



Verlon G. Otto  
Director, Regulatory Affairs

Pacific Northern Gas Ltd.  
750 – 888 Dunsmuir Street  
Vancouver, BC V6C 3K4  
Tel: (604) 691-5680  
Fax: (604) 697-6210  
Email: votto@png.ca

Via E-File

May 12, 2020

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

File No.: 4.2.7(2020)

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 Acceptance of 2019 Consolidated Resource Plan and for Acceptance of  
Energy Conservation and Innovation (ECI) Portfolio Funding for 2020 and 2022  
Response to BCOAPO Information Request No. 2**

---

Accompanying, please find the response of Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. (collectively, PNG) to 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) Information Request No. 2 in the referenced proceeding.

Please direct any questions regarding this letter to my attention.

Yours truly,

A handwritten signature in black ink, appearing to read 'Verlon Otto', is written over a light grey rectangular background.

Verlon G. Otto

Encl.

**REQUESTOR NAME:** BCOAPO *et al.*  
**INFORMATION REQUEST ROUND NO:** #2  
**TO:** PNG Ltd. And PNG (NE) Ltd.  
**DATE:** April 21, 2020  
**APPLICATION NAME:** 2019 Consolidated Resource Plan (CRP) and Energy  
Conservation and Innovation (ECI) Portfolio Funding for  
2020 - 2022

---

**9.0 Reference: Exhibit B-3, BCUC IR 1.1.1**

The referenced response includes the following opinion:

*PNG does not believe that the costs of complying with the CleanBC 15 percent renewable target, with the Methane Regulations currently in effect, or any future regulations enacted to support the B.C. Governments “Energy Objectives” should be borne by its shareholder, or that PNG should attempt to reduce its cost of maintaining and operating its pipeline systems.*

9.1 The approved return on equity enjoyed by the shareholder and baked into rates is 9.25% after tax, while ratepayers pay the 9.25% plus the associated tax on RoE. Please set out, in PNG’s view:

- (a) The appropriate financial risks borne by the shareholder;
- (b) The appropriate financial responsibilities of the shareholder; and
- (c) The appropriate financial responsibilities of the captive ratepayer.

**Response:**

PNG is of the opinion that a proceeding in respect of its resource plan is not the appropriate forum for determining specific risks that its shareholder should be responsible for and therefore should be reflected in PNG’s approved cost of capital. These matters have been fully canvassed and determined through the BCUC’s historical cost of capital proceedings.

- 9.2 Please provide a complete list of the circumstances under which the shareholder should bear any costs – in addition to the opportunity cost of holding shares in PNG – in the event of new regulations and requirements enacted in the public interest.

**Response:**

PNG notes that its shareholder is often subject to regulatory lag in respect of new regulations and requirements. In other words, PNG's shareholder often bears the full cost of such new regulations and requirements until such time as it is able to obtain approval to adjust its rates, (though PNG is sometimes able to obtain approval to record the costs of new regulations in a deferral account prior to a rate change, thereby allowing for the recovery of the costs).

- 9.3 Please provide PNG's view as to the extent that the shareholder should bear any costs in the event of unforeseen circumstances.

**Response:**

PNG believes that this matter has been thoroughly canvassed in historical cost of capital proceedings and this Resource Plan proceeding is not an appropriate forum for the submission of generic evidence in respect of shareholder risks and compensation.

In respect of the matters directly relevant to this proceeding, PNG stated its view with respect to the costs of changing energy regulations in its response to BCUC IR 1.1.

- 9.4 Please clarify what is meant by the statement that "PNG does not believe...that PNG should attempt to reduce its cost of maintaining and operating its pipeline systems."

**Response:**

PNG concedes that the clause is misleading. PNG's intended statement is that "PNG does not believe that the costs of complying with the CleanBC 15 percent renewable target, with the Methane Regulations currently in effect, or any future regulations enacted to support the B.C. Governments "Energy Objectives" should be borne by its shareholder, or that PNG should attempt to reduce *its costs by reducing maintenance and operating activities on its pipeline systems.*" PNG remains diligent in controlling the costs of operating and maintaining its pipeline system without compromising its ability to deliver secure and reliable service safely.

**10.0 Reference: Exhibit B-3, BCUC IR 1.3.1 and IR 1.28.2**

The following is excerpted from the first referenced IR:

*PNG has not assigned any probabilities to its assumptions. Therefore the application of a level of confidence to these assumptions is not relevant.*

10.1 Does PNG ever make use of probabilities in demand forecasting, running Monte Carlo or other simulations, etc., in preparing its evidence? If so, please elaborate.

**Response:**

PNG does not as a rule make use of probabilities when developing its demand forecasts. PNG's methodology used in forecasting residential and small commercial demand is consistent with that employed to forecast demand presented in its 2014 Resource Plan for PNG-West, and 2015 Resource Plan for PNG(N.E.). This methodology has been accepted by the BCUC in both instances. In Reasons and Decision G-140-14 accepting the 2014 Resource Plan for PNG-West, the BCUC commended PNG for its methodology that was "practical, frugal in its implementation and not overly elaborate" (Reasons and Order G-140-14, p. 6).

Please see also the response to BCUC IR 28.2.

10.2 Please explain how PNG can assert that a forecast is appropriate without any ability to calculate an expected value – the calculation of which requires explicit or implicit assumptions or judgments regarding probabilities.

**Response:**

Please see the response to Question 10.1. PNG's forecasting methods are consistent with those employed in the 2014 and 2015 Resource Plans for PNG-West and PNG(N.E.), respectively, and have been approved by the BCUC.

**11.0 Reference: Exhibit B-3, BCUC IR 1.12.7 and 1.12.8**

The first referenced IR asked:

*Please explain how acquiring RNG in other provinces and territories in Canada, or in the U.S, is consistent with relevant BC legislation and policy, including, the Clean Energy Act (CEA), the Greenhouse Gas Reduction Regulation (GGRR) and the 2018 CleanBC Plan.*

The response started as below:

*PNG submits that its plan to acquire RNG, not only from supply connected to its pipeline systems, but from across the rest of B.C., as well as from sources in other provinces and territories in Canada, or in the U.S., is consistent with the Clean Energy Act (CEA), the Greenhouse Gas Reduction Regulation (GGRR), and the CleanBC Plan.*

The second referenced IR asked:

*Please discuss whether, as an alternative to procuring physical RNG, PNG believes that purchasing the environmental attributes of RNG produced in other jurisdictions would be consistent with relevant BC Legislation and policy.*

The response filed was:

*Confirmed. In order for the emission reduction benefits associated with RNG supply to be captured by PNG and its customers, three requirements must be satisfied: (i) an appropriate accounting for quantities of RNG purchased; (ii) a clear contractual path between the point of supply and the end-use customer; (iii) and the retirement of the emission reduction attributes associated with the RNG once consumed by the end-user. PNG submits that contractual arrangements can be made with out-of-province suppliers of RNG that meet these requirements. As stated in its response to the Question 12.7.1, PNG further submits that such arrangements are consistent with the CEA, the GGRR, and the CleanBC Plan.*

11.1 Given PNG's logic, would it not be possible for PNG to contract with a third party to have in purchase RNG anywhere in the world, e.g., in Southeast Asia, and set up the contractual paths so as to capture the emission reduction benefits on behalf of PNG and its customers? If not, please explain why not.

**Response:**

There is currently no international market for carbon emission reduction credits. Such a market is contemplated under Article 6 of the 2015 Paris Agreement on climate change whereby, if one country pays for carbon emissions to be reduced in a second country, the first country can count those reductions towards its own national targets. Article 6 is one of the last sections of the Paris Agreement still under negotiation.

PNG will explore all pathways to meet its obligation to reduce emissions and will seek out economical and cost-effective means as they become available.

**12.0 Reference: Exhibit B-3, BCUC IR 1.16.5**

The IR and response are reproduced below:

*Please provide a graph comparing the capture rates forecasted in PNG's most recent resource plans and the actual capture rates for the period 2015 to 2019. For any notable variances between the actual and forecasted capture rates, please provide a brief discussion of the reasons for the variation.*

*Response:*

*PNG does not collect data that enables it to accurately ascertain actual capture rates.*

12.1 The response appears to imply that PNG has no way to check the accuracy of its capture rate forecasts, ex post. Does PNG agree that this is the implication?

**Response:**

PNG does not agree. Table 21 on page 83 of the 2019 Consolidated Resource Plan presents historical average capture rates that are based on a comparison of housing starts and actual customer additions in each region over the past five years. PNG submits that, ultimately, the accuracy of its residential and small commercial forecasts, which incorporate capture rates in its methodology, is the appropriate metric by which to determine the suitability of PNG's forecasting methodology. The table presented in PNG's response to BCUC 25.1 comparing actual with forecast residential use per account (UPA) illustrates the continued validity of PNG's forecasting methods.

PNG's current approach is consistent with PNG's forecasting methodology that was reviewed and approved by the BCUC by way of Order G-140-14 and commended as a approach that was "practical, frugal in its implementation and not overly elaborate" (Reasons and Order G-140-14, p. 6).

12.2 Would it be a good idea, in terms of accuracy of the forecasting methodology and in the public interest, for PNG to collect this data?

**Response:**

PNG agrees that in general, it “would be a good idea” to collect as much data as possible and to use this data to develop a more sophisticated forecasting methodology. However, PNG respectfully reminds the BCOAPO that PNG is not a large utility and has limited resources. PNG serves a natural gas load comparable in size to the cities of Coquitlam or Kelowna. PNG supplies approximately 6.8 petajoules (PJ) of natural gas to approximately 40,000 customers across small communities in northern B.C. and does so with a staff of approximately 125, including approximately 20 head office staff. PNG’s customers in PNG-West and Tumbler Ridge pay the highest costs, at the burner tip, for natural gas service in B.C. PNG continues to actively and aggressively work to attract additional loads on the PNG-West system but, in the meantime, PNG continues its vigilance on containing costs that would otherwise be borne by its customers. For that reason, PNG does not have a dedicated planning department.

PNG submits that its practical and frugal implementation, recognized as such by the BCUC on page 6 of Decision and Order G-140-14, serves the public interest by containing the costs associated with developing these forecasts presented in the 2019 Consolidated Resource Plan.

12.2.1 If not, please explain why not.

**Response:**

Please see the response to Question 12.2.

**13.0 Reference: Exhibit B-3, BCUC IR 1.24.4, RECAP Demand  
Commercial Program Area Summary**

13.1 Please provide a ballpark estimate or a means of approximating the impacts on ratepayers of (i) under-forecasting RECAP Demand and (ii) over-forecasting RECAP Demand.

**Response:**

PNG notes that it has not forecast the demand arising from the results of the RECAP Open Season. The number of potential bidders, their respective potential volumes and the range of project start up dates all provide for uncertainty surrounding the results of the RECAP Open Season. PNG is comfortable stating that the demand for its underutilized capacity as a result of the RECAP Open Season will range between 0 MMSCFD and 88 MMSCFD. Capital costs associated with RECAP will vary depending on the demand for its underutilized capacity. PNG has designed the RS80 Toll and the RECAP Open Season to yield benefits to existing customers, in the form of lower tolls as compared to those forecast under a no-reactivation situation, under any outcome of the RECAP Open Season.

**14.0 Reference: Exhibit B-3, BCUC IR 1.24.5**

The IR and response are reproduced below:

*Please explain how PNG arrived at a capital cost estimate of \$120 million.*

*Response:*

*PNG prepared an Engineering Class 4 and 5 estimate of the capital required to facilitate various combinations of volumes and delivery locations, with the highest cost being estimated at \$120 million. This is addressed in the RECAP application.*

14.1 Is it standard PNG practice to submit the highest capital cost estimate it generates for the projects or programs it seeks to have approved?

**Response:**

No, it is not PNG's standard practice to submit the highest capital cost estimate it generates for the projects or programs it seeks to have approved. PNG is not requesting approval of a project related to the RECAP Open Season at this time. As an outcome of its Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate (RECAP Application), PNG received approval of the RS 80 Large Volume Industrial Transportation Rate, as well as of various draft agreements and deferral accounts that are required to offer an Open Season capacity auction for the unutilized capacity on the PNG-West transmission system.

The cost of reactivating the PNG-West transmission system depends entirely on the outcome of the Open Season capacity auction. PNG notes that costs would vary depending on the requested volume resulting from the RECAP Open Season and PNG has prepared a number of cost estimates encompassing all the possible outcomes. PNG further notes that only the facilities necessary to accommodate the volumes requested in the RECAP Open Season will be constructed.

Following the results of the RECAP Open Season, PNG intends to file an application for a Certificate of Public Convenience and Necessity (CPCN) for facilities that will be required in response to the volumes requested in the RECAP Open Season.

14.2 Does PNG agree that if an estimate used is the highest cost obtained in the estimation process, the estimate will be biased upwards? Please explain fully.

**Response:**

PNG has developed capital costs for various potential scenarios and outcomes of the RECAP Open Season and as such there is no bias upwards by offering information regarding the highest capital cost estimate for the maximum possible volumes that may result from the process. In addition, please see the response to Question 14.1.

**15.0 Reference: Exhibit B-4, BCOAPO IR 1.1.1**

15.1 The referenced IR requested “2019 Actual (or the most recently available estimate for 2019 actuals)” DSM measures. In response, PNG has provided the 2019 forecast (Revised in 2019 DSM Plan). Please confirm that the information presented contains PNG’s best estimate of 2019 actuals; if unable to so confirm, please provide more up-to-date 2019 data.

**Response:**

Not confirmed. Since filing its responses to BCOAPO IR No. 1, PNG has finalized its 2019 Annual DSM Report that it filed with the BCUC on April 30, 2020 pursuant to Orders G-203-15A and G-121-19. Please see the response to Question 16.1 for an update to responses provided to BCOAPO IR 1.1.1 and 1.2.1.

**16.0 Reference: Exhibit B-4, BCOAPO IR 1.2.1**

In response to the data request in the referenced IR, PNG responded (in part):

*PNG expects to present its finalized cost analysis for 2019 in its Annual DSM report filed with the BCUC on or before April 30, 2020. To be consistent with the presentation in the response to Question 1.1, PNG has included the revised 2019 forecast of \$330 thousand in this table.*

16.1 Please provide updated responses to the requests of BCOAPO IR 1.1.1 and BCOAPO IR 1.2.1 based on the finalized cost analysis that will be filed with the BCUC on or before April 30, 2020.

**Response:**

Please see the tables provided on the page that follow.

Table BCOAPO 16.1a: Table provided in response to BCOAPO IR 1.1.1 updated with 2019 actual expenditures.

DSM measure	2019 Actual	2019 forecast (Revised in 2019 DSM Plan)	2020 forecast	2020 forecast (Revised in 2019 DSM Plan)	Total 2019-2020	Total 2019-2020 (Revised in 2019 DSM Plan)
Low Income - ESK	\$ 13,843	\$ 11,848	\$ 11,848	\$ 12,900	\$ 25,691	\$ 24,748
Low Income - ECAP	\$ 22,795	\$ 35,000	\$ 28,500	\$ 48,500	\$ 51,295	\$ 83,500
Residential Furnace Replacement	\$ -	na	\$ 120,800	na	\$ 120,800	\$ -
Residential Efficient Heating	na	\$ -	na	\$ 193,700	\$ -	\$ 193,700
Rental Accomodations - ECAP	na	na	na	na	\$ -	\$ -
Commercial HVAC Controls	na	\$ -	na	\$ 208,500	\$ -	\$ 208,500
Commercial Boiler Replacement	\$ 23,204	\$ 29,300	\$ 29,300	\$ 51,000	\$ 52,504	\$ 80,300
Commercial Water Heater Replacement	\$ 17,009	\$ 31,100	\$ 40,300	\$ 49,200	\$ 57,309	\$ 80,300
Commercial Efficient Kitchen Program	\$ 18,135	\$ 18,650	\$ 24,500	\$ 48,700	\$ 42,635	\$ 67,350
Conservation Education and Outreach - Elementary School Program	\$ 65,571	\$ 39,983	\$ 39,983	\$ 60,000	\$ 105,554	\$ 99,983
Conservation Education and Outreach - Post Secondary Program	\$ 900	\$ 24,000	\$ 24,000	\$ 24,000	\$ 24,900	\$ 48,000
Conservation Education and Outreach - General	\$ 81,843	\$ 85,800	\$ 25,800	\$ 33,500	\$ 107,643	\$ 119,300
Codes and Standards	\$ 4,243	\$ 14,052	\$ 14,000	\$ 10,000	\$ 18,243	\$ 24,052
Innovation	\$ 16,643	\$ 35,000	\$ 35,000	\$ 35,000	\$ 51,643	\$ 70,000
Enabling Activities	\$ 7,560	\$ 6,000	\$ 6,000	\$ 6,000	\$ 13,560	\$ 12,000
<b>Total Annual Portfolio Expenditure</b>	<b>\$ 271,746</b>	<b>\$ 330,733</b>	<b>\$ 400,031</b>	<b>\$ 781,000</b>	<b>\$ 671,777</b>	<b>\$ 1,111,733</b>

Table BCOAPO 16.1b: Table provided in response to BCOAPO IR 1.2.1 updated with 2019 actual expenditures.

	2015	2016	2017	2018	2019 (actual)	2020 (f)
<b>DSM Expenditures (\$)</b>	\$ -	\$ 215,244	\$ 70,696	\$ 110,035	\$ 271,746	\$ 781,000
<b>Utility Revenues normalized (\$000)</b>	\$ 75,467	\$ 64,572	\$ 72,703	\$ 65,151	\$ 71,740	\$ 76,000
<b>DSM Expenditures as a portion of Utility Revenues</b>	0.00%	0.33%	0.10%	0.17%	0.38%	1.03%

**17.0 Reference: Exhibit B-4, BCOAPO IR 1.8.6**

The referenced IR and response are reproduced below:

*Does PNG-PNGNE employ any metric or rule of thumb with respect to determining when any particular program has matured?*

*Response:*

*PNG does not employ such metric nor rule of thumb at this time.*

17.1 Is it fair to conclude from this response that PNG has no idea as to when any particular program has matured?

**Response:**

PNG does not consider it fair for the BCOAPO to conclude that “PNG has no idea as to when any particular program has matured”. PNG’s Commercial Efficient Boiler, Commercial Efficient Water Heater and Commercial Kitchen program all have limited participation at this time. Even without employing any metrics or rules of thumb, PNG is confident that it is very unlikely that these programs have matured. PNG’s income qualified Energy Savings Kits (ESK) and Energy Conservation Assistance Program (ECAP) are managed by BC Hydro and PNG does not incur any marketing costs related to programs; cost which might otherwise be subject to reduction as programs reach maturity. PNG notes that participation in the ESK program continues to increase in PNG’s service territory.