9 July 2020

VIA E-FILING

Reply to: Leigha Worth
ED@bcpiac.org
Ph: 604-687-3034
Our File: 7400.111

Marija Tresoglavic
Acting Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic,

Re: Pacific Northern Gas Ltd. (West Division) - 2020-2021 Revenue Requirements Application
BCOAPO Final Argument

We represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Centre, known collectively in this regulatory process as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Final Argument with respect to the above-noted matter.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

For/Leigha Worth
Executive Director | General Counsel

Encl.

BC OLD AGE PENSIONERS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, DISABILITY ALLIANCE BC, AND TENANT RESOURCE AND ADVISORY CENTRE, ("BCOAPO")

Pacific Northern Gas Ltd. (West Division) (PNG-West) - 2020-2021 Revenue Requirements Application

BCOAPO Final Argument

July 09, 2020

Please be advised that we provide the following final argument regarding the above noted application on behalf of our client groups known in this and other regulatory processes as BCOAPO or BCOAPO et al. The constituent groups of BCOAPO et al. represent the interests of residential energy consumers in British Columbia and, more specifically in this process, the interests of PNG-West's progressivist residential energy consumers.

Introduction

On November 29, 2019, PNG-West filed its 2020-2021 Revenue Requirements Application (RRA, or Application) with the British Columbia Utilities Commission (BCUC) pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA).

By Order G-330-19A the BCUC approved PNG-West's delivery rates on an interim and refundable basis effective January 1, 2020, as follows:[1]

1. a 2.3 percent increase from $12.098/GJ to $12.377/GJ for Residential service;
2. a 2.2 percent increase from $10.198/GJ to $10.420/GJ for Small Commercial service; and
3. a 2.9 percent increase from $6.893/GJ to $7.090/GJ for Granisle Propane service.

[1] Exhibit A-2-1

On February 28, 2020, PNG-West filed an Amended Application, requesting BCUC approval of permanent delivery rate increases effective January 1, 2020, and January 1, 2021 in order to recover a forecast revenue deficiency in 2020 and 2021[2].

Other Approvals sought by PNG-West include requests related to the changes and additions to PNG's deferral accounts and amortization expenses, including[3]:

- Approval to amortize a portion of the LNG Partners Option Fee Payment deferral account in 2020 and 2021 to mitigate rate impacts on customer rates;
- Approval to create the Accelerated Capital Cost Allowance (CCA) deferral account to record the impact of taking accelerated CCA in 2019 and amortizing this to the benefit of customers in Test Year 2020, as well as the subsequent dissolution of this account after Test Year 2021; and
- Approval to eliminate the Triton LNG Project (PLP) Project Amendment Sharing deferral account.

PNG-West also requests the following Approvals[4]:

- Approval to create a new interest bearing deferral account to record the portion of Shared Corporate Services Costs not recovered in customer rates in Test Year 2020 nor Test Year 2021 for services received to be amortized at a future date;
- Approval to re-instate a one-year interest bearing Transfer Pricing deferral account to track differences between forecast and actual utility charges to nonregulated services or activities;
- Approval to continue the unaccounted for gas (UAF) volume deferral account on the basis that the UAF volume forecasts for Test Year 2020 and Test Year 2021 are set at 1 percent of deliveries with PNG recording the variance between 1 percent and a loss of up to 1.5 percent without having to seek further BCUC approval;

[2] PNG-West Final Argument, pp. 4 - 5
[3] PNG-West Final Argument, p. 5
[4] PNG-West Final Argument, p.p. 5 - 6

- Approval to capitalize costs pertaining to magnetic flux leakage (MFL) in line inspection (ILI) runs to BCUC Account 469 on the basis that they are similar to inspection activities of electro-magnetic acoustic transducer (EMAT) ILI runs, and accordingly should have the same accounting treatment;
- Approval of the capital reporting process proposed by PNG in response to directive 5 of BCUC Order G-151-18; and
- Approval of the automotive cost allocation methodology.

On June 16, 2020, PNG-West filed an evidentiary update addressing two errors that pertain to the modelling of certain IT-related capital additions and income tax deductions and that impact rates in the 2020-2021 test period[5]. The corrected evidence results in a noticeable reduction in the cost of service for Test Year 2020 and a slight reduction in the cost of service for Test Year 2021.[6] PNG-West residential customers are now forecast to see a year-over-year average rate reduction in Test Year 2020 of approximately 0.2%, and a subsequent year-over-year average rate increase in Test Year 2021 of approximately 3.9%.[7]

With respect to the Evidentiary Update PNG-West proposes that[8]:

- Interim 2020 delivery rates as approved by Order G-330-19A be made permanent;
- Amortization of the LNG Partners Option Fee deferral account be set to nil for Test Year 2020 and $2,370,000 for Test Year 2021; and
- That the rate deferral mechanism be implemented to shift $824,000 of the Test Year 2021 revenue requirement to Test Year 2020.

PNG-West noted that this proposal would result in an increase to average delivery rates of approximately 2.0% in 2020 relative to 2019 rates and approximately 1.9% in 2021, and that the average residential customer delivery rate would increase by approximately

[5] Exhibit B-2-2
[6] Exhibit B-2-2, p. 2
[7] Exhibit B-2-2, p. 4
[8] PNG-West Supplemental Final Argument, p. 3

2.3% in 2020 (equivalent to the approved 2020 interim rate increase), and by approximately 2.0% in 2021[9].

By Orders G-330-19A, G-95-20, G-116-20, and G-158-20, the BCUC Panel established and later amended a Regulatory Timetable for the review of the Application which provided for, among other things, three rounds of interrogatories, including information requests (IRs) on Evidentiary Update, Panel IRs and written final and reply arguments, including PNG-West supplemental argument on Evidentiary Update.

In accordance with the most recent procedural order, BCOAPO makes the following submissions regarding PNG-West 2020-2021 Revenue Requirements Application.

Demand Forecast, Revenues and Margin

BCOAPO accepts the forecasting methodology employed for the Residential and Small Commercial rate classes in this RRA, noting that the methodology has been previously approved and that it is reasonable to use a short-run approach for the two-year RRA as opposed to the longer-run methodology used for resource adequacy purposes over a longer planning horizon.[10] In this respect, BCOAPO submits that it is appropriate for PNG-West to not reflect any estimated Clean BC impacts in this RRA as the impacts may be more accurately forecasted over a longer horizon.[11] In particular, BCOAPO accepts the use of extrapolating historical Use per Account (UPA) data in conjunction with forecast customer counts in deriving the Residential forecasts for ratemaking purposes.[12] Furthermore, BCOAPO notes that variances in UPA for Residential and Small Commercial (including qualifying institution) customers are captured in the Rate Stabilization Adjustment Mechanism (RSAM)[13]. Although variances for customer numbers are not captured in a deferral account, BCOAPO accepts the methodology as has been previously approved.

[9] PNG-West Supplemental Final Argument, p. 3
[10] Exhibit B-3, BCUC IR1.4.3
[11] Exhibit B-3, BCUC IR1.4.2
[12] Exhibit B-3, BCUC IR1.4.3 & 1.4.5.
[13] Exhibit B-5, BCOAPO IR1.1.2 & 1.1.5

With respect to BC Hydro demand, BCOAPO accepts the forecast demand and notes that the service provided is interruptible and that variances are captured in the Industrial Customers Deliveries Deferral Account (ICDDA).[14]

For large industrial customers, BCOAPO notes that some customers are served under a take or pay tariff while variances for other large industrials are captured in the ICDDA.[15] BCOAPO accepts the forecasted demand for the two new Large Commercial Firm sales customers in Kitimat and Prince Rupert.[16]

Finally, BCOAPO notes that potential impacts from COVID-19 on the demand forecasts are expected to be captured in the COVID-19 Deferral Account.[17]

Cost of Gas

PNG-West's gas costs presented in its Application are indicative only and the Utility is not applying for BCUC approval of the indicative gas supply rates[18]. However, PNG-West is seeking approval for changes related to the Unaccounted for Gas (UAF) component of Company use gas.

BCOAPO has concern regarding the volume of UAF and the cost responsibility in respect of UAF.

PNG-West provides the following evidence regarding UAF[19]:

> *Unaccounted for gas (UAF) represents the difference between the physical input of gas entering into a pipeline system and the physical output of gas exiting the pipeline system. UAF is derived from an analysis of gas volumes entering a pipeline system during custody transfer and*

[14] Exhibit B-3, BCUC IR1.5.1, 1.5.1.1, 1.5.2, and 1.5.3, and Exhibit B-8, BCOAPO IR2.8.1 & 2.8.2
[15] Exhibit B-3, BCUC IR 1.5.2, and Exhibit B-5, BCOAPO IR 1.1.3
[16] Exhibit B-3, BCUC IR1.2.2.
[17] Exhibit B-5, BCOAPO IR1.1.1 & 1.1.3
[18] Exhibit B-2, Amended Application, p. 27
[19] Exhibit B-2, Amended Application, p. 29

> *the gas volumes which are measured and billed at all delivery points over a defined period of time. Primary reasons for natural gas loss which goes unaccounted include: meter inaccuracy; leakages from pipelines due to third-party damage or problems with pipelines themselves; theft issues and meter tampering; and variations in surrounding temperature.*
>
> *Historically, the UAF component of Company use gas for PNG-West has been set at zero percent. PNG-West has made use of a UAF Volume deferral account to which a loss cap of 1.0 percent applied – PNG-West was required to obtain BCUC approval to record the impact of UAF losses in excess of 1.0 percent.*
>
> (Emphasis added.)

In other words, under the current treatment, for variances up to 1%, customers bear 100% of the UAF risk, and for variances above 1%, subject to BCUC approval, customers also bear 100% of the UAF risk.

Now PNG-West is seeking to set the UAF component of Company use gas to 1.0% and to increase the "cap" on amounts in respect of UAF that can be booked into the UAF deferral account without further BCUC approval to 1.5% for the test years 2020 and 2021.[20] Should UAF variances exceed this cap in 2020 and/or in 2021, PNG-West will be able to seek BCUC approval to book the excess into the deferral account for 100% recovery from ratepayers.

BCOAPO opposes the proposal to increase the soft cap for UAF from 1% to 1.5% and submits that the shareholder should bear UAF risk.

BCOAPO points out the following evidence regarding UAF losses:

[20] Exhibit B-2, Amended Application, pp. 28 - 33

1. With the single exception of 2015, in which customers were credited with a very small UAF "gain," UAF variances over the years 2015-2019, inclusive, have been material and resulted in customer debits from UAF "losses".

   The Company Use Gas Cost is provided in Table 14 of the Amended Application[21], as follows (Emphasis Added):

Table 14: Company Use Gas Cost

Element	Test Year 2021	2021 to 2020 Change		Test Year 2020	2020 to 2019 Change		Decision 2019	Actual 2019	Actual 2018	Actual 2017	Actual 2016	Actual 2015
		Amount	%		Amount	%						
Cost ($)*	**568,413**	**68,752**	**13.8%**	**499,661**	**161,806**	**47.9%**	**337,855**	**385,632**	**298,260**	**378,126**	**282,800**	**376,907**
Requirements (GJ)												
Station Heating (lineheaters)	18,020	253	1.4%	17,767	(345)	(1.9)%	18,112	17,105	16,363	18,820	16,435	15,039
Line Pack Change	-	-	-	-	-	-	-	20,198	(7,297)	1,633	(7,140)	(18,843)
Compressor Heating (boilers)	12,037	543	4.7%	11,494	(85)	(0.7)%	11,579	10,916	11,727	11,101	10,683	12,049
Office and Shop Heating	2,017	24	1.2%	1,993	(77)	(3.7)%	2,070	1,929	1,971	2,320	1,871	1,873
Compressor Fuel	58,149	4,168	7.7%	53,981	11,296	26.5%	42,685	67,240	45,050	47,418	36,882	32,216
Blowdown - Operating	1,046	(25)	(2.3)%	1,071	(69)	(6.1)%	1,140	934	1,241	1,134	850	1,195
Blowdown - Capital	-	-	-	-	-	-	-	32,421	24,300	10,642	9,526	2,514
In-house Consumption	4,359	198	4.8%	4,161	331	8.6%	3,830	3,843	4,349	4,008	3,414	3,317
Unaccounted for Gas (Gain)/Loss	51,240	1,826	3.7%	49,414	49,414	-	-	108,087	75,693	20,487	225,995	(1,265)
	146,868	**6,987**	**5.0%**	**139,881**	**60,465**	**76.1%**	**79,416**	**262,673**	**173,397**	**117,563**	**298,516**	**48,095**

** Note: Includes Provincial taxes and levies*

Source: Tab Schedules, Tab 6, Page 13 and 29; Decision 2018-2019 RRA Compliance Filing

According to the Table, UAF on an actual basis has resulted in a small "gain" (benefit to ratepayers) in 2015 of $1,265 of a total cost of Company Use Gas of $48,095, which represent a gain of 2.63%.

On the other hand, the UAF losses in each year 2016-2019, totaled $430,262 or 50.5 % of the total Company Use Gas Costs of $852,149 for 2016-2019 inclusive. In other words, over half the Company Use Gas Costs are due to UAF losses for these four years.

[21] Page 28

BCOAPO also notes that for 2020, there were UAF losses from January to March and a UFA gain in April, resulting in an overall UAF loss of $111,334 for the first four months of this year, as per the table below:[22]

2020	January	February	March	April	Total
Actual UAF Gains/(Losses)	(38,898)	(15,574)	(33,724)	27,124	(61,072)
Deliveries	629,335	519,404	522,323	419,802	2,090,865
UAF Gains/(Losses) as a portion of deliveries	-6.2%	-3.0%	-6.5%	6.5%	-2.9%
Value of UAF Gains(Losses)	$ (70,912)	$ (28,392)	$ (61,479)	$ 49,448	$ (111,334)

2. With the exception of UAF due to pipeline losses, it would be expected that UAF gains and losses due to the other "primary reasons" cited by the utility for UAF variances would either be immaterial or net to zero.

   Absent any utility evidence of widespread and material meter tampering and theft, BCOAPO submits that these drivers of UAF cannot be assumed to be material. Additionally, given the standards set for custody transfer meters including calibration and testing, in BCOAPO's view a reasonable expectation is that meter variances would not account for any significant UAF.

BCOAPO submits that it is inappropriate for customers to bear the entirety of the risk of UAF variances when they typically involve losses most likely due to leakages from pipelines. Considering that the Utility operates and maintains its pipelines, losses due to leakages should be the responsibility of the Utility, especially given that the costs of said operations and maintenance are paid in rates charged to customers by their inclusion in

[22] Exhibit B-7, BCUCIR2.93.3

the revenue requirement. Ratepayers can only pay the Utility – they cannot fix pipeline leakages.

Accordingly, BCOAPO submits that the shareholder should bear 100% of the UAF risk to provide a strong financial incentive to minimize UAF. In the event that the BCUC believes that some sharing of this risk with customers is appropriate, then BCOAPO urges the BCUC to find that the shareholder bears sufficient UAF risk to incent minimizing UAF variances.

In the event that the BCUC finds that the utility should bear none of the risk associated with UAF, BCOAPO urges the BCUC to defer any increase on the UAF cap until the Utility's review is completed and evidence submitted, as per BCUC IR 2.93.4:[23]

> *93.4 Please discuss the pros and cons of deferring any changes to the UAF component of the Company use gas and UAF loss cap until the completion of PNG's review and examination stated in the preamble above.*
>
> *<u>Response:</u>*
>
> *PNG does not have any concerns regarding deferring the BCUC's determination on PNG's proposed changes to the UAF component of the Company use gas and UAF loss cap until the completion of PNG's examination.*

Overall, BCOAPO believes that reward should follow risk and that, to the extent that the Utility shifts risk to its customers, the Utility's reward should be decreased.

[23] Exhibit B-7, BCUC IR 2.93.4

In this vein, BCOAPO notes that what is described elsewhere as a major source of utility risk – weather risk – has been shifted from the Utility to Residential and Small Commercial customers by means of the RSAM.

Finally, BCOAPO notes that while not regulated gas utilities, other businesses, many workers and families have been absorbing the impacts of the COVID-19 pandemic, including business failures, reductions in earnings, and impoverishment, in the case of PNG-West, Order G-146-20 holds the Utility's shareholders essentially harmless from the COVID-19 impacts and allows the utility a good opportunity to earn its approved after-tax Return on Equity throughout the pandemic.

Operating and Maintenance (O&M) Expenses

BCOAPO is not able to identify any particular line item of Operating Expenses for 2020 and 2021 that it can definitively challenge but provides the following general comments regarding the recent past which gives BCOAPO some concern with respect to cost control.

To illustrate BCOAPO's concerns in this regard, we refer to Gross Operating Expenses as provided by PNG-West in the Revised Table 16:[24]

[24] Exhibit B-3, BCUC IR1.9.1

Revised Table 16: Forecast Operating Expenses (Gross)

BCUC Account	$000's											
	Test Year 2021	2021 to 2020 Change		Test Year 2020	2020 to 2019 Change		Decision 2019	Actual 2019	Actual 2018	Actual 2017	Actual 2016	Actual 2015
		$	%		$	%						
665 - Pipelines	2,696	(642)	(19.2)%	3,338	1,557	87.4%	1,781	1,672	1,813	2,040	1,805	1,720
666 - Compressors	648	14	2.1%	635	146	29.8%	489	557	450	559	601	498
667 - Regulating Stations	235	5	2.2%	230	5	2.4%	224	240	249	210	213	237
670 - Supervision	545	12	2.2%	533	(10)	(1.8)%	543	661	629	572	591	603
685 - General Operations	4,639	414	9.8%	4,224	308	7.9%	3,916	2,922	3,813	3,186	3,052	2,980
688 - Other General Operations	2,087	69	3.4%	2,018	309	18.1%	1,709	1,895	1,752	1,683	1,683	1,404
711/713/714 - Customer Care	1,956	213	12.2%	1,743	89	5.4%	1,654	1,662	1,547	1,572	1,525	1,512
Other inc. 673/675/684/712/718	2,195	191	9.5%	2,004	170	9.3%	1,834	1,812	1,600	1,809	1,771	1,794
Operating Expenses	**15,001**	**276**	**1.9%**	**14,725**	**2,576**	**21.2%**	**12,149**	**11,421**	**11,853**	**11,631**	**11,241**	**10,748**
Less: Cost of Gas - 665 Pipelines	(559)	(68)	13.8%	(491)	(162)	49.1%	(330)	(383)	(295)	(372)	(278)	(369)
- 685 General	(9)	(1)	10.3%	(8)	(0)	0.6%	(8)	(3)	(3)	(6)	(4)	(7)
Cost of Gas	**(568)**	**(69)**	**13.8%**	**(500)**	**(162)**	**47.9%**	**(338)**	**(386)**	**(298)**	**(378)**	**(282)**	**(376)**
Operating Expenses (Net of Company Use Cost of Gas)	**14,433**	**207**	**1.5%**	**14,226**	**2,414**	**20.4%**	**11,811**	**11,035**	**11,555**	**11,253**	**10,959**	**10,372**
Less: Transfers to Capital	(699)	(42)	6.4%	(657)	(147)	28.8%	(510)	(510)	(543)	(397)	(362)	(314)
Net Operating Expenses (Net of Transfers to Capital)	**13,733**	**165**	**1.2%**	**13,569**	**2,267**	**20.1%**	**11,301**	**10,525**	**11,012**	**10,856**	**10,597**	**10,058**

BCOAPO recognizes that Gross Operating Expenses include the cost of Company Use Gas, the price of which is beyond PNG-West's control. However, as we have submitted above, in recent years over half of the cost of this gas is attributable to UAF volumes, and we consider that UAF volumes should be controllable to a far greater extent and be the responsibility of the utility to minimize. Therefore, BCOAPO submits that using Gross Operating Expenses is appropriate for illustrative purposes here.

Per Table 16 above, PNG-West proposes an increase of 21.2% in 2020 Operating Expenses above the actual 2019 spending.

BCOAPO notes that actual Operating Expenses were $10.748M in 2015, rising to a forecasted $14.725M in the first Test Year 2020. We note that this increase over the 5-year period from 2015 to 2020, is equivalent to an inflation rate of 6.50% (compounded annually), far in excess of the general level of inflation in the economy.

Further, although the 2019 RRA Decision approved Operating Expenses of $12.149M in 2019 – and embedded this total in rates for recovery from customers in 2019 – the Utility only spent $11.421M, i.e., underspent by 6% or $728K. BCOAPO notes that other things equal, $728K collected from ratepayers for Operating Expenses went instead to return on

equity. In terms of overall Operating Expenses, PNG-West underspent by 7.3% or $776K in 2019[25].

With respect to Maintenance expenses, PNG-West underspent in each year from 2017 to 2019 inclusive.[26]

BCOAPO submits that it is possible for a utility to over-forecast/underspend on O&M expenses to the benefit of the shareholder while making up for the consequences of any under-spending at the next rates proceeding by requesting a large increase in O&M. While BCOAPO does not assert PNG-West deliberately engages in such gaming, given that there have been no new regulations for the Test Year 2020[27] (and noting that climate change is also not a new concern in 2020), BCOAPO believes that, for example, every additional dollar spent on O&M in a year of under-spending would mitigate the requested increase in expenditures for the following year, as less "catch up" would be required and rates and customer bills would be smoothed.

The Balance of Proposals

BCOAPO accepts the following PNG-West proposals as filed:

- June 2020 Evidentiary Update;
- LNG Partners Option Fee Amortization;
- Accelerated CCA deferral account;
- Depreciation Expense;
- Transfers to Capital;

[25] Exhibit B-5, BCOAPO IR1.4.1,
[26] Exhibit B-5, BCOAPO 1.4.1
[27] Exhibit B-5, BCOAPO IR1.3.1 & 1.3.2

- Accounting treatment of MFL In-Line Inspection;
- Addition of new staff positions;
- Elimination of PLP Project Amendment Sharing deferral account;
- Customer information services (CIS) and IT Projects;
- Capital Expenditures; and
- Cost of Capital.

BCOAPO elects to take no position on any issues not specifically addressed in the submissions above.

ALL OF WHICH IS RESPECTFULLY SUBMITTED:

Original on file signed by	*Original on file signed by*
For/Leigha Worth Executive Director | General Counsel	Irina Mis Staff Lawyer