

20 July 2020

VIA E-FILING

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



Reply to: Leigha Worth
ED@bcpiac.org
Ph: 604-687-3034
Our File: 7400.110

Dear Ms. Tresoglavic,

**Re: Pacific Northern Gas Ltd. (N.E.) - 2020-2021 Revenue Requirements Application
BCOAPO Final Argument**

Please be advised that, in this process, 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:

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. (N.E.) - 2020-2021 Revenue Requirements Application

BCOAPO Final Argument

July 20, 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 Pacific Northern Gas Ltd. (N.E.) ("PNG") 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 (N.E.)'s residential energy consumers.

Introduction

On November 29, 2019, PNG(NE) (PNG) filed its 2020-2021 Revenue Requirements Application (RRA, or Application) with the British Columbia Utilities Commission (BCUC) for the Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA).

By Order G-331-19 the BCUC approved PNG's delivery rates on an interim and refundable basis effective January 1, 2020, as follows¹:

1. a 4.3 percent increase from \$10.435/GJ to \$10.887/GJ for TR Residential service;
2. a 4.0 percent increase from \$8.249/GJ to \$8.579/GJ for TR Small Commercial service.

¹ Exhibit A-2

On February 28, 2020, PNG filed an Amended Application², 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.

On June 16, 2020, PNG filed an evidentiary update addressing two errors in the Amended Application that pertain to the modelling and calculation of the income tax impacts of certain IT-related capital additions in the test period.

By Orders G-331-19, G-96-20, and G-159-20, 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, and written final and reply arguments.

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

COVID-19 Impacts

At a high level, BCOAPO thought that one plausible, even likely, impact of the COVID-19 pandemic would be a decrease in load and revenue from the Commercial and Industrial rate classes and an increase in load and revenue from the Residential class, thus fundamentally altering the forecast demand and cost allocation underpinning the utility's current RRA proposal.

As a result, BCOAPO expected that the demands from the Commercial and Industrial rate classes would decrease, in part due to lower demand and in part due to enforced closings of businesses, industries, schools, etc. The flip side of that expectation was placed on the Residential class, with BCOAPO expecting that job losses both temporary and permanent (with the split between the two categories still unknown), school closings, and with increased numbers of people sheltering or self-isolating at home, it seemed reasonable to infer that there could be an increase in residential demand for gas.

² Exhibit B-2

However, in response to BCOAPO's requests regarding these possible impacts³, we were surprised that PNG stated there had been no evidence of the impacts of the pandemic sufficient to revise any of its forecasts of demands.

In response to the BCUC's further requests exploring these and similar issues, PNG stated that while there had been increases in residential demand in April in the FSJ/DC division, these were largely attributed to colder than normal weather and strangely there had been a decrease in the TR division's residential demand "despite colder weather and likely arising from unbilled estimates."⁴ With respect to Institutional/Commercial and Industrial demands for April 2020, according to PNG, there was not unambiguous evidence of any material impacts of COVID that sector's use.

PNG has also noted that the data with respect to COVID to this point comprises a small sample size, an observation which we acknowledge is undeniable at present.

Also, in this process PNG stated that it did not expect COVID would have a material impact on capital or IT project spending or project timing, start dates for new FTEs or forecasted costs over the Test Period⁵. Furthermore, in PNG's view, there is no need for any revision to its five-year methodology for forecasting new services under the spectre of COVID⁶.

PNG asserted that it had not seen evidence of material COVID impacts on throughputs and, as such, did not see the need to revise its load forecast.⁷ PNG provided forecasted and actual deliveries by customer class for the period January-April 2020⁸: the actuals (assuming they were not weather normalized which BCOAPO believes to be the case) the data provided supported PNG's earlier responses regarding the impact of COVID on load to this point.

³ Exhibit B-5, BCOAPO IR 1.1-1.6

⁴ Exhibit B-6, BCUC IR 65.1.2,

⁵ Exhibit B-6, BCUC IR 65.1.1

⁶ Exhibit B-6, BCUC IRs 82.3 and 82.3.1

⁷ Exhibit B-7, BCOAPO IR 1.1

⁸ Exhibit B-7, BCOAPO IR 1.2

In response to a BCOAPO IR, PNG confirmed it had not found any information since filing the Amended Application to warrant any revisions to the filed forecasted throughputs, costs, etc.⁹ With respect to PNG's view that there is not sufficient evidence on the record in this proceeding to justify revisions or amendments to the Amended Application to account for COVID impacts, BCOAPO cannot disagree and although BCOAPO believes that it is plausible that material impacts may arise in the near to mid future in respect of COVID, we acknowledge that this possibility is speculative at this point.

BCOAPO would like to address one related issue that arose in response to BCOAPO IR 1.9¹⁰:

Does PNG believe that its approved RoE for 2018-19 remains appropriate for 2020-2021 in the sense that it provides PNG the opportunity for a reasonable risk-adjusted return as compared to overall Canadian and North American market equity returns?

PNG's response was as follows:

PNG(NE) has not engaged an expert to review its RoE and capital structure to determine if it provides the Company with the opportunity to earn a fair and reasonable return in the current context of Canadian and North American market equity returns. Equity markets are highly volatile, with a large number of the factors that go into the determination of the appropriate RoE and capital structure changing rapidly and often.

PNG(NE) does, however, believe it is appropriate to use the RoE and capital structure approved for 2018 and 2019 for Test Years 2020 and 2021. It is PNG(NE)'s opinion that attempting to determine an appropriate change to any utility's RoE and capital structure during current market

⁹ Exhibit B-7, BCOAPO IR 13.1

¹⁰ Exhibit B-5

conditions would not be an appropriate use of resources given the rapid rates of change in the equity markets.

BCOAPO appreciates PNG's response insofar as it directly addresses the question as it was posed. BCOAPO would like to clarify that we were not suggesting that an RoE/Capital Structure proceeding be held within or in conjunction with this proceeding. Instead, it was our intention to address the fact that (i) as a regulated utility, PNG enjoys volatility protection in the form of established deferral accounts transferring forecast risk from the shareholder to ratepayers, e.g., for interest rate variances, UAF variances, weather variances (RSAM) etc., plus the ability to come, at any time, before the BCUC to seek a financial remedy in the event of exogenous factors that threaten its financial stability or solvency – avenues not available for businesses operating in unregulated competitive sectors, and (ii) notwithstanding the number of job losses, business closings, and increased costs for businesses still operating due to COVID, PNG has a COVID deferral account that holds it harmless from incremental costs incurred and bad debt costs arising due to COVID.

Given the regulatory mechanism and pre-COVID protections afforded PNG due to its status as a regulated natural gas distributor – protections which BCOAPO is not arguing against here – BCOAPO was seeking PNG's view as to whether the further protection enjoyed by PNG in the event of a global pandemic as manifested by a COVID DA, established after the fact, was qualitatively informative as to the appropriateness of the current risk premium embedded in rates: in short, is it of future interest that the utility enjoys a level protection even greater than was realized pre-COVID in the form of a DA established after the impact of COVID began to be felt.

In BCOAPO's view it is a question worth pondering.

Unaccounted for Gas (UAF) Volumes

The evidentiary record shows that UAF losses are an issue in the FSJ/DC Division.

BCOAPO believes that generally, the main driver of UAF is pipeline leakage (and possibly, to a minor extent, theft). These are issues that BCOAPO believes should be a

shareholder risk given that the utility has recovered amounts from ratepayers for operations, maintenance, other investigations, repairs, remediations, replacements, etc. BCOAPO believes that any UAF due to meter variances should be small and net to approximately zero over the medium term.

BCOAPO's understanding of the proposals regarding UAF as expressed in the Amended Application and the Final Argument is that no new approvals are being sought in the current proceeding. Subject to this understanding and given the approvals as per Order G-65-20 and given that PNG will present a review of this issue to the BCUC on or before September 15, 2020, BCOAPO does not contest the UAF proposals made by PNG.

Use of Latest Forecast/Market Data For Debt Rates Embedded in the Revenue Requirement

A partial extract of the response to the two referenced IRs is as follows:

As noted on page 83 of the FSJ/DC Amended Application and page 68 of the TR Amended Application, the forecast of the underlying prime rate for operating line borrowings in both Test Year 2020 and Test Year 2021 was based on the forecast decrease in the average 90-day treasury bill rate for 2020 relative to the forecast 90-day treasury bill rate from Decision 2019 which is then added to the forecast 2019 Decision prime rate. PNG(NE) based the forecast 90-day treasury bill rate for 2020 from BMO's published forecast dated November 22, 2019. With the changing economic conditions, BMO has published a forecast dated March 27, 2020 which shows that the forecast 90-day treasury bill rate for 2020 has declined from 1.6625% to 0.4875%. BMO's publication also includes a forecast for 2021 which is 0.20%. BMO's March 27, 2020 publication is reproduced on the pages that follow this response.

Use of the updated forecast would reduce Fort St John's, Dawson Creek's and Tumbler Ridge's forecast 2020 and 2021 short term and long term debt interest rates as follows...[Emphasis added.]

As a matter of principle, BCOAPO's position is that when forecasts are used to establish key parameters to be embedded in costs, the preference should be to use the most recent forecast available, and on the record, in calculating the interest rates as an input to the appropriate interest rates to embed in the cost of service.

Simply put, more recent forecasts embody more information about the past (some of which was not known at the time of the earlier forecast yet is now "historic") and more information about the present (all of which was unknown earlier) and hence tend to be more reliable.

Notwithstanding the fact that PNG has deferral accounts to shield it from variances between forecast and actual interest rates, holding the shareholder harmless while ratepayers are ultimately 100% responsible for all variances in interest rates, BCOAPO's position is that the BMO March 2020 forecast – and not the earlier (pre-COVID) BMO November 2019 forecast – should underpin the final approved debt costs and rates for 2020 and 2021. Assuming that the forecast methodology is unbiased, this should provide a superior estimate.

Pipeline Integrity Costs

In its Final Argument, PNG identifies pipeline integrity-related cost increases as a major driver in the Test Period revenue deficiencies for both FSJ/DC and TR.

While BCOAPO agrees that pipeline integrity is of paramount importance, BCOAPO was initially concerned with the representations, which seemed inconsistent, that (i) more stringent codes were now in effect¹¹ and (ii) no new codes or regulations have come into effect since the 2018-19 RRA¹². These, coupled with no evidence of code non-compliance on the part of PNG in previous years seemed inconsistent with the request for significant increases for integrity.

¹¹ Exhibit B-5, BCOAPO IR 1.2.1

¹² Exhibit B-5, BCOAPO IR 1.2.2

After reviewing the further information provided by the utility regarding asset ages¹³ and BCOGC correspondence and mandates¹⁴, BCOAPO accepts the integrity spending proposals.

Distribution Mains Capital Forecasts versus Actuals

BCOAPO notes that while PNG forecast/received approval for distribution mains expenditures of \$2.39M over the period 2015-19, actual distribution mains expenditures were only 52.8% of the approved total over this same period, i.e., \$1.13M less than the approved \$2.39M.¹⁵

Because the utility initially collects revenues from ratepayers for return, taxes, and depreciation on the approved amounts, this raises a concern that ratepayers are paying capital costs on assets that are not really there – “phantom assets.”

However, PNG’s response to BCOAPO’s IR made it clear that although the distribution mains component of capital spending had been severely over-forecast (by 47.2% over a five-year period), total capital spending over the same period actually slightly exceeded the approved total of \$26.22M¹⁶. The result of this means that overall, ratepayers had not paid for phantom assets.

BCOAPO’s remaining concern is that, unless distribution mains spending is required as an accounting “plug” (i.e., a residual to true up actual capital expenditure on other items to the total approved CapEx), then some consideration should be given by PNG as to the appropriateness of its distribution mains forecasting methodology: a variance of 47.9% over a five-year period seems like an “outlier.”

Shared Corporate Service Costs (SCSC)

Preliminary Comments

¹³ Exhibit B-7, BCOAPO IR 2.3.1

¹⁴ Exhibit B-6, BCUC IRs 68.3 and 68.4

¹⁵ Exhibit B-7, BCOAPO IR 1.12.1

¹⁶ Exhibit B-7, BCOAPO IR 1.12.2

BCOAPO points out that the proposed level of SCSC for recovery from PNG(NE) by PNG-West is a live issue in the PNG-West 2020-2021 RRA, a proceeding for which the decision is pending. BCOAPO notes that this issue was canvassed extensively by BCUC in interrogatories in that proceeding and PNG-West submitted a Report by KPMG in support of the PNG-West proposal which was the subject of a number of BCUC IRs.

In the event that the BCUC approves an amount for recovery of SCSC from PNG(NE) in the PNG-West 2020-21 RRA prior to a decision being released in this case, BCOAPO submits that the proposed allocation and recovery mechanism proposed by PNG(NE) is appropriately applied to the amount of overall recovery approved in the PNG-West 2020-2021 Decision.

If the BCUC has not approved an appropriate total amount for recovery from PNG ratepayers prior to BCUC consideration of the issue in this case, BCOAPO makes the submissions below for the Panel's consideration.

In any event, BCOAPO takes no issue with the proposed cost allocation among PNG's Divisions.

PNG Proposal

PNG proposes "the full recovery of the ACI Corporate Shared Services costs" for 2020 and 2021 with a portion of the costs recovered in rates in 2020 and 2021 and outstanding balances booked into an interest-bearing deferral account for recovery over an unspecified amortization period later after the 2020-21 Test Period.¹⁷

BCOAPO notes that ACI is the name of the former corporate entity which sought shared corporate services cost recovery in prior hearings: TSU is the current entity applying for recovery in this proceeding.

The details of this proposal are provided in Table 23¹⁸, and are summarized below:

¹⁷ Exhibit B-2, Amended Application, page 43

¹⁸ Exhibit B-2, at page 43

2020 SCSC Proposal

This application proposes a total recovery of 2020 SCSC in the amount of \$1.835M of which \$1.161M is allocated to PNG-West, \$633K allocated to PNG(NE) - FSJ/DC, and \$41K allocated to PNG(NE) - TR.

PNG proposes that of these amounts, 2020 rates be set to recover \$485K from PNG-West (41.8% of 2020 allocation), \$256K from FSJ/DC (40.4% of 2020 allocation), and \$17K from TR (41.5% of 2020 allocation). Then, the Utility proposes that the remaining 2020 costs, unrecovered in 2020 rates, i.e., \$676K for PNG-West, \$377K for FSJ/DC, and \$24K for TR be booked into a proposed interest-bearing deferral account (SCSC DA) for recovery from ratepayers over some period starting after the current Test Period.

2021 SCSC Proposal

PNG proposes a total recovery of 2021 SCSC in the amount of \$1.872M of which \$1.208M is allocated to PNG-West, \$622K allocated to PNG(NE) - FSJ/DC, and \$42K allocated to PNG(NE) - TR. PNG proposes that of these amounts, 2021 rates be set to recover \$507K from PNG-West (42.0% of 2021 allocation), \$249K from FSJ/DC (40.0% of 2021 allocation), and \$17K from TR (40.5% of 2021 allocation).

The remaining 2021 costs, unrecovered in 2021 rates, i.e., \$701K for PNG-West, \$373K for FSJ/DC, and \$25K for TR are proposed to be booked into an interest-bearing deferral account (SCSC DA) for recovery from ratepayers over some period starting after the current Test Period.

BCOAPO's Position

BCOAPO takes no position with respect to the following issues:

- the proposed allocation of costs among the divisions of PNG;
- the proposed "split" of amounts collected in Test Period rates versus amounts booked to the proposed SCSC DA;
- the proposed interest rate proposed for balances in the proposed SCSC DA; and

- the various proposed mechanisms discussed during the proceeding in BCUC IRs and referred to in the Applicant’s Final Argument.

BCOAPO takes no position on these issues because truly, consideration of these issues is premature given that the “elephant in the room,” the total quantum sought for recovery in years 2020 and 2021 bears no relation to any amount the BCUC previously approved for recovery from ratepayers in respect of AUC Inter-affiliate charges (the counterpart to SCSC, i.e., what similar charges were called in previous proceedings) in prior proceedings and has not been approved by the BCUC prior to this proceeding.

As noted above, the overall SCSC to be recovered from PNG is a live issue in the PNG-West 2020-2021 Proceeding.

BCOAPO points out that per Table 23¹⁹:

- In 2015 PNG sought SCSC of \$2.106M of which \$715K (34.0%) was approved for recovery from ratepayers;
- In 2016 PNG sought SCSC of \$2.057M of which \$715K (34.8%) was approved for recovery from ratepayers;
- In 2017 PNG sought SCSC of \$1.913M of which \$715K (37.4%) was approved for recovery from ratepayers;
- In 2018 PNG sought SCSC of \$1.909M of which \$730K (38.2%) was approved for recovery from ratepayers; and
- In 2019 PNG sought SCSC of \$1.777M of which \$743K (41.8%) was approved for recovery from ratepayers.

BCOAPO notes the following comments made by the BCUC in respect of SCSC in previous decisions:

- 1) 2016-2017 RRA for PNG-West²⁰:

¹⁹ Exhibit B-2, at page 43

²⁰ 2016-2017 RRA for PNG-West Reasons For Decision, August 10, 2016,

As was the case in the 2015 RRA, the Panel does not approve the inflationary increase requested by PNG, as the Panel is no better able to assess the appropriate quantum of the inter-affiliate charge than was the Panel in the previous RRA, including whether this charge should be increased or decreased by an inflationary amount or other percentage. Further, the Panel directs PNG to comply with the Commission's determination in Order G-104-15A and accompanying reasons for decision to conduct a full review and analysis of the AltaGas inter-affiliate charge to support the recovery of this charge from PNG's ratepayers, including the filing of reliable and objective evidence, such as a third-party consultant's report. PNG must file this evidence in its next RRA. (Emphasis added.)

2) 2018-2019 RRA Reasons for Decision²¹:

3.2 AltaGas inter-affiliate charge

PNG-West reports that since AltaGas acquired PNG in December 2011, the parent company has incurred certain expenses to maintain its public reporting status that were formerly incurred by PNG. These expenses are currently recovered by an inter-affiliate charge to PNG-West.

PNG -West states that in determining the AltaGas inter-affiliate charge for the current Application it has applied an inflationary increase of 2 percent for both 2018 and 2019 on the allowed consolidated recovery of \$715,000 approved in the 2016 -2017 RRA proceeding.

PNG-West further states that "to not allow for an inflation factor on PNG's historical costs of being a public company is punitive as the types of costs incurred are subject to inflationary increases from time-to-time."

²¹ 2018-2019 RRA Reasons for Decision, August 15, 2018, pp 12-13

In response to Order G-131-16 for PNG -West's 2016 -17 RRA, the company has conducted a review and analysis of the AltaGas inter-affiliate charges and the resultant report prepared by KPMG LLP has been appended to the Application.

The report also contains a document stating the AltaGas corporate services cost allocation principles and a summary of the corporate service allocation model as well as a document outlining PNG West's estimate of the fair value of the corporate services received from AltaGas.

On the basis of this report PNG-West submits the fair value of the corporate services received from AltaGas exceeds the charge that PNG-West is paying for the services. PNG-West acknowledges that it is cognizant of the impact of increasing the recovery of the inter- affiliate charge and seeks only to recover the aforementioned inflation in addition to the 2017 approved amount of \$715,000. It states that it ultimately expects to seek recovery of all costs related to maintaining its capital structure, providing access to capital and delivery of other corporate services that are allocated by its parent and reserves the right to reapply for a share of achieved synergies in future applications.

The Panel agrees with PNG West's request and approves for PNG-West to recover \$730,000 of the Alta-Gas inter-affiliate charge in Test Year 2018 and \$743,000 in Test Year 2019 on a consolidated basis, reflecting an inflationary increase of two percent for each of 2018 and 2019 over the 2017 approved amount of \$715,000.

The Panel notes that it has been a number of years since there was an increase in the amount of the approved affiliate charge and therefore, a two percent inflationary increase is warranted and reasonable. The Panel acknowledges that PNG-West has complied with Order G-131-16 and has filed a report authored by KPMG LLP outlining the analysis and review of AltaGas corporate inter-affiliate charges.

BCOAPO notes that the first time that third-party support for PNG's claimed SCSC in the 2018-2019 RRA was based on the previous owner's shared corporate service claims, and was not approved but "acknowledged" as long as it complied with BCUC Order G-131-16. Prior to that, the BCUC said it had no basis to determine the appropriate level of SCSC to be embed in rates (or in rates and in a DA). It is BCOAPO's position in this circumstance that, at most, PNG should only be allowed an inflationary increase above what was determined by the BCUC in the 2018-19 RRA and then only if this Panel determines that there is sufficient evidence on the record to justify that more most increase.

BCOAPO finally notes that the proposed recoveries from ratepayers represent extremely large increases percentage-wise above any and all previously SCSC amounts approved for recovery in past proceedings. With this in mind, should the BCUC disagree with our position on this point and approve amounts for SCSC recovery that equal or approximately equal the amounts sought in this proceeding (and in the parallel PNG-West RRA proceeding), BCOAPO would support the use of a deferral account to smooth the increases over a future period.

In this later event, BCOAPO submits that the DA balance will effectively be comprised of SCSC claims incurred over the 2020-2021 period by the utility effectively lending the DA balance to ratepayers for 2020-2021 to be repaid with interest by ratepayers. AS a result, BCOAPO submits that the interest charged on these "loans" (DA balances) should not exceed the minimum interest required in order to not further shock ratepayers.

The Balance of Proposals

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

Leigha Worth
Executive Director | General Counsel

Original on file signed by

Irina Mis
Staff Lawyer