



Janet P. Kennedy
Vice President, Regulatory Affairs & Gas Supply

Pacific Northern Gas Ltd.
2550 - 1066 West Hastings Street
Vancouver, BC V6E 3X2
Tel: (604) 691-5680
Fax: (604) 697-6210
Email: jkennedy@png.ca

Via Web Upload and Courier

February 26, 2019

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

File No.: 4.2.7 (2019)

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Services

Dear Mr. Wruck:

**Re: Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd.
Application for Approval of Energy Conservation and Innovation
Program Funding for 2019 and 2020
PNG Responses to BCOAPO IR No. 1**

Accompanying, please find copies of responses to the referenced Information Requests that were uploaded to the Commission's website earlier today.

Ten printed copies of the responses will be distributed by courier to the BCUC's office. Printed copies are available to parties registered as Intervenors into this Application upon request.

Please direct any questions regarding the Application to my attention.

Yours truly,

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

J.P. Kennedy

Encls. (10)

REQUESTOR NAME: BCOAPO *et al.*

INFORMATION REQUEST ROUND NO: #1

TO: Pacific Northern Gas Ltd. and
Pacific Northern Gas (N.E.) Ltd

DATE: February 12, 2019

APPLICATION NAME: Application for Approval of Energy Conservation
and Innovation Program Funding for 2019 and
2020

1.0 Reference: Exhibit B-1, page 2 and page 10, Section 3.3.1, Funding Transfer Rules

The second reference states:

PNG proposes to maintain the following funding transfer rules, subject to the total amount spent by PNG on ECI activities between the date of approval and 2020 not exceeding the total amount of \$827,000 sought in the Application, unless otherwise approved by the Commission:

- └ *Funding transfers under 25 percent from one approved Program Area to another approved Program Area would be permitted without prior approval of the Commission.*
- └ *In cases where a proposed transfer out of an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval would be required.*
- └ *In cases where a proposed transfer into an approved Program Area is greater than 25 percent of that approved Program Area, prior Commission approval would be required.*

Further, in the event that PNG spends more or less than the full approved amount for a particular year, PNG also seeks approval to have the difference allocated to the ECI program spending in the following year, subject to the total expenditures by PNG on ECI activities between the date of approval and 2020 not exceeding the total amount sought in this Application, unless otherwise approved by the Commission.

- 1.1 Please provide a summary table that shows historically, for each year and for each program involved, the funding transfers that PNG has executed over the period that transfer rules were in place, along with the reason that each transfer was necessary.

Response:

Please see the following table. PNG interprets its funding transfer rules as pertaining to program areas, rather than to individual programs. PNG remains underspent in all program areas over the period from 2016 to 2018.

Please see also the response to BCUC 14.1

Table BCOAPO 1.1

Summary: Existing Programs					
Item	Expenditures	2016	2017	2018	Total
		(Act)	(Act)	(F/C)	
Low Income Program Area (ESK, ECAP programs)	Actual/Projected	\$ 5,904	\$ 12,416	\$ 15,448	\$ 33,768
	Approved	\$ 59,268	\$ 62,654	\$ 78,454	\$ 200,376
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -
Residential Program Area (Furnace and Boiler Replacement) PROPOSED	Actual/Projected	\$ -	\$ -	\$ 9,000	\$ 9,000
	Approved	\$ -	\$ -	\$ -	\$ -
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -
Commercial Program Area (Boiler and Water Heater Replacement programs, Commercial Kitchen program)	Actual/Projected	\$ -	\$ -	\$ 32,600	\$ 32,600
	Approved	\$ 77,335	\$ 63,885	\$ 90,870	\$ 232,090
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -
Codes and Standards/Innovation Program Area	Actual/Projected	\$ -	\$ -	\$ -	\$ -
	Approved	\$ -	\$ -	\$ -	\$ -
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -
Conservation Education and Outreach Program Area	Actual/Projected	\$ 6,570	\$ 29,612	\$ 33,288	\$ 69,470
	Approved	\$ 113,600	\$ 42,600	\$ 47,600	\$ 203,800
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -
Enabling Activities	Actual/Projected	\$ 202,770	\$ 28,668	\$ 37,425	\$ 268,863
	Approved	\$ 217,000	\$ 193,500	\$ 193,500	\$ 604,000
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -
Total	Actual/Projected	\$ 215,244	\$ 70,696	\$ 127,761	\$ 413,701
	Approved	\$ 467,203	\$ 362,639	\$ 410,424	\$ 1,240,266
	Transfers in/(out)	\$ -	\$ -	\$ -	\$ -

Note: Projected amounts for 2018 are consistent with those presented in Table 26 (page 28) of the Application.
 Actual expenditures in 2018 are \$110,035. Please see the response to BCUC IR 6.3

2.0 Reference: Exhibit B-1, page 11, Section 3.3.2, Accounting Treatment

The referenced page states:

PNG proposes to include ECI expenditures in a rate base deferral account and to recover those costs over five years. This approach is consistent with that approved by the Commission under Order G-203-15.

- 2.1 Is this treatment equivalent to a straight line depreciation of 20% of the assets?

Response:

Confirmed. Amortizing a deferral account over a period of five years is effectively the equivalent of depreciation applied on a straight-line basis at a rate of 20%.

- 2.2 Please briefly comment on the advantages (i) to PNG and (ii) to PNG's ratepayers of the proposed treatment (rate base deferral account) versus expensing the costs in the year(s) that they are made and maintaining a variance account to true planned expenses to actual.

Response:

PNG's proposed accounting treatment of recording Energy Conservation and Innovation (ECI) expenditures in rate base deferral account was primarily driven by: 1) a desire to match the recovery of program costs to the period over which benefits would accrue to customers; and 2) to smooth impacts to customer rates resulting from the proposed expenditures.

In its 2015 CEM Application, PNG had sought a ten year amortization period, but the Commission directed PNG to use a five year amortization period. As was noted in the Commission's Decision G-203-15A, this treatment was also supported by various factors as it is in accordance with existing legislation and guidelines and is aligned with other utilities treatment of DSM programs. The advantage to PNG is that this treatment also provides an incentive for PNG to invest in ECI programs while earning a fair return. The advantage to PNG's ratepayers is the lower impact on customer rates and smoothing of ECI expenditures compared to expensing the costs in the year incurred.

3.0 Reference: Exhibit B-1, page 8, Directive #3, Free Riders and Spillover Effects

The referenced text states:

PNG has adopted the free rider and spill over factors used by FEI in determining the cost effectiveness of programs proposed in FEI's 2019-2022 Demand Side Management Expenditures Plan. PNG has adopted the free rider and spill over factors associated with FEI programs that are similar to PNG's own programs.

PNG submits that such an approach is appropriate in that there is currently no available evidence indicating that the behaviours of PNG's and FEI's customers in regards to incentive programs are any different. These estimates are included in the tables presented for each program in Sections 4 and 5 of this Application. [Emphasis added.]

- 3.1 Does PNG have any evidence with respect to free ridership and/or spillover effects for its own programs and its own ratepayers? If not, is it PNG's position that the benefits of collecting such information would possibly or likely be outweighed by the costs of the exercise?

Response:

PNG does not have any data on free ridership and spillover rates specific to its own ECI programs. PNG has not endeavoured to collect the necessary data or completed an analysis to determine these rates because having such information is not expected to alter the outcome of most cost effectiveness tests significantly, nor would it be expected to alter PNG's decisions regarding the implementation of its programs. PNG notes that the determination of free ridership and spillover rates is subject to a host of assumptions and would require considerable analysis. PNG submits therefore, that the benefits associated with developing free rider and spillover rates specific to its service areas would be outweighed by the cost of doing so.

4.0 Reference: Exhibit B1, page 12, Table 3, Discount Rate

- 4.1 The referenced table indicates that for 2019 and beyond, the discount rate to be used in analysis is proposed to be 6.92%, as compared to the 2015-2018 rate of 7%. Please briefly describe how the applicable discount rate is determined.

Response:

The discount rate used in PNG's Total Resource Cost (TRC/mTRC) test, Utility Cost Test (UCT), and Rate Impact Measures (RIM) test cost effectiveness calculations is set to PNG's weighted average cost of capital (WACC) that is adjusted for inflation. PNG used the consolidated WACC forecast for 2019, as presented in the PNG and PNG(NE) 2018-2019 Revenue Requirements Applications. The consolidated WACC was converted to a pre-inflation amount based on the average of the 12-month and 120-month forecast Canada Consumer Price Index that was available in June, 2018. The rate of inflation used in the adjustment was 1.50%.

PNG does not reflect the effect of inflation in its forecasts of the costs and benefits of its ECI programs and therefore a discount rate equal to PNG's WACC adjusted for inflation is appropriately applied to this forecast.

- 4.2 Intuitively, it would seem that if interest rates are rising, discount rates should also be rising. Please briefly comment.

Response:

As described in the response to Question 4.1, the discount rate used by PNG is based on PNG's WACC that is adjusted for inflation. PNG's WACC, in turn, is based on its short- and long-term debt rate and on its return on equity adjusted by the Commission from time-to-time. PNG's long-term debt rate is not affected by short-term changes in the Bank of Canada rate. As well, increases in the Bank of Canada rate oftentimes are in response to increases in inflation. How PNG's inflation adjusted WACC would respond to changes in interest rates is therefore not clear.

5.0 Reference: Exhibit B-1, page 15 and Appendix, page 4, ECI 2017 Annual Report, ESK costs

The first referenced page states:

On September 30, 2016, PNG and BC Hydro concluded their negotiations on a cost sharing agreement (Contribution Agreement) whereby PNG reimburses BC Hydro a portion of the cost of ESK's delivered to customers in PNG's service areas. Under this agreement, BC Hydro continues to receive and process applications through its existing call centre and online channels. When an application is identified as belonging to a BC Hydro customer residing in a community in which PNG provides natural gas delivery service, PNG pays a portion of the cost associated with delivering an ESK to that customer. PNG's contribution is based on PNG's share of the space heating and domestic water heating end use market in PNG's service area.

All ESK's shipped to customers in PNG's service area are packaged in a box rebranded with PNG's logo, and includes an installation manual having content reflective of PNG

....

Higher than forecast deliveries of ESK's have contributed to higher than forecast expenditures on this program. In addition, the cost per kit (\$28.47) is higher than originally estimated (\$22.51).

5.1 The actual cost per kit is, from the evidence, 26.5% higher than the original estimate. Please comment.

Response:

Please see the table that follows for a breakdown of the cost of the Energy Savings Kits (ESK's). The cost increase is due primarily to the inclusion of a \$4.00 charge for recovering a fair portion of BC Hydro's fixed and variable costs of administering the ESK program. In addition, PNG did not include the cost of providing its own, PNG-branded instruction manual in the original forecast. The higher than forecast cost of parts included in the ESK are offset by lower than forecast shipping costs, and by the lower cost of the box itself.

Table BCOAPO 5.1

Low Income ESK Component Costs (2017)		
Item	Application	Estimated (2017)
Total Parts	\$ 10.32	\$ 12.44
Assembly Cost	\$ 1.00	\$ 1.00
Collateral	\$ 1.32	\$ 3.53
Box Cost	\$ 2.38	\$ 1.74
Shipping	\$ 7.50	\$ 5.75
Admin	\$ -	\$ 4.00
Total	\$ 22.51	\$ 28.47

6.0 Reference: Exhibit B-1, Evaluation of DSM Programs – General

- 6.1 Is PNG able to provide, for each of its existing and proposed DSM programs, an objective, metric-based standard against which the success (or failure) of its initiatives can be judged? If so, please provide details as to what constitutes a ‘passing grade’ for each program; if not, please explain why not.

Response:

PNG has not yet applied its Evaluation, Measurement and Verification (EM&V) framework to the results from PNG’s existing ECI programs. As stated on page 53 of the 2015 CEM application, PNG plans to complete its EM&V at the appropriate time in the life cycle of the ECI programs to properly assess the effectiveness of the programs. As programs reach maturity and program data becomes available, PNG will use the results to update its ECI programs.

At this time, PNG remains focussed on implementing and promoting its approved and proposed ECI programs.

7.0 Reference: Exhibit B-1, pages 15 – 16, and Tables 6 - 7

The referenced text states:

Deliveries of ESK's to PNG's customers have exceeded expectations. As of the end of June 2018, 687 ESK's have been delivered to applicants in PNG's service areas, compared to a forecast of 247.

...Based on actual and forecast numbers of ESK's, PNG anticipates associated annual GHG reductions to reach 223 tonnes by 2020.

Amount of delivered ESK's are shown in Table 6. The expected reduction in natural gas demand and GHG emissions is presented in Table 7.

7.1 Does PNG track the information how many of delivered ESKs have been installed or partly installed? If yes, please provide the details.

Response:

PNG does not track whether delivered ESK's have been installed or partly installed.

8.0 Reference: Exhibit B-1, Section 3.1 p. 5; Programs to Assist Low Income Households

- 8.1 Please discuss whether PNG develops energy conservation programs for housing providers or registered charities who provide assistance to low-income persons.

Response:

At this time, PNG has not explored any potential energy conservation programs aimed at housing providers or registered charities who provide assistance to low-income persons. Please see also the response to BCUC 2.1.

- 8.2 If not, please discuss why not.

Response:

Please see the response to BCUC 2.1.