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Via E-File

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

File No.: 4.2(2021)

Attention: Patrick Wruck
Commission Secretary

Dear Mr. Wruck:

**Re: British Columbia Utilities Commission – Generic Cost of Capital Proceeding
Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd.
Comments on Preliminary Scoping Document**

On March 8, 2021, the British Columbia Utilities Commission (BCUC) issued Order G-66-21 establishing a Generic Cost of Capital (GCOC) proceeding along with a regulatory timetable and a preliminary scoping document (Preliminary Scoping Document) setting out an initial list of matters to be examined and determined as part of the proceeding. Order G-66-21 also included a list of utilities wherein Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. (collectively, PNG) were established to be Affected Utilities with the expectation that they would participate as applicants in the proceeding. This submission constitutes PNG's response to the BCUC's request for comments on matters identified in the Preliminary Scoping Document.

General

PNG has reviewed the Preliminary Scoping Document and is of the opinion that the matters identified are appropriate for consideration in establishing the parameters of the GCOC proceeding. PNG observes that it has had the opportunity to review the submissions of FortisBC and submits that it is supportive of the comments and suggestions made by FortisBC in relation to the five scoping items. PNG provides additional comments in the discussion that follows for the BCUC's consideration.

a. Whether the BCUC should establish the Cost of Capital effective January 1, 2022, including public utilities' capital structure and return on common equity.

PNG has concerns with the ongoing volatility and unpredictability in capital markets, and with the continued uncertainty around the impacts of the COVID-19 pandemic. Similar to FortisBC, PNG is of the view that there may be value in delaying the regulatory process for the GCOC proceeding until later in 2021, or to the early part of 2022. Such a delay would provide additional time for markets to stabilize and thus provide a more accurate view of where the capital markets will settle, and thereby reducing the potential to distort the risk-free rate that would be established as part of the proceeding.

b. Should the BCUC continue to establish public utilities' Cost of Capital using a two-stage mechanism, where Stage 1 sets the Benchmark ROE based on a Benchmark Utility, and Stage 2 uses a generic methodology for each utility to determine its unique Cost of Capital in reference to the Benchmark Utility?

PNG supports the continued use the two-stage approach for the GCOC proceeding as it has been found to be efficient in past GCOC proceedings. PNG is of the view that this approach of comparing individual utilities' risk profiles against the Benchmark Utility and determining whether a premium or discount to the Benchmark Utility's ROE and equity thickness is appropriate and reduces the evidentiary burden on smaller utilities such as PNG.

Further, PNG submits that given the small number of utilities in BC, it is not considered necessary to group the public utilities into two or more groups, and that the risk characteristics of the individual utilities ought to be considered on a case-by-case basis in setting their respective Allowed ROE and equity thicknesses.

c. What considerations should be made for the initial transition year January 1, 2022 to December 31, 2022 (e.g. setting rates for all utilities that may be affected by the GCOC proceeding's decision on an interim basis until a final decision is rendered)?

PNG agrees with FortisBC that avoiding an extended period of interim rates is desirable as this would minimize regulatory and administrative inefficiencies. Further, prolonged periods of interim rates also creates uncertainty for shareholders as to the return on invested capital. As such, PNG encourages the BCUC to take into consideration the regulatory timetable when determining the effective date of the GCOC decisions so as to minimize the interim period for the reasons noted.

- d. Whether re-establishment of a formulaic ROE AAM is warranted. If a return to the use of a formulaic ROE AAM is accepted, what are the specifications of such a formula and should it be implemented starting on January 1, 2023 on an annual basis?**

PNG is not averse to including a review of a formulaic ROE AAM as a scope element for the GCOC proceeding.

- e. In certain circumstances for those utilities that require a deemed interest rate, should a methodology be established or a determination be made on a deemed interest rate and should the deemed interest rate be subject to an AAM (Interest AAM)? If warranted, the Interest AAM would be implemented for January 1, 2023. If not warranted, setting a future regulatory process on how the deemed interest would be adjusted in future years beyond December 31, 2022.**

While a deemed interest rate is not applicable to PNG, PNG considers that the identified matters pertaining to a deemed interest rate are regarded as appropriate for consideration for those utilities to which a deemed interest does apply, and that this should be addressed as part of stage two of the GCOC proceeding.

If you require further information or have any questions regarding this submission, please contact the undersigned.

Yours truly,

Original on file signed by:

G. Doyle