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Via E-file

July 16, 2020

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

File No.: 4.2.7(2020)

Attention: Marija Tresoglavic
Acting Commission Secretary

Dear Ms. Tresoglavic:

**Re: Pacific Northern Gas Ltd.
PNG-West Division
2020-2021 Revenue Requirements Application
Applicant's Reply Argument**

Accompanying, please find the Reply Argument of Pacific Northern Gas Ltd. in the referenced proceeding.

Please direct any questions regarding the application to my attention.

Yours truly,

Original on file signed by:

Verlon G. Otto

Enclosure

PACIFIC NORTHERN GAS LTD.

**APPLICATION
to the
BRITISH COLUMBIA UTILITIES COMMISSION**

**FOR APPROVAL OF THE PNG-WEST DIVISION
2020-2021 REVENUE REQUIREMENTS**

APPLICANT'S REPLY ARGUMENT

July 16, 2020

TABLE OF CONTENTS

- 1. Introduction..... 1
- 2. Reply Submissions 1
 - 2.1 Cost of Gas - Unaccounted for Gas (UAF) Component 2
 - 2.2 Operating and Maintenance Expenses..... 4
- 3. Conclusion 5

1. INTRODUCTION

1. This is the Reply Argument of Pacific Northern Gas Ltd. (PNG) for the PNG-West Division 2020-2021 Revenue Requirements Application (Amended Application)¹ filed with the British Columbia Utilities Commission (BCUC) seeking, among other things, approval, on a permanent basis, of delivery rate changes effective January 1, 2020 and January 1, 2021, pursuant to sections 58 to 61 of the *Utilities Commission Act (UCA)*.

2. On July 9, 2020, the British Columbia Old Age Pensioner's Organization, Active Support Against Poverty, Council of Senior Citizen's Organizations of BC, Disability Alliance BC, Tenants Resource and Advisory Center and Together Against Poverty Society, known collectively as BCOAPO et al. (BCOAPO), filed Final Argument in this proceeding.

3. In the discussion that follows, PNG provides its response to matters raised in the Final Argument of BCOAPO.

2. REPLY SUBMISSIONS

4. The BCOAPO Final Argument focused on four areas: (i) Demand Forecast, Revenues and Margin; (ii) Cost of Gas; (iii) Operating and Maintenance Expenses; and (iv) a specified list of proposals made by PNG in its Amended Application and in the course of this regulatory proceeding.

5. In its final submission, BCOAPO expressed acceptance of PNG's forecasting methodologies and a number of specifically identified matters/proposals addressed in this proceeding. PNG appreciates the BCOAPO's support on these specific matters and will not address them any further in this reply.

6. The balance of this reply focuses on points made by BCOAPO in regard to the Cost of Gas, specifically the unaccounted for (UAF) gas component of Company use gas, and to the forecast Operating and Maintenance Expenditures for 2020 and 2021.

¹ Exhibit B-2

2.1 Cost of Gas - Unaccounted for Gas (UAF) Component

7. In the Amended Application, PNG has sought approval for two changes related to the unaccounted for gas (UAF) component of Company use gas: (i) PNG is seeking to set the UAF component of Company use gas to 1.0%; and (ii) PNG is seeking to increase the approved UAF loss cap to 1.5%.²

8. In its Final Argument, BCOAPO has expressed concern regarding the volume of UAF and the cost responsibility in respect of UAF. BCOAPO has opposed the increase in the approved UAF loss cap from 1.0% to 1.5%, and has submitted that the shareholder should bear UAF risk. In support of this position, BCOAPO summarized UAF losses of recent years (2015 to 2019) based on information presented in PNG's Amended Application,³ and submitted that the primary reasons for UAF losses noted by PNG⁴ cannot be assumed to be material. BCOAPO concludes on this issue that the UAF losses are most likely due to leakages from pipelines and, given that PNG operates and maintains the pipelines, losses due to leakages should be the responsibility of PNG, especially given that costs of operation and maintenance are included in the rates charged by PNG and therefore paid by customers.

9. Based on the foregoing, BCOAPO has submitted that PNG should bear 100% of the UAF risk to provide a strong financial incentive to minimize UAF, or if the risk is to be shared, that PNG bear sufficient risk to incent minimizing UAF variances. Should the BCUC find that PNG should bear none of the UAF risk, BCOAPO encourages the BCUC to defer an increase in the UAF loss cap until PNG has completed its review and examination of data and calculations influencing monthly UAF volumes.

10. In the course of this proceeding, and as summarized in PNG's Final Argument, extensive evidence has been provided in support of the requested changes related to the unaccounted for gas (UAF) component of Company use gas as being appropriate and

² Exhibit B-2, Section 2.2.3, page 29

³ PNG notes that amounts presented in paragraphs 3 and 4 on page 7 of BCOAPO's Final Argument are incorrectly presented as dollars (\$) rather than gigajoules (GJ)

⁴ Exhibit B-2, Section 2.2.3, page 29, "Primary reasons for 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."

reasonable.

11. PNG reiterates that a significant number of estimates are utilized in the calculation of UAF, and may include inaccuracies in the metered natural gas receipts and in metered and estimated natural gas deliveries, as well as errors in the estimated quantities of gas lost through venting and blowdowns, and estimated changes in linepack.⁵ PNG is working on measures to improve these estimates.

12. Further, although there have been UAF losses in the period of 2015 to 2019, as noted by BCOAPO, PNG also highlights that for the period of 2004 to 2019, the net benefit to PNG's ratepayers of recording unaccounted for gains and losses in the UAF deferral account was \$1.2 million.⁶

13. However, as noted in response to BCUC IR 93.4,⁷ PNG is amenable to deferring a decision on the requested changes until PNG has completed, and the BCUC has had an opportunity to review, the findings of the review and examination of data and calculations influencing monthly UAF volumes.

14. BCOAPO concludes its discussion on the cost of gas with the assertion that reward should follow risk and that, to the extent the utility shifts risks to its customers, the utility's reward should be decreased. On this matter, BCOAPO noted that weather risk has been shifted from the utility to Residential and Small Commercial customers by means of the Rate Stabilization Adjustment Mechanism (RSAM), and further notes that PNG is held harmless from COVID-19 impacts by virtue of the deferral account approved under BCUC Order G-146-20. In reply, PNG observes that it has provided its view on these two matters, the impacts of implementing RSAM and the impacts of COVID-19, in the responses it has provided to BCOAPO IR 14.1 and BCOAPO IR 13.1, respectively.⁸

⁵ Exhibit B-3, BCUC IR 6.5

⁶ Exhibit B-7, BCUC IR 93.5

⁷ Exhibit B-7, BCUC IR 93.4

⁸ Exhibit B-8, BCOAPO IRs 13.1 and 14.1

2.2 Operating and Maintenance Expenses

15. As summarized in PNG's Final Argument, PNG has provided a substantial amount of information in this proceeding in support of the rationale and basis for its forecast Operating and Maintenance expenditures for 2020 and 2021.

16. In its Final Argument, BCOAPO has expressed concern regarding the forecast increase in Operating costs for the test period and further concern with the underspending by PNG on Operating and Maintenance costs in recent years.

17. PNG agrees that the increase in Operating expenditures forecast for 2020 is noteworthy, however, PNG submits that the increased costs are necessary and are largely driven by planned pipeline integrity management activity, including the In-Line Inspection (ILI) program, and incremental activities to ensure compliance with pipeline integrity-related codes, standards, and regulations, and to address aging infrastructure concerns and heightened public and stakeholder expectations. Again, PNG submits that the rationale and basis for the forecast cost increases is supported by evidence entered on the record of this proceeding.

18. As to the forecast increase in Operating expenditures, from \$10.748 million in 2015 to \$14.725 million forecast for 2020, and the BCOAPO's assertion that this equates to an inflation rate of 6.5% over this same period, PNG observes that actual costs increased from \$10.748 million in 2015 to \$11.421 million in 2019, an increase of \$673,000 over four years, or \$168,000 per year, equivalent to a rate of increase of approximately 1.6% per year, which PNG considers equivalent to an inflationary level. Again, PNG concedes that the increase in costs forecast for 2020 is significant, however, PNG submits that this increase in costs is supported by evidence on record and should not be used to characterize PNG's Operating expenditures as being out of line and seemingly out of control over the course of the past five years.

19. As to the BCOAPO's expressed concern with underspending by PNG on Operating expenditures in recent years, PNG observes that of the identified underspend of \$728,000 or 6% in 2019, \$275,000 is attributed to GIS-related costs and \$254,000 is attributed to Maximo

licensing costs that were subsequently determined to be capital in nature.⁹ The remaining \$199,000 equates to a 1.6% underspend which PNG does not consider an unreasonable result given that the forecast amounts for 2019 were established in 2017, two years prior.

20. The BCOAPO Final Argument suggests that it is possible for a utility to over-forecast/underspend on operating and maintenance expenditures to the benefit of the shareholder while making up for the consequences of any underspending at the next rates proceeding by requesting a large increase in operating and maintenance expenses. PNG observes that aside from the noted 2019 variance discussed previously, in the period 2015 to 2018, actual gross Operating expenditures were underspent by an average of \$19,000 each year, and ranged from an underspend in 2015 of \$167,000 to an overspend in 2017 of \$139,000. Further, PNG observes that in the period 2015 to 2019, actual Maintenance expenditures were underspent by an average of \$87,000 each year, and ranged from an underspend in 2019 of \$10,000 to an underspend in 2018 of \$168,000.

21. In PNG's Final Argument, it was noted that while there have been some variances in Operating and Maintenance expenditures in recent years, costs have been prudently managed between the various categories to ensure the overall Operating and Maintenance budgets were effectively managed, and that the various activities performed by field staff are not undertaken in isolation, but are managed on an overall basis with trade-offs required between operating and maintenance activities. To this end, PNG submits that an average underspend on Operating and Maintenance expenditures in the range of \$100,000 per year on a budget in excess of \$10 million is not unreasonable and should not be construed to confer a significant benefit to PNG.

3. CONCLUSION

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

⁹ Exhibit B-2, Section 3.2.2.1, page 145

costs.

23. PNG submits that there are no unnecessary, unreasonable or excessive costs in its applied-for 2020 and 2021 cost of service. PNG further submits that the evidence in this proceeding demonstrates that the rates sought by PNG for 2020 and 2021 are supported by sound forecasting methods and are required so that PNG may recover the costs of serving PNG-West customers. PNG submits that the approvals sought are just and reasonable and in the public interest and should be granted.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated at Vancouver, British Columbia this 16th day of July 2020.

PACIFIC NORTHERN GAS LTD.

Original on file signed by:

Gordon Doyle

Vice President, Regulatory Affairs, Legal & Gas Supply