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Via Web Upload and Courier

May 25, 2018

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

File No.: 4.2.7 (2018)

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

**Re: Pacific Northern Gas (N.E.) Ltd.
Tumbler Ridge Division
2018-2019 Revenue Requirements Application
PNG(NE) Responses to BCOAPO IR No. 2**

Accompanying, please find responses to the above noted Information Requests uploaded to the Commission's website earlier today.

Printed copies of the responses will be distributed by courier on Monday, May 28, 2018, including 10 copies to the Commission's office and a single copy to each of the parties noted below who registered as interveners into this Application.

Please direct any questions regarding these applications to my attention.

Yours truly,

A handwritten signature in black ink that reads 'Janet Kennedy'.

J.P. Kennedy

cc. Leigha Worth (BCPIAC) – BCOAPO
James Wightman (BCPIAC) – BCOAPO

REQUESTOR NAME: BCOAPO *et al.*
INFORMATION REQUEST ROUND NO: #2
TO: PNG NE Tumbler Ridge (TR) Division
DATE: May 10, 2018
APPLICATION NAME: 2018-19 Revenue Requirements Application

1.0 Reference: Exhibit B-3, BCUC IR 1.2.1, Rate Design Alternatives

The referenced response (in part) states:

PNG(NE) is very cognizant that the proposed delivery rate increases are quite significant and could constitute rate shock for some customers, in particular the low income households. ... PNG(NE) does not currently foresee an alternative to its proposed rate increases; however, PNG(NE) does plan to explore some rate design alternatives to mitigate delivery rate increases to Tumbler Ridge customers.

- 1.1 Is PNG NE currently considering any initiatives with respect to providing rate relief to low income households? If so, please provide details. If not, please explain why this is not currently being done and the timeline during which the utility expects to begin addressing this issue.

Response:

PNG(NE) is not currently considering any initiatives with respect to providing rate relief to low income households other than the provision of the residential low income programs such as the Energy Savings Kits and the Energy Conservation Assistance Programs offered to customers as part of PNG's Energy Conservation and Innovation (Demand Side Measures) Programs that have been approved by the Commission.

PNG(NE) also notes that this matter was raised during the 2016-2017 Revenue Requirements Application and addressed in the 2016-2017 Decision whereby the Commission considered this issue to be outside of the scope of a revenue requirements application. PNG(NE) has reproduced below an excerpt on this matter from its Reply Argument for the 2016-2017 Revenue Requirements Application:

"The BCOAPO has requested that affordability concerns facing PNG's low income residential ratepayers be addressed in PNG(NE)'s forthcoming rate design application.¹ PNG(NE) reiterates that a cursory review of other jurisdictions where programs were targeted at low-income customers indicated such programs were only offered by utilities if federal, provincial or state legislation or regulations mandated them.² PNG(NE) submits that the Commission should not direct it to address low income rate proposals in its forthcoming rate design application. Not only would a direction of this nature result in a requirement for PNG(NE) to engage and pay for additional resources to create and

¹ BCOAPO Final Argument, para. 32, 2016-2017 Revenue Requirements Application

² PNG(NE) Final Argument, para. 70, 2016-2017 Revenue Requirements Application

administer such a program that would be recovered in its cost of service, PNG(NE) does not believe that the Utilities Commission Act would permit discrimination in rates in favour of low income residential ratepayers. Section 59 (2) (b) of the Utilities Commission Act provides that a public utility must not extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description (emphasis added)."

- 1.2 Would one of the rate design alternatives that PNG NE explore be a change in the percentages of revenue recovered through the fixed and the variable components of the delivery charge?

Response:

At this time, PNG(NE) is not considering changing the portion of revenues collected through the fixed and variable components of the delivery charge. PNG(NE) considers that general rate design principles align cost recovery with cost causation. The significant majority of the costs associated with owning, maintaining and operating a gas distribution utility are independent of the quantity of gas flowing through the pipes and of the number of customers the utility serves. These costs are therefore fixed and should in fact be recovered through a fixed charge, leaving the costs that are truly variable to be recovered through the variable delivery charge.

In practice this form of rate design is rarely if ever, implemented, and utilities generally prefer to implement some degree of price signal into their rate design.

- 1.3 Please provide PNG NE's views with respect to the appropriate revenue recovery (i) from the fixed charge and (ii) the variable charge.

Response:

Please see the response to Question 1.2.

2.0 Reference: Exhibit B-3, BCUC IR 1.4.3.1, Price Elasticity of Demand for Fuel Gas

2.1 Is PNG NE of the view that the quantity demanded of gas is independent of commodity price?

Response:

PNG(NE) notes that the referenced question of BCUC IR 1.4.3.1 relates to CNRL's forecast gas deliveries and PNG(NE) cannot comment on the specific economics and circumstances under which CNRL's demand for gas from PNG(NE) to supply their production facilities in the Murray River and Babcock fields near Tumbler Ridge would fluctuate. However, it is PNG(NE)'s understanding that as commodity prices have continued to remain low over an extended period of time, CNRL has responded by shutting in uneconomic wells to reduce their cost of production. PNG(NE) notes that a primary cost associated with CNRL's production is the firm capacity commitments that CNRL has on the Enbridge Grizzly Valley raw gas gathering system and for acid gas treatment at Enbridge's Pine Plant.

3.0 Reference: Exhibit B-3, BCUC IR 1.0.4.1, Vegetation Slashing Cycle

The referenced response states:

Response:

The referenced pipeline where the slashing activity took place runs through a highly wooded environment. The growth rate for small poplar and other vegetation is rapid and requires continuous remediation along the entire length of the pipeline. Slashing is done in sections on a cyclical basis, for example sections 1,2,3,4 and 5. When PNG(NE) has completed slashing on section 5, section 1 has experienced enough growth to require slashing once again.

3.1 For this area (and similar areas) does PNG NE implement a fixed slashing cycle?

Response:

Slashing is an important part of PNG(NE)'s integrity management programs. PNG(NE) conducts pipeline patrols and, following a line patrol, the slashing program is determined for the following year. It is not a fixed cycle program, however, it is estimated to be on a 5-year cycle or less for most areas, with other areas, it approximates a 7-year cycle. The frequency between slashing depends on variables such as type of vegetation, ground conditions, annual weather patterns, etc.

4.0 Reference: Exhibit B-3, BCUC IR 1.12.1.1, Labour Cost Variance Explanation

- 4.1 Can PNG NE explain, generally and non-confidentially, why the variance in labour costs, from Decision 2017 to Actual 2017, and from Actual 2017 to Test Year 2018 has been provided only confidentially?

Response:

Due to the confidential nature of the matter, PNG(NE) is not able to provide a general explanation for the labour cost variance.

5.0 Reference: Exhibit B-3, BCUC IR 1.13.1.1, 2017 Contractor Costs Allocation

The referenced response states:

Response:

The variances in Account 685 arising from Actual 2017 Contractor costs being nil are primarily due to PNG-West absorbing the cost of the 2017 company-wide safety and functional table top training exercises. The costs of the consolidated exercise will be shared among divisions going forward. ...

5.1 Why were the 2017 Contractor costs not shared among divisions?

Response:

PNG-West had scheduled a functional exercise to meet BC OGC requirements with full involvement for PNG-West employees. This must be done on a three-year cycle. PNG(NE) was fortunate that scheduling worked out so that TR employees were able to participate in the exercise at no additional cost for the contracted service.

6.0 Reference: Exhibit B-3, BCUC IR 1.17.1, Inter-affiliate Charge

- 6.1 Are there any rate shock considerations involved in PNG's decision to defer a proposal to recover previously disallowed amounts related to the inter-affiliate charges?

Response:

PNG(NE) and its parent company, PNG-West, have been cognizant of the impact to customer rates of increasing the recovery of inter-affiliate charges. As such, PNG(NE) continues to only seek recovery of the amounts approved in Decision 2017 plus an inflationary increase for both Test Years 2018 and 2019. As stated in Section 2.5.7.1 of the PNG-West's 2018-2019 Revenue Requirements Application (Exhibit B-1-1 of that proceeding), PNG-West will seek recovery of the full inter-affiliate charges as the economic circumstances of PNG's business improves.