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Via E-file

August 13, 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 Supplemental Final Argument on Shared Corporate Services Costs**

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Accompanying, please find the Supplemental Final Argument of Pacific Northern Gas Ltd. in the referenced proceeding on the matter of Shared Corporate Services Costs.

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 SUPPLEMENTAL FINAL ARGUMENT  
ON THE MATTER OF  
SHARED CORPORATE SERVICES COSTS**

**August 13, 2020**

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## **1. INTRODUCTION**

1. On July 31, 2020, the British Columbia Utilities Commission (BCUC) issued a letter to Pacific Northern Gas Ltd. (PNG) advising that the Panel reviewing the PNG-West 2020-2021 Revenue Requirements Application (Amended Application) had reviewed the evidence on record for the proceeding and had determined that re-opening the evidentiary record was warranted for additional information and further clarification on the matter of Shared Corporate Service Costs (SCSC).<sup>1</sup>

2. The BCUC concurrently issued Panel Information Request (IR) No. 2 to PNG. Responses to Panel IR No. 2 were filed by PNG on August 10, 2020 (Exhibits B-13 and B-14).

3. The BCUC's letter of July 31, 2020 also provided an update to the regulatory timetable for the proceeding that included provision for PNG and Intervener supplementary arguments, and the direction that the arguments be limited to PNG's responses to Panel IR No. 2, primarily on the matter of SCSC.

4. PNG submits that it continues to rely on its Final Argument as submitted to the BCUC on June 10, 2020, its Supplemental Final Argument as submitted on July 2, 2020 on the Evidentiary Update of June 16, 2020, and on its Reply Argument as submitted on July 16, 2020. The remainder of this submission sets forth PNG's Supplemental Final Argument on the matter of SCSC as per its responses to BCUC Panel IR No. 2.

## **2. SUPPLEMENTAL FINAL ARGUMENT ON SHARED CORPORATE SERVICES COSTS**

5. In the past, PNG has represented that it expects to seek recovery of all costs allocated by its parent company associated with maintaining its capital structure, providing access to capital and delivering various other corporate services. As described in PNG's Amended Application,<sup>2</sup> PNG is applying to fully recover the prudently incurred SCSC that are allocated to PNG from its parent, TriSummit Utilities Inc. (TSU, formerly AltaGas Canada Inc.). PNG submits that it would not realize the benefits associated with the corporate shared services model if it were not part of the TSU corporate group of companies.

6. PNG has provided a substantial amount of information in the exhibits filed in this

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<sup>1</sup> Exhibit A-12

<sup>2</sup> Exhibit B-2, Section 2.5.7.1

proceeding to support that its allocated share of costs from its parent are fair, reasonable, and prudently incurred. PNG submits that the evidence on record supports that the allocation methodology is fair, reasonable and consistent with industry practices. PNG reiterates that its responses to information requests provide further support to these assertions.<sup>3</sup>

7. The balance of this submission focuses on matters addressed in PNG's responses to BCUC Panel IR No.2, primarily on incremental costs and the fair value of costs as represented in the KPMG Report<sup>4</sup> and in response to certain information requests.

## **2.1 Insurance Costs**

8. Several information requests sought clarification on incremental insurance costs that would be incurred by PNG as a standalone entity. In response, PNG observed that as part of the TSU corporate group it currently benefits from \$150 million liability insurance while only paying a portion of the cost, as well as Directors' and Officers', Fiduciary, Crime, Cyber and Non-owned Aircraft insurance coverage. Further, as a standalone entity, PNG would have to incur premium costs for this coverage, on its own and without the economies of scale afforded by being part of a corporate group. PNG also observed that insurance premiums have increased substantially over the last nine years due to increased litigation and losses experienced in the insurance industry. PNG submits that the identified insurance coverage is necessary and prudent given the risk of loss otherwise.<sup>5</sup>

## **2.2 Executive Management and Director Costs**

9. A number of information requests sought clarification on the matter of Executive Management and Director costs forecast for PNG as a standalone entity. PNG clarified that differing estimation methodologies produced variances between information provided in response to BCUC IR 32.4 and the KPMG Report. Specifically, PNG noted that for the response to BCUC IR 32.4 the BCUC requested that inflation be applied to 2011 costs in order to estimate the 2020 costs, however, for the KPMG Report, Executive Management costs were based on the publicly-reported compensation of TSU executives, which reflects the actual current cost of these services, and Director costs were based on a third-party survey (Korn Ferry Report),

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<sup>3</sup> Exhibit B-3, BCUC IR 29's to 34's; Exhibit B-7, BCUC IR 107's to 109's

<sup>4</sup> Exhibit B-1, Appendix B

<sup>5</sup> Exhibit B-11, BCUC Panel IR 3.1 and 3.4

which reflects current market data.<sup>6</sup>

10. PNG provided further clarification on Executive Management cost estimates, including the rationale for the inclusion or exclusion of certain positions in the standalone entity estimates, a reconciliation of current positions to those in place in 2011, as well as current compensation amounts.<sup>7</sup> PNG also provided its rationale for selecting TSU and FortisBC Energy Inc. as the appropriate comparators for PNG as a standalone public company.<sup>8</sup>

11. PNG submits that its cost estimates are based on third-party market information and provide a reasonable and practical basis for determining costs to operate as a standalone entity. Further, PNG submits that, as a standalone entity, it would be subject to incremental Executive Management and Director costs that it is presently able to share by virtue of being a part of the TSU corporate group.

### **2.3 Accounting, Tax and Finance Costs**

12. In response to information requests, PNG provided information on the breakdown of incremental Accounting, Tax and Finance costs, noting that these costs are primarily related to increased insurance costs, as discussed previously, and to incremental staff positions for Accounting and Treasury/Investor Relations.<sup>9</sup> PNG noted that the standalone entity estimates also reflected incremental tax, accounting, audit, credit rating and investor relations costs. As a member of the TSU corporate group, PNG is able to share the cost of these standalone public-company costs.

### **2.4 Corporate Resource Costs**

13. Lastly, PNG provided supplementary information on incremental Corporate Services costs estimated to be incurred for PNG as a standalone entity.<sup>10</sup> PNG noted that a full time General Counsel position would be instrumental for accessing capital markets, to ensure compliance with all securities regulations and internal governance protocols, and for coordinating with external counsel to execute capital markets transactions. As a standalone public company, PNG would also incur incremental costs related to exchange listing, provincial

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<sup>6</sup> Exhibit B-13, BCUC Panel IR 3.2

<sup>7</sup> Exhibit B-13, BCUC Panel IR 3.2 and 3.6; Exhibit B-14, BCUC Panel IR 3.6

<sup>8</sup> Exhibit B-13, BCUC Panel IR 4.1

<sup>9</sup> Exhibit B-13, BCUC Panel IR 3.3, 3.5 and 3.6.1; Exhibit B-14, BCUC Panel IR 3.6.1

<sup>10</sup> Exhibit B-13, BCUC Panel IR 3.1, 3.2, 3.6.1 and 3.7; Exhibit B-14, BCUC Panel IR 3.6.1 and 3.7

registration and translation fees that it presently shares with the TSU group of companies.

### **3. CONCLUSION**

14. PNG has provided a substantial amount of information in the exhibits filed in this proceeding to support that its allocated share of costs from its parent are fair, reasonable, and prudently incurred. PNG submits that the evidence on record supports that the allocation methodology is fair, reasonable and consistent with industry practices.

15. PNG further submits that the fair value of the shared services received from TSU is clearly greater than the amount that PNG would pay for these services on its own, and that its customers benefit from both shared costs and cost savings due to economies of scale as part of the TSU corporate group, as evidenced by the KPMG Report. In order to achieve a fair and reasonable result in respect of recovery of necessary costs of services for both customers and its shareholder, PNG reiterates that full recovery of these prudent and reasonable costs from TSU is appropriate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated at Vancouver, British Columbia this 13<sup>th</sup> day of August 2020.

PACIFIC NORTHERN GAS LTD.

*Original on file signed by:*

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Gordon Doyle  
Vice President, Regulatory Affairs, Legal & Gas Supply