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Via E-file

May 20, 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.
PNG-West Division
2020-2021 Revenue Requirements Application
Response to BCOAPO Information Request No. 2**

Accompanying, please find the response of Pacific Northern Gas Ltd. to the referenced information request.

Please direct any questions regarding the application to my attention.

Yours truly,

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

Verlon G. Otto

Enclosure

REQUESTOR NAME: BCOAPO *et al.*
INFORMATION REQUEST ROUND NO: #2
TO: PNG West (PNG)
DATE: March 30, 2020
APPLICATION NAME: 2020-21 Revenue Requirements Application

8.0 Reference: Exhibit B-3, BCUC IR 1.1.5.3, RECAP

8.1 Has the BC Hydro generating facility at Prince Rupert been interrupted by PNG in the last 10 years? If so, please provide details.

Response:

There have been two interruption to service to BC Hydro in the past 10 years, both in 2010. Details of these interruptions are as follows:

| Year | Effective Date | Effective Time | Curtailed To (MMSCFD) | Removed Date | Removed Time | Reason for Curtailment |
|------|----------------|----------------|-----------------------|--------------|--------------|------------------------------------|
| 2010 | 11-Aug | 8:00:00 | 0 | 11-Aug | 18:00 | Replace section with lodged P.I.G. |
| 2010 | 10-Oct | 3:00:00 | 0 | 11-Oct | 20:15 | MP 357 Line break |

8.2 Please provide a summary table that provides details of interruptions to service for all other of PNG's interruptible customers over the last 10 years.

Response:

There has been one additional interruption to service to an interruptible customer in the past 10 years, again in 2010. Details of this interruption are as follows:

| Year | Customer | Effective Date | Effective Time | Curtailed To (MMSCFD) | Removed Date | Removed Time | Reason for Curtailment |
|------|-------------------------|----------------|----------------|-----------------------|--------------|--------------|---------------------------------------|
| 2019 | Plateau Forest Products | 29-Aug | 13:59 | 0 | 30-Aug | 0:40 | Line break due to 3rd partly line hit |

9.0 Reference: Exhibit B-3, BCUC IR 1.6.1-1.6.5, 1.6.10, and 1.8.2, and Exhibit B-5, BCOAPO IR 1.2.1, UAF

- 9.1 Does PNG agree that, with respect to UAF variances due to estimation/forecast errors, if the estimators employed (i.e., the statistical estimation methodology) are unbiased, then theoretically these variances should exhibit fully offsetting UAF gains and losses over the long run?

Response:

PNG agrees that, with respect to UAF variances due to estimation/forecast errors, if the estimators employed (i.e., the statistical estimation methodology) are unbiased, then theoretically these variances should exhibit fully offsetting UAF gains and losses over the long run.

10.0 Reference: Exhibit B-3, BCUC IR 1.6.7, UAF

- 10.1 Please confirm, that over the period 2015-19, Total UAF was \$741,000 of which \$701,000, 94.3%, was recovered from ratepayers while the shareholder share was \$38,000 or 5.7%. If unable to so confirm, please explain.

Response:

Not confirmed. PNG is not clear on the derivation of these figures.

PNG notes that the calculated UAF each year is either fully recovered from or fully refunded to ratepayers via the GCVA Company Use rate rider. While the total UAF for the period of 2015 to 2019 was a net loss of \$743,389 that was recovered from ratepayers as per the table presented under the response BCUC 1.6.7. PNG also points out that the total UAF for the period of 2004 to 2019 was a net gain of \$1.222 million that went to the benefit of ratepayers.

- 10.2 Does PNG agree that if the UAF “deadband” was increased, i.e., the variance in UAF around forecast that would not trigger a PNG request for recovery from ratepayers were increased (or, in other words, the UAF variance for which the shareholder were 100% responsible), then the shareholder would have an increased financial incentive to mitigate UAF losses? Please explain fully.

Response:

PNG disagrees with this assertion. If the UAF deadband was increased from 1.0 percent, to 1.5 percent as requested by PNG, then the UAF loss of up to 1.5 percent will be recovered from ratepayers without requiring PNG to seek further approval from the BCUC. Currently, PNG is required to seek BCUC approval to record UAF losses in excess of 1.0 percent of deliveries to its sales and transport customers in the UAF volume deferral account that is recovered from rate payers.

11.0 Reference: Exhibit B-3, BCUC 1.21.1

- 11.1 Does PNG believe, ex post, that the AltaGas reorganization has financially benefitted ratepayers in a quantifiable manner? If so, please detail that benefit.

Response:

PNG notes that with the reorganization that resulted in the formation of TriSummit Utilities Inc. (formerly AltaGas Canada Inc.) in October 2018, PNG continued to obtain the same benefits and shared synergies from economies of scale and operational efficiencies that were achieved from the original acquisition by AltaGas Ltd. in December 2011. This includes the ability to have access to capital markets which will be instrumental for PNG for its RECAP and other capital programs and the ability to incur lower expenses than if it were a stand-alone entity for items such as insurance, employee benefits and Microsoft licenses.

Other financial benefits that have accrued to ratepayers include cost savings from partnering on shared system integrations such as JDE, CIS and HRIS which, if implemented on a standalone basis, would cost millions of dollars more. Additional benefits are outlined in the KPMG LLP Report included as Appendix B to the Amended Application.

12.0 Reference: Exhibit B-3, BCUC IR 1.54.4, Induced AC pipeline voltage

- 12.1 Please provide BC Hydro's stated rationale for refusing to mitigate the referenced costs and elaborate upon the attempts PNG made for cost recovery from BC Hydro.

Response:

PNG approached BC Hydro to fund the required study activities when the initial proposed change was brought forth by BC Hydro. The rejection rationale was that BC Hydro had an established statutory right of way prior to PNG's arrival and as such that PNG did not have the land position to force the issue.

PNG did consider taking legal action, however based upon PNG's previous experience and corporate understanding, given the anticipated cost to proceed with legal action compared to the chance of success in the recovery of costs, further action was deemed to not be warranted.

13.0 Reference: Exhibit B-3, BCUC IR 1.66.1, Test Period RoE

- 13.1 Given the current economic environment – referencing the effects of COVID-19 and the widely held opinion in the medical and epidemiological communities that this economic impact is the result of only the first wave of infection, does PNG believe that an after-tax RoE of 9.50% reflects current 2020 RoE expectations for entities similar in risk to PNG, i.e., 9.50% after-tax RoE remains appropriate for the two-year test period?

Response:

PNG is of the opinion that this proceeding in respect of its revenue requirements application is not the appropriate forum for determining specific risks that should be reflected in PNG's approved cost of capital. These matters have been and will continue to be fully canvassed and determined through the BCUC's established cost of capital proceedings.

That said, the one thing that PNG is certain of is that COVID-19 has significantly increased uncertainty in the capital markets and has resulted in increased volatility.

Given the short period of time over which the COVID-19 impacts have been in effect, PNG is of the opinion that it would be difficult as this time to quantify exactly how investor return expectations have changed in these circumstances. In other words, PNG is not yet in a position to quantify the extent of investor return expectations for entities similar in risk to itself. Should the BCUC conclude that PNG's cost of capital requires review due to the impact of COVID-19, consistent with historical practice, PNG expects the BCUC to commence a separate hearing process for that purpose.

14.0 Reference: Exhibit B-3, BCUC IR 1.70.1, RSAM

- 14.1 Does PNG agree that the RSAM rate rider mechanism transfers weather risk, a major source of risk for gas distributors, from the shareholder to the ratepayer?

Response:

PNG agrees that the RSAM rate rider mechanism transfers risk from the shareholder to the ratepayer as it mitigates forecast risk that takes into consideration actual weather. PNG notes that this matter was specifically addressed in BCUC decisions on prior revenue requirements applications. Under the 2003 Revenue Requirements Application Negotiated Settlement (Order G-14-03) whereby the parties agreed to the implementation of the RSAM deferral account, PNG's cost of service was reduced by \$100,000 due the fact that the RSAM would mitigate forecast risk. Under the 2004 Revenue Requirements Application decision (Order G-69-04), the BCUC determined that PNG's risk premium be reduced by 10 basis points due to the implementation of the RSAM and other factors. PNG further submits that the RSAM deferral account is taken into consideration in the determination of its existing risk premium that was last addressed in the 2012 Generic Cost of Capital proceeding.