism to reduce rate volatility for its customers and therefore, has proposed the noted rate deferral mechanism. PNG submits that customers would be paying the same amount for natural gas under both scenarios.

Without the rate deferral mechanism, an average residential customer consuming 70.8 GJ annually would pay \$826.87 in Test Year 2018 (70.8 GJ * \$11.679 (per response to Question 1.5)) and \$892.22 for Test Year 2019 (70.8 GJ * \$12.602 (per response to Question 1.5)), totaling \$1,719.09 for the two years.

With the rate deferral mechanism, an average residential customer consuming 70.8 GJ annually would pay \$864.96 in Test Year 2018 (70.8 GJ * \$12.217 (per above)) and \$853.00 for Test Year 2019 (70.8 GJ * \$12.048 (per above)), totaling \$1,717.96 for the two years.

As noted, with or without the rate deferral mechanism, the average residential customer would be paying the same amount for its natural gas service.

Following BCOAPO's proposal for rate increases of 0.9245% in each of Test Years 2018 and 2019, an average residential customer consuming 70.8 GJ annually would pay \$884.01 in Test Year 2018 (70.8 GJ * \$12.486 (per response to Question 1.6)) and \$892.22 for Test Year 2019 (70.8 GJ * \$12.602 (per response to Question 1.6)), totaling \$1,776.23 for the two years and therefore result in an over-collection of margin.

2.0 Reference: Exhibit B-5, BCOAPO IR 1.2.2

The response to the referenced IR states:

PNG confirms that if PNG were to increase rates in each year according to the suggestion in Question 2.1, which is to increase residential rates by 0.924% in both 2018 and 2019, PNG would over-collect from the residential rate class in 2018 as well as in 2019.

- 2.1 Please confirm that, save for a deferral account to record over-collection from residential customers in 2018 and 2019, the other deferral account proposals PNG is advocating for treating the sufficiency/deficiency issues in 2018 and 2019 would be unnecessary. If unable to so confirm, please explain.

Response:

PNG is unclear on this question. PNG is not proposing nor advocating the referenced 0.924% delivery rate increases. PNG stands by its proposed rate deferral mechanism which results in rate decreases in both Test Years 2018 and 2019 and requires the deferral account to achieve this.

- 2.2 If PNG agrees that annual increases of 0.924% in 2018 and 2019 would result in 2019 rates equal to what would obtain under a 5.6% decrease in 2018 followed by a 2019 increase of 7.9% (to eliminate the 2018 sufficiency and the 2019 deficiency), please explain why there would be a 2019 over-collection under the 0.924% increase scenario given that 2019 residential rates would be the same as under the decrease/increase of 5.6%/7.9% scenario.

Response:

Even though an annual rate increase of 0.924% in 2018 and 2019 would result in the same 2019 rate as under the 5.6% rate decrease in 2018 followed by a 7.9% increase in 2019, PNG's numerical examples in the response to Question 1.7 demonstrate that it would be over-collecting from its customers for the two-year period. Therefore, PNG is not proposing the referenced rate increases.

- 2.3 Please discuss the pros and cons of the 0.924% suggestion implicit in this IR (or a more refined increase in each year under 1% that would eliminate the overall deficiency over the two-year period) versus PNG's proposals.

Response:

As noted in the prior responses, the 0.924% rate increase suggestion for Test Years 2018 and 2019 would result in an over-collection of margin. PNG has no intentions to over-collect and would simply not propose this.

PNG has proposed a rate deferral mechanism to reduce customer rate volatility and is recommending rate decreases for its customers in both Test Year 2018 and Test Year 2019. For residential customers, this translates to a 1.25% rate decrease in Test Year 2018 and a 1.38% rate decrease in Test Year 2019.

3.0 Reference: Exhibit B-3, BCUC IR 1.5.1.1, Compressor Fuel and Total Deliveries

The referenced IR and response read:

5.1.1 How is the usage of compressor fuel correlated to total deliveries? Response:

Although there is a strong correlation between compressor fuel usage and deliveries, it is not a direct straight-line correlation as compressor fuel can vary based dependent on a number of factors including: compression used in the transmission pipeline; line pack; cycling of compressors; and system operating pressure of the pipeline.

3.1 Has PNG W ever conducted a linear regression analysis of compressor fuel use versus deliveries? If so, please provide a summary of the results including R- squared, parameter estimates, standard errors, etc.

Response:

For the reasons provided in response to BCUC IR 1.5.1.1, as noted in the preamble, PNG has not completed a linear regression.

4.0 Reference: Exhibit B-3, BCUC IR 1.5.3, Company Use Gas

The referenced IR and response read:

5.3 Is office and shop heating correlated with total deliveries? If yes, please explain why. If not, please explain how these requirements are calculated.

Response:

Office and shop heating are not correlated with total deliveries, however the forecast has been derived averaging the prior three years of office and shop heating usage as a percentage of total deliveries multiplied by the test year deliveries. This was done to be consistent with forecasting the other line items of company use and yields similar results to averaging the recent three years of office and shop heating.

4.1 Please explain why the forecast methodology for office and shop heating uses as an input, an uncorrelated forecasted value (total deliveries) and historical values of the percentage of fuel of the uncorrelated variable, as opposed to just using a multi-year average - which PNG appears to use anyhow as a check on the methodology.

Response:

PNG submits that, as per its response to BCUC IR 1.5.3 reproduced in the preamble, the approach taken was to provide consistency with forecasting the other line items.

PNG concedes that a multi-year average is more appropriate and will reflect this change in forecasting in its final regulatory schedules. PNG illustrates the impact of this change in the table that follows and notes that this change has no impact on the Company use rate or the Company use commodity cost rate used for deferral accounting.

	Amended Application		Restated	
	2018	2019	2018	2019
	GJ	GJ	GJ	GJ
Office and Shop Heating	2,051	2,156	2,021	2,071

4.2 Are there other forecasted variables that use a historical average percentage of an uncorrelated variable and a forecast of the uncorrelated variable to calculate a forecasted value? If so, please provide a list of such variables.

Response:

There are no other such variables.

5.0 Reference: Exhibit B-3, BCUC IR 1.8.4.1, Contractor Charges

The referenced IR and the response read:

8.4.1 If known please provide an explanation as to why the contractor charges have increased.

Response:

Actual contractor charges for 2016 increased over forecast amounts as, following a regulatory inspection by Technical Safety BC, PNG become aware of a requirement to test all relief valves, including those at the dormant stations, which had not been factored in the budgetary process.

- 5.1 Please confirm that PNG has in-house resources to track and ensure compliance with all applicable safety standards to ensure that this type of experience (i.e., becoming aware of an applicable requirement after the budget and application forecasts have been prepared) rarely occurs.

Response:

Technical codes, standards, and regulations are increasingly becoming more stringent. With the resources and approvals sought in this Amended Application, PNG believes it has all the necessary in-house resources to track and ensure compliance with all applicable safety standards in order to ensure that incidents of the nature described rarely occur.

6.0 Reference: Exhibit B-3, BCUC IR 1.15.5, Corporate Contractor Costs

- 6.1 Please briefly describe how ratepayers will get value from the \$50,000 line item in corporate contractor costs in 2019, including why these services are not required in 2018 and were not approved for 2017.

Response:

The \$50,000 line item in corporate contractor costs in 2019 includes the implementation of a new human resources system that will allow PNG to track performance management, allow tracking of trade certifications, track requirements for FIT and hearing tests, and complement our existing online safety programs with additional safety and operating procedure training for employees. Ratepayers will get value from the implementation of this system since it will ensure that employees working in PNG's service areas are always current with operating procedures and complete the work safely. This system is separate from the SafeStart training program which has been included in CEO – General Consulting. This initiative was not considered for 2017 nor Test Year 2018 as PNG does not have the ability nor the resources to implement the program until Test Year 2019.

7.0 Reference: Exhibit B-3, BCUC IR 1.15.7, Office Rent and Parking

- 7.1 Please explain why Office Rent and Parking cost \$13.5K in 2017 less than Decision 2017.

Response:

PNG's former office lease in Vancouver expired in August 2016 and PNG moved to new office premises. Costs for replacement office space (inclusive of operating costs) were estimated when Decision 2016 and 2017 were submitted, but as a result of the actual move in August 2016, actual costs for 2017 ended up being \$13.6K less in 2017 than Decision 2017. Subsequent to the move there have only been inflationary increases, and only an inflationary increase has been included for 2018 and 2019.

- 7.2 Please explain why Office Rent and Parking – which cost in actual terms \$309,460 in 2016 – has increased to \$350,250 in 2019, i.e., a 13.2 % increase over 3 years.

Response:

Please see the response to Question 7.1.