



July 31, 2020

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PNG WEST 2020-2021 REVENUE REQUIREMENTS EXHIBIT A-12

Mr. Verlon Otto
Director, Regulatory Affairs
Pacific Northern Gas Ltd.
750 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4
regulatory@png.ca

Re: Pacific Northern Gas Ltd. – PNG-West Division – 2020–2021 Revenue Requirements Application – Project Number 1599059 – Panel Information Request No. 2

Dear Mr. Otto:

The Panel has reviewed the evidence on record for the abovementioned proceeding and has determined that re-opening the evidentiary record is warranted for additional information and further clarification on the Shared Corporate Service Costs. Accordingly, the Panel requests responses to the Panel Information Request (IR) No. 2 to Pacific Northern Gas Ltd. (PNG) attached as Appendix A to this letter by **Monday August 10, 2020**.

The Panel also requests that written supplementary final and reply arguments be provided according to the following regulatory timetable:

Action	Date (2020)
PNG responses to Panel IR No. 2	Monday, August 10
PNG Supplementary Written Final Argument	Thursday, August 13
Intervener Supplementary Written Final Argument	Tuesday, August 18
PNG Supplementary Written Reply Argument	Friday, August 21

The scope of the parties’ written supplementary arguments should be limited to matters related to the responses to Panel IR No. 2.

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

KR/dg
Enclosure



Pacific Northern Gas Ltd.
2020-2021 Revenue Requirements Application

PANEL INFORMATION REQUEST NO. 2 TO PACIFIC NORTHERN GAS LTD.

A. SHARED CORPORATE SERVICE COSTS

3.0 REFERENCE: SHARED CORPORATE SERVICES COSTS
Exhibit B-2 (Amended Application), Section 2.5.7.2, p. 65; Appendix B, p. 6, 8-10, Table 2, 5, 6; Exhibit B-3, BCUC IR 32.4, 34.7, 34.8; Exhibit B-7, BCUC IR 109.1; PNG-West Division, 2013 Revenue Requirement Application (RRA) proceeding, Order G-114-13 and accompanying Decision, Section 4.3.1.1, p. 30; Exhibit B-3, BCUC IR 24.2 ESTIMATED FAIR VALUE OF SHARED CORPORATE SERVICE COSTS

In section 4.3.1.1 of the Decision accompanying Order G-114-13, the British Columbia Utilities Commission (BCUC) approved \$621,312 for the total inter-affiliate charges for Pacific Northern Gas Ltd. (PNG), and stated that the approved amount excludes the DSU [deferred share units] mark-to-market adjustments and notional dividends, as PNG was historically not permitted to recover these amounts from ratepayers.

In response to BCUC information request (IR) 24.2 in the PNG-West's 2013 RRA proceeding, PNG provided the following table, summarizing the actual historical costs incurred in 2009 to 2011 when it was a public reporting entity and calculated the average costs (\$621,312) for these years excluding the DSU compensation expenses from the Directors' Fees and Expenses line item.

PNG-West Administrative and General Expenses				
Public Company Reporting/Shareholder Expenses	Actual 2011	Actual 2010	Actual 2009	Average 2009 - 2011
BCUC Account 728				
Directors' fees and expenses*	\$ 480,565	\$ 632,353	\$ 385,668	\$ 499,529
Less: DSU Mark-to market/Dividends adjustments	(120,418)	(334,707)	(126,819)	(193,981)
	360,147	297,646	258,849	305,547
Annual Report	30,551	23,494	18,399	24,148
Shareholder expenses (Computershare, TSX, Broadridge, Bowne)	94,048	75,099	79,426	82,858
Investor Relations	5,718	9,736	7,320	7,591
	490,465	405,975	363,994	420,144
BCUC Account 721				
Investor relations - (printing, accom, meals & ent, transportation)	4,432	4,328	9,313	6,024
	4,432	4,328	9,313	6,024
BCUC Account 722				
Audit fees	234,035	188,094	213,183	211,770
Internal audit fees	51,022	44,556	44,726	46,768
Legal fees	43,812	41,249	48,467	44,509
Consultant fees	55,600	49,816	60,708	55,375
	384,468	323,715	367,084	358,423
BCUC Account 723				
D&O insurance	58,000	63,500	63,500	61,667
Fiduciary insurance	23,650	24,250	24,250	24,050
	81,650	87,750	87,750	85,717
Total	\$ 961,015	\$ 821,768	\$ 828,141	870,308
Less Audit, Legal, Consulting Fees and D&O/Fiduciary Insurance in 2013 Cost of Service				(248,996)
				\$ 621,312

*2011 director's fees adjusted for share price from \$27.62 at Sep 30, 2011 to sale price of \$36.75 ==> reduce DSU expense by \$456,757

In response to BCUC IR 32.4, PNG provided the following table summarizing the costs PNG incurred in 2011 as a stand-alone entity, pre-AltaGas Ltd. amalgamation, adjusted for inflation.

	Estimated 2011 PNG fees (note 1)	Inflation factor (note 3)	PNG costs inflated	Remove costs included at PNG for 2020 (note 4)	2020 additional market adjusted costs (note 5)
PNG's Corporate Shared Services costs					
Directors' fees and expenses	275,053	126.68%	348,429	-	348,429
Executive Management (note 2)	1,046,201	134.39%	1,406,007	(306,425)	1,099,582
Annual Report	45,839	117.17%	53,710	-	53,710
Shareholder expenses (Computershare, TSX, Broadridge, Bowne)	82,229	117.17%	96,348	-	96,348
Investor Relations	5,113	117.17%	5,991	-	5,991
Investor relations - printing	1,585	117.17%	1,857	-	1,857
Investor relations - accommodations	1,841	117.17%	2,157	-	2,157
Investor relations - meals & ent	1,841	117.17%	2,157	-	2,157
Investor relations - transportation	6,902	117.17%	8,087	-	8,087
Audit fees	247,552	117.17%	290,057	(180,000)	110,057
Internal audit fees	77,200	117.17%	90,455	(50,000)	40,455
DBRS fee	27,000	117.17%	31,636	(35,000)	24,000
Director's & Officer's insurance	63,500	117.17%	74,403	-	211,985
Fiduciary insurance	24,250	117.17%	28,414	-	13,999
Additional liability insurance (\$150 MM coverage)					238,206
Crime insurance					35,000
Cyber insurance					33,603
Non-Owned aircraft insurance					2,500
Provincial registration fees					37,304
Translation fees					84,183
Legal fees	99,387	117.17%	116,452	-	116,452
Consultant fees	95,859	117.17%	112,318	-	112,318
Total	2,101,352		2,668,476	(571,425)	2,678,379
2020 PNG Shared Services cost allocation					1,835,433

Notes:

- 1) 2011 data based on 2012 Budget data included in 2012 RRA and 2011 actual fees incurred
- 2) Executive Management 2011 data for the President & CEO, VP Corporate Development & Treasurer, and VP Finance based on 2010 publicly disclosed compensation, therefore inflated 10 years
Includes all compensation except options and other compensation, consistent with ACI Executive Management compensation included in the Corporate Shared Services
As the VP Finance position still exists at PNG we have removed this inflated cost from the inflated 2020 costs
- 3) Inflation factor of 3% used on Directors Fees and Executive Salaries
- 4) Costs which were included in the 2020 budget for PNG have been removed to show only the incremental public company costs for 2020
- 5) Certain costs were not incurred at PNG in 2011 would need to be incurred in 2020 were PNG a standalone company. These costs have been included in this column. Also, inflated costs in 2011 which are market driven (specifically insurance) have been adjusted in this column to 2019 actual costs incurred at ACI

In Table 2 on page 6 of Appendix B to the Amended Application, PNG estimated the fair value of the shared corporate services as a standalone company, as reviewed and accepted by KPMG (KPMG Report). This table is reproduced below.

Table 2 - Estimated Fair Value of Shared Corporate Services

Shared Corporate Service Function	Standalone employee and third party costs 2020	Standalone employee and third party costs 2021
Board of Directors	\$ 824,073	\$ 840,554
Executive Management	2,256,747	2,301,882
Less: PNG President	(520,000)	(530,400)
Total Executive Management	1,736,747	1,771,482
Corporate Resources (incl. Legal & Compliance)	560,647	571,859
Accounting, Tax & Finance	949,639	969,651
Total	\$ 4,071,105	\$ 4,153,547
Shared Corporate Services cost	1,835,433	1,872,142
Savings to PNG	\$ 2,235,671	\$ 2,281,405

*note totals may not reconcile due to rounding differences

In response to BCUC IR 34.8, PNG stated:

To accomplish these activities, PNG Management estimates that PNG would require two full time equivalent staff members (FTE) and would need to incur additional third party costs for external auditors, translation fees, tax consulting, additional insurance for Directors and Officers, Fiduciary, non-owned aircraft, and additional commercial general liability insurance, capital markets data access, transfer agent fees for public equity, and increased fees to maintain a public DBRS rating.

- 3.1 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.
- 3.1.1 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 BCUC IR 32.4.
- 3.2 Using the same cost categories as Table 2 in the KPMG Report, please reproduce the table in response to BCUC IR 32.4 and the actual 2011 amount of \$961,015 provided in response to BCUC IR 24.2 in the PNG-West's 2013 RRA proceeding and provide the following:
- Reconciliation of each line item of the \$2,101,352 (provided in response to BCUC IR 24.2) and the \$961,015 amounts, with an explanation for any differences.
 - Reconciliation of each line item of the \$2,678,379 (provided in response to BCUC IR 24.2) and the \$4,071,105 (provided in Table 2 of the KPMG Report) amounts, with an explanation for any differences.

In response to BCUC IR 34.7, PNG provides the following breakdown of the 2011 and 2020 accounting, tax and finance stand-alone costs.

Cost Description	2011 cost	2020 cost
DBRS fee	\$27,000	\$59,000
Insurance costs	\$87,750	\$542,500
Tax & accounting fees	\$324,752	\$373,908
Investor relations fees	\$145,350	\$51,996
Total Accounting, Tax & Finance	\$584,852	\$1,027,404

- 3.3 Please provide a breakdown of the 2020 costs for Account 722 Special Services between audit fees (including a breakdown between audit, internal audit and DBRS fees), legal fees, consulting fees, investor relations costs and other costs. With respect to each of the 2020 additional adjusted market costs of \$2,678,379 provided in response to BCUC IR 32.4 and the \$4,071,105 estimate in Table 2 of the KPMG Report please include a detailed explanation for the following:
- Why there are no legal, consulting fees and/or investor relations removed from either estimate; and
 - Rationale for the \$180,000 audit fees, \$50,000 internal audit fee and \$35,000 (as opposed to the full amount) DBRS fee removed from the \$2,678,379 estimate and why there are no audit, internal audit and / or DBRS fees removed from the \$4,071,105 estimate.
- 3.4 Please provide a breakdown of the 2020 costs for Account 723 Insurance costs by category (i.e. fiduciary insurance, liability insurance and other insurance cost categories as applicable) and provide a detailed explanation for the following:

- Why there are no insurance costs removed from each of the \$2,678,379 and \$4,071,105 estimates as referenced above.

On page 65 of the Amended Application, PNG references the role of PNG President and Director of Business Development in its current operations.

Further in its response to BCUC IR 34.8 PNG stated:

One additional accounting position was not staffed in 2011, however there was a Treasurer position in 2011 which is currently not staffed at PNG, treasury functions are currently provided by TSU through the Shared Corporate Services costs. The second additional accounting position would be required to complete the additional tasks listed above.

Pages 8 and 9 of Appendix B to the Amended Application state that PNG Management assumed that two additional accounting staff members would be required to fulfill all the additional accounting requirement of PNG, and that significant additional costs, such as higher insurance additional credit rating costs and incremental audit and related fees would have to be incurred.

In addition, on page 9 of Appendix B to the Amended Application the following summary of the Accounting, Tax and Finance costs are presented:

Table 5 – Summary of Accounting, Tax and Finance Costs

Summary of Standalone Costs	
Accounting, Tax & Finance - Additional Compensation and Third Party Costs	
Total Additional Stand Alone Costs 2020	\$ 949,639
Inflation adjusted at 2% per annum	1,020
Net Additional Stand Alone Costs 2021	968,632
Plus: Net difference in DBRS fee for 2021	1,019
Total Additional Stand Alone Costs 2021	\$ 969,651

With respect to the variance between the \$2,678,379 provided in response to BCUC IR 32.4 and the \$4,071,015 estimate in Table 2 of the KPMG Report, PNG stated in BCUC IR 109.1:

The PNG estimated standalone costs in the KPMG report are approximately \$1.4 million higher than the 2011 inflated PNG costs. The salaries and benefits for the General Counsel and the two additional finance employees is approximately \$800,000 of this variance.

The remaining approximately \$600,000 of variance is primarily due to higher administrative fees such as Board of Directors and executive management costs, partially offset by lower costs for consulting, audit, insurance and legal fees.

- 3.5 Please provide a breakdown of the standalone Accounting, Tax and Finance costs by component (i.e. labour costs by employee title, insurance costs, credit rating (DBRS) fees, audit fees, other tax and accounting fees, investor relation fees, etc.) provided in Table 2 of the KPMG Report.
- 3.6 Please clarify what executive management positions were in place in 2011 and those that exist in 2020 at PNG, including VP Finance, President, directors and other, and provide the 2020 salaries expense for each position. Based on the information provided, please provide a detailed explanation for the following:
 - why only the VP Finance position is removed from the \$2,678,379 estimate; and
 - why only the PNG president is removed from the \$4,071,105 estimate.

- 3.6.1 Please provide a breakdown of the \$800,000 in additional costs referenced in the response to BCUC IR 109.1 and explain the rationale for the additional costs in the context of the executive management positions in place in 2011 and the treasurer position that was staffed in 2011.

On page 10 of Appendix B to the Amended Application the following summary of the stand-alone corporate resource costs is presented:

Table 6 – Summary of Corporate Resources Costs

Summary of Standalone Costs	
Corporate Resources - Additional Compensation and Third Party Cost	
Total Additional Stand Alone Costs 2020	\$ 560,647
Inflation adjusted at 2% per annum	1.020
Total Additional Stand Alone Costs 2021	\$ 571,859

**note totals may not reconcile due to rounding differences*

- 3.7 Please provide a breakdown of the standalone corporate resource costs by component (i.e. labour costs including amounts related to benefits and other compensation costs, provincial and stock exchange registration fees, other third-party costs (please specify), etc.) provided in Table 6 of the KPMG Report.
- 3.8 Based on the responses provided above and as applicable, please provide (i) an updated Table 2 from the KPMG Report; and (ii) an updated table from PNG’s response to BCUC IR 32.4.

4.0 REFERENCE: SHARED CORPORATE SERVICES COSTS
Exhibit B-3, BCUC IR 34.3 and 34.4.
Shared Corporate Service Costs – Board of Directors

In response to BCUC IR 34.3 PNG stated:

The average and median assets size of the micro companies in the Korn Ferry report is approximately \$800 million. The “micro companies” data set is the relevant size category for PNG, this is because while the average and medians are larger, the category includes a range of company sizes. For example, it includes smaller companies with assets of only \$97 million, which is less than half of the PNG’s asset base. The data set contains a range in this manner because the Board of Directors function and requirements are generally consistent across companies of various sizes within a range, and therefore compensation costs will be similar, even if the company is smaller than the average in the data set. [Emphasis added]

In response to BCUC IR 34.4 PNG stated:

Both TriSummit Utilities Inc. (TSU, formerly ACI) and FortisBC are larger than PNG in both assets and revenues, however they are considered comparable as they represent utility companies operating in Western Canada. [...].

Although TSU is larger than PNG standalone it is the smallest public reporting utility in Canada, with a market cap of approximately \$0.75 billion (prior to the announcement of its recent ownership change). [Emphasis added]

- 4.1 Please provide the asset base, revenues, and market size (i.e. number of customers, Gigajoules of natural gas distributed) for PNG, TSU and FortisBC. Based on the response provided, please elaborate on why PNG considers TSU and FEI to be appropriate comparators for PNG as a stand-alone public company.