18 August 2020

VIA E-FILING test

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 Supplementary Written Final Argument on Shared Corporate Services Costs

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 Supplementary Written Final Argument on the Shared Corporate Services Costs 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. (West Division) (PNG-West) - 2020-2021 Revenue Requirements Application

BCOAPO Supplementary Written Final Argument on Shared Corporate Services Costs

August 18, 2020

Please be advised that we provide the following supplementary 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 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).

After discovery concluded and PNG-West filed its Final Argument and Supplemental Final Argument, BCOAPO filed its Final Argument on July 9, 2020. However, on July 31, 2020 the BCUC Panel reopened the evidentiary record and issued Panel Information Request (IR) No. 2 focusing on the Shared Corporate Service Costs.[1] The BCUC also requested parties' written supplementary arguments on matters related to the responses to Panel IR No. 2.

[1] Exhibit A-12

On August 10, 2020, PNG-West filed responses to Panel IR No. 2 (Exhibit B-13) and confidential responses Panel IR No. 2 (Exhibit B-14). On August 13, 2020, PNG-West filed Supplemental Final Argument on the matter of Shared Corporate Service Costs.

The following supplemental submissions are based on and restricted to the non-confidential responses PNG-West provided to Panel IR No.2 (Exhibit B-13).

Inflating 2011 Directors Fees and Executive Management Salaries for 2020 Comparators

The preamble to Panel IR 3.0 makes explicit reference to BCUC IR 32.4. In that IR, PNG-West presented a table taking 2011 Directors Fees and Executive Management salaries and inflating them to provide comparative figures for 2020.

BCOAPO makes the following submissions on this issue.

According to footnote 3 to the table, there is an "Inflation factor of 3% used on Directors Fees and Executive Salaries" to convert 2011 amounts to inflation-adjusted 2020 amounts. As a result, the inflation factor for Directors Fees is 126.68% and for Executive Management the inflation factor is 134.39%.

BCOAPO notes that 126.68% and 134.39% are inflation factors that would be derived from compounding a 3% annual increase over 8 years and 10 years respectively. Putting aside for the moment any consideration of the inflation rate PNG-West has used, BCOAPO notes that these inflation factors would only be appropriate if PNG-West was adjusting 2012 and 2010 figures to comparable 2020 ones. In our submission, if PNG-West is adjusting 2011 amounts to 2020 amounts then the appropriate inflation factor is clearly to take the 2011 figures, and then apply whatever rate is appropriate compounded over 9 years: using that calculation and inputting PNG-West's suggested inflator (3%) results in an inflation factor of 130.48%.

That being said, BCOAPO does not consider the use of 3% inflation for Directors Fees and Executive Salaries to be appropriate. In our submission, there is no evidence on the record that supports the use of a higher inflation factor (and therefore adjustment) than the inflation actually experienced by regular consumers as measured by the CPI. As a

result, BCOAPO's position is that 2% is a more appropriate inflation rate to be used in any such calculations. Further, in this respect, BCOAPO notes that an inflation rate of 2% has long been the Bank of Canada's monetary target – a target that, up to 2020, has been achieved.

In Panel IR 3.1.1, the BCUC asked:

> *"Please provide the rationale for the inflation factor used for each of directors' fees and expenses and executive management costs in the table provided in response to BCUCIR 32.4."*

The response from PNG-West reads:

> *"PNG has historically made use of a 3% inflation factor for directors' fees and expenses and executive management costs in its revenue requirements application forecasts."*

BCOAPO submits that just because PNG-West has historically adjusted Directors Fees and Executive Salaries for inflation by a factor that is greater than actual inflation in the past, is not persuasive evidence of the prudency or correctness of that use. It is instead a general statement entered as evidence of the use of this inflation rate in the past. Our clients do not accept an unsupported practice as sufficient evidence to justify continuing the over/excessive inflation of these costs into the future, particularly as they are costs set for recovery from PNG-West's ratepayers.

In summary, BCOAPO's position is that an inflation adjustment for these items should be based on actual inflation experienced, i.e., based on 2% per year, and that such adjustment would convert the applicable 2011 amounts to 2020 amounts (a nine-year compounding period) via an adjustment factor of 119.51%.[2]

[2] For eight-year and ten-year compounding periods, i.e. to convert 2012 and 2010 numbers into 2020 inflation adjusted numbers, BCOAPO calculates the inflation factors of 117.17% and 121.90% respectively, using an annual inflation rate of 2%.

Use of Stand-Alone Cost as a Comparator for Shared Costs

In Panel IR 3.1, the Commission Panel asked:

> *"Please elaborate on the reasons for the additional costs that were not incurred in 2011 that were added to arrive at the 2020 additional market adjusted costs (e.g. directors' and officer's insurance, fiduciary insurance, additional liability insurance, crime insurance, translation fees etc.) in the table provided in response to BCUC IR 32.4."*

The response by PNG began:

> *"Additional costs that would need to be incurred in 2020 by PNG as a standalone public company would include the following: …"*

In BCOAPO's view, hypothetical stand-alone costs are an estimate of the costs that an entity would incur were it to self-provide the same service. As such, it is an estimate of the highest cost that the entity would incur for the service – an upper boundary on what any other entity could theoretically charge for this service. No autonomous corporate entity would choose a service provider that costed its services at the utility stand-alone cost.

The use of stand-alone costs as a comparator against which the proposed shared cost allocation to the utility is measured also provides an incentive for some parties to inflate the estimate of stand-alone costs in an effort to make the proposal appear to be "a better deal" than it actually is, potentially to the detriment of ratepayers.

BCOAPO also notes that when a specified bundle of corporate services is assembled for provision to a number of related utilities, there are usually, if not always, opportunities for lower costs through economies of scope[3] (provision of a number of services related through cost/production functions) and economies of scale[4] (unit costs decreasing as output increases, lower costs through shared infrastructure, etc.): these economies would not be enjoyed by a small utility self-providing services. Therefore, it is to be expected

[3] A standard example of this is emergency health services and non-emergency hospital services both being provided by the same supporting infrastructure.

[4] Commonly these arise when there are fixed costs, i.e., costs independent of output which can be spread over more units of output as supply increases. It always occurs when average costs decline with increases in output.

that any cost allocation proposal, good or bad, should compare very favourably with any hypothetical estimate of stand-alone costs, whether accurate or inflated.

Hypothetically, BCOAPO notes that if there was a different corporate structure, shareholder, group of affiliated utilities, etc., there would be many other options available rather than the strict dichotomy narrative of either stand-alone costs or PNG's proposed costs and allocations.

In any event, PNG is not a stand-alone entity and, in these respects, BCOAPO urges that the BCUC not accept the notion of an estimated, hypothetical stand-alone cost as the basis for definitively determining the appropriateness of the instant proposal. BCOAPO submits that a line-by-line assessment as undertaken by the BCUC in its extensive IRs on the issue, along with the historical record and appropriate adjustments for inflation where required, provides a superior approach to assessing the proposal.

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