IN THE MATTER OF

PACIFIC NORTHERN GAS (N.E.) LTD.

2013 REVENUE REQUIREMENTS

DECISION

AUGUST 23, 2013

BEFORE:

D.A. Cote, Panel Chair/Commissioner
C.A. Brown, Commissioner
C. van Wermeskerken, Commissioner

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EXECUTIVE SUMMARY

On November 30, 2012, Pacific Northern Gas (N.E.) Ltd. (PNG (N.E.), the Applicant) filed its 2013 Revenue Requirements Application (RRA) for the Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions with the British Columbia Utilities Commission (Commission), pursuant to sections 58-61, 89 and 90 of the *Utilities Commission Act* (UCA). On March 4, 2013, PNG (N.E.) filed an update to its 2013 RRA, reflecting changes since the initial Application (collectively, the Application).

PNG (N.E.) seeks, among other things, approval of the following:

- Recovery in its rates of a projected revenue deficiency of approximately $198,000 for FSJ/DC and a revenue sufficiency of $41,000 for TR.
- A drawdown of $100,000 for FSJ/DC and $41,000 for TR of deferred income taxes as a credit to the 2013 income tax component.
- Approval of the deferral accounts and 2013 amortization expenses, as outlined in both the FSJ/DC and TR Applications.
- The shared service cost recovery by Pacific Northern Gas Ltd. (PNG West) from PNG (N.E.), as set forth in the Application.

The Commission Panel identified two issues which arose within the proceeding that provided context to the review of the Application. These issues and their respective determinations or conclusions are as follows:

1. Importance of Productivity Management

Concern was raised as to whether PNG (N.E.) conducts its business in a manner that promotes processes to actively seek out and create efficiencies and manage costs. The Panel concluded that a more disciplined approach to sustained productivity management is an area to be addressed in the next RRA.

2. Frequency of Revenue Requirement Proceedings

The Panel considered the efficiencies to be gained by extending the period between RRA proceedings from one to two years. The Panel directs PNG (N.E.) to file its next RRA for a two year period.

In its review of the Application, the Commission Panel has examined and considered positions of the parties with respect to a number of issues. The most important of these issues relate to the following areas:

(i) Forecast Gas Deliveries

(ii) Administrative and General Expenses

(iii) Operating and Maintenance Expenses

(iv) Rate Base

A brief summary of some of the key issues, considerations and determinations related to these areas are as follows:

(i) Forecast Gas Deliveries

The rates that PNG (N.E.) will require over the 2013 test period are significantly affected by sales volume forecasts. PNG (N.E.) has used a forecasting methodology, which is consistent with those approved in previous years. No concerns were raised by the interveners with respect to either the forecast estimates or the methodology. The Commission Panel accepts the forecasts for all customer groups. Notwithstanding this, concerns were raised with regard to continued historical forecast variances for large commercial and small industrial customer classes. The Commission Panel recommends that PNG (N.E.) work more closely with these customer groups to ensure that their future delivery forecasts are reasonable.

(ii) Administrative and General Expenses

PNG (N.E.) seeks approval for 2013 Administrative and General Expenses totalling $2.793 million and $279,000 (before transfers to capital) for FSJ/DC and TR, respectively. The most significant impact on Administrative and General Expenses flows from proposals for employee benefits, inclusive of pension and non-pension post-retirement benefit (NPPRB) expenses and shared service costs.

Employee benefits increased significantly due to higher company pension costs and NPPRB expenses. The Commission Panel accepts that pension and NPPRB costs are actuarially determined and reflective of current financial market conditions, as submitted by PNG (N.E.). Accordingly, the Panel accepts the 2013 forecasted amounts for pension and NPPRB expenses for both FSJ/DC and

TR. However, given the increase in costs, the Commission Panel directs the Applicant to provide a detailed justification for these programs as part of its next RRA.

PNG West filed a Shared Services Study as part of its 2013 RRA to support its cost recovery from PNG (N.E.). The Shared Services Study was thoroughly reviewed and favourably evaluated by the independent accounting firm, KPMG. As part of the PNG West 2013 RRA Decision (PNG West Decision 2013)[1] the Commission Panel approved the cost pools and cost allocators as set forth in the PNG West Application. As this determined the shared service cost recoveries for PNG (N.E.), no further determination was required as part of this proceeding.

(iii) Operations and Maintenance Expenses

PNG (N.E.) seeks approval of Operating and Maintenance (O&M) Expenses of $5.261 million for FSJ/DC and $941,000 for TR in 2013. Most of the O&M expense increase as compared to 2012 approved amounts results from the hiring of a second management position to support the operation, construction and maintenance of the PNG (N.E.) system. The 2013 O&M labour costs as compared to 2012 approved amounts represent an increase of approximately ten percent for FSJ/DC and close to twelve percent for TR. The Commission Panel acknowledges the recent growth in this region and approves the additional labour cost increases. The Panel notes that excluding the impact of labour costs, the growth of O&M expenses is less than three percent and finds these costs to be fair, just and reasonable.

(iv) Rate Base

There are a number of rate base related issues considered within this proceeding. The most important of these include capital additions, and the handling of some deferral accounts.

PNG (N.E.) has forecast capital additions of $9.833 million for FSJ/DC and $281,000 for TR, including capital overhead. For FSJ/DC, this amount is over double that approved in the previous year and well above those of past years. The most significant of these expenditures is for the Pouce Coupe Lateral – Partial Replacement ($1.857 million), new facilities to service Air Liquide ($1.565 million) and distribution main improvements ($1.360 million). The Commission Panel notes that PNG (N.E.) provided no explanation for the $808,000 in capital requirements listed in the updated Application.

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[1] In the Matter of Pacific Northern Gas Ltd. Application for Approval of its 2013 Revenue Requirements for the PNG-West Service Area – Commission Order G-114-13, August 1, 2013.

Accordingly, the Panel approves capital expenditures of $9.025 million, as originally submitted and justified through Information Requests.

PNG (N.E.) seeks a number of approvals relating to its existing deferral accounts. The Commission Panel, in making its determinations, has applied the principles for treatment of deferrals established in the FortisBC Inc. 2012-2013 RRA Decision (FortisBC Decision)[2]. These principles dealt with the appropriate financing charge and the appropriate length for an amortization period. The Commission Panel has made a number of determinations on deferral accounts, which change the earned return from a weighted average cost of capital (WACC) to a weighted average cost of debt (WACD). In addition, the Panel has reduced the amortization periods for a number of deferral accounts considering the need for intergenerational equity balanced against an appropriate level of rate smoothing.

[2] In the Matter of FortisBC Inc. – Application for Approval of 2012-2013 Revenue Requirements and Review of 2012 Integrated System Plan – Commission Order G-110-12, August 15, 2012.

1.0 INTRODUCTION

1.1 Background

Pacific Northern Gas (N.E.) Ltd. owns and operates natural gas distribution systems, serving approximately 19,200 customers, including residential, commercial and industrial operations. PNG (N.E.) serves the Fort St. John, Dawson Creek, and the Tumbler Ridge areas of north-eastern British Columbia. It is a wholly owned subsidiary of Pacific Northern Gas Ltd. (Exhibit B-1, Executive Summary, p. 1).

PNG West operates the western transmission and distribution system, while PNG (N.E.) operates the north-eastern transmission and distribution system. While PNG (N.E.) and PNG West are affiliated and share some costs, PNG (N.E.) files a separate RRA with the British Columbia Utilities Commission.

In the context of this Application, there are a number of matters that the Commission Panel must be mindful of. Some of these matters that have an impact on this Application include:

- The Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. 2012 Pension and Non-Pension Benefits Application (Pension Application) was filed as a separate application on November 30, 2012. By Order G-89-13 on June 6, 2013, the Commission issued a decision (Pension Decision)[3], which has implications for the current Application.
- The potential for growth of the Liquefied Natural Gas (LNG) industry in northern BC may result in greater opportunities for PNG (N.E.). As of the close of evidentiary record for this proceeding, there are no finalized agreements that can be relied upon.
- PNG (N.E.) has received Commission approval to use US Generally Accepted Accounting Principles (US GAAP) for regulatory accounting and reporting purposes, from January 1, 2012 to December 31, 2014 (Order G-168-11). This is PNG (N.E.)'s second RRA under US GAAP.
- By Order G-20-12, the Commission initiated the Generic Cost of Capital (GCOC) proceeding, which considers, among other things, the appropriate cost of capital for BC utilities. The first stage, which set the cost of capital for the benchmark utility, FortisBC Energy Inc., has been completed (Order G-75-13). The second stage will directly impact the capital structure and return on equity for PNG (N.E.).

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[3] In the Matter of Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. 2012 Pension and Non-Pension Benefits Application – Commission Order G-89-13, June 6, 2013.

PNG (N.E.) invoices its customers for its services in the following categories: a Basic Monthly Charge, a Delivery Charge, a Company Use Rate Rider, a Revenue Stabilization Adjustment Mechanism (RSAM) Rate Rider, a Commodity Charge, and a Gas Cost Variance Account Rate Rider. The scope of this Application does not include the Commodity Charge or the Gas Cost Variance Account Rate Rider.

1.2 Application and Approvals Sought

PNG (N.E.) seeks approval of the revenue deficiency/sufficiency relative to two separate divisions: i) Fort St. John/Dawson Creek Division; and ii) Tumbler Ridge Division (collectively referred to as the Divisions).

On November 30, 2012, PNG (N.E.) filed its 2013 RRA requesting approval, among other things, to amend its delivery rates effective January 1, 2013 for FSJ/DC and TR pursuant to sections 58 to 61, 89 and 90 of the UCA (Exhibit B-1: FSJ/DC, p. 1; TR, p. 1). The Applicant provided separate updates for each Division on March 4, 2013 (Exhibit B-1-1; Exhibit B-1-2). PNG (N.E.) forecasts a 2013 revenue deficiency of approximately $157,000 resulting from a revenue deficiency of $198,000 for the Fort St. John/Dawson Creek Division and a revenue sufficiency of $41,000 for the Tumbler Ridge Division. The Fort St. John/Dawson Creek division deficiency forecast is comprised of a net increase in cost of service of $729,000 is partially offset by an increase in margin of $531,000 (Exhibit B-1-1, p. 2). The Tumbler Ridge Division has forecast no increase in the cost of service and an increase in margin of $41,000 (Exhibit B-1-2, p. 2). The forecast cost of service for both Divisions are further subject to a number of adjustments and corrections identified in the information request (IR) process.

Commission Order G-168-12 dated November 9, 2012 directed PNG (N.E.) to refund customers the difference between the revenue deficiency that supports the interim rates effective January 1, 2012 and the approved 2012 FSJ/DC revenue sufficiency and TR revenue deficiency. Refunds were to be made with interest at the average prime rate of the principal bank with which PNG (N.E.) conducts its business. The Application also seeks Commission approval to hold customer refunds of $509,000 and $108,000 for the FSJ/DC and TR Divisions, respectively, in an interest-bearing deferral account and to fully amortize these amounts into 2013 rates. A complete and updated list of approvals sought is included in Appendix A.

1.3 Legislative Framework

As noted, PNG (N.E.) filed its 2013 RRA pursuant to sections 58-61 and 89-90 of the UCA. Section 59 (1)(a) of the UCA provides that a public utility must not make, demand, or receive an "unjust, unreasonable, unduly discriminatory or unduly preferential rate" for its services. The UCA further provides that the Commission Panel is the sole judge of determining whether a rate is unjust or unreasonable, or whether there is undue discrimination, preference, prejudice or disadvantage respecting a rate (s. 59(4)). Specifically, the UCA sets out the parameters for rate setting. It provides that a rate is unjust or unreasonable if it is more than a fair and reasonable charge for service of the nature and quality provided by the utility (59(5)(a)) or if it is "insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property" (59(5)(b)).

1.4 Regulatory Process

By Order G-193-12 dated December 14, 2012, delivery rates and the RSAM rate rider were approved on an interim basis effective January 1, 2013. In addition, a Preliminary Regulatory Timetable was established.

An Amended Preliminary Regulatory Timetable was issued on January 15, 2013, setting separate IR dates for the Shared Services study (Order G-4-13).

For a number of years, PNG's RRAs were determined through the Negotiated Settlement Process (NSP). The 2012 RRA process for PNG (N.E.) was a public written hearing process.

The Peace River Regional District and the British Columbia Pensioners' and Seniors' Organization *et al.* (BCPSO) registered as Interveners in this proceeding. BCPSO actively participated in the proceeding.

The Commission received submissions from BCPSO and PNG (N.E.) regarding the regulatory process. BCPSO submitted that they did not support an NSP and suggested a written public hearing process (Exhibit C1-6). PNG (N.E.) indicated that it was amenable to a written public hearing process. The Commission considered the submissions received and by Order G-43-13, dated March 20, 2013, established a written public hearing process and issued a Further Amended Regulatory Timetable.

1.5 Approach to this Application

There are a few issues within this proceeding which are important and provide a context to the Commission Panel's review of this Application. These will be discussed in Section 2 and include: the importance of productivity management and the frequency of revenue requirement proceedings. Section 3 will deal with PNG (N.E.)'s forecast for gas deliveries and issues related to them. An examination of issues related to Administrative and General Expenses will be undertaken in Section 4 which will be followed with a review of Operations and Maintenance Expenses in Section 5. In Section 6 a variety of issues with Rate Base implications will be addressed. Finally, in Section 7 the Panel will examine a number of issues raised within the proceeding and provide determinations or direction where appropriate which will end with a list of suggestions for improvement to the preparation of RRAs for future proceedings.

An important consideration in this proceeding is its relationship and reliance upon the PNG West Decision 2013 which was issued on August 1, 2013 (Order G-114-13). The two applications are linked and many of the decision areas and issues are common to both. In addition, many of the determinations reached within PNG West Decision 2013 have a direct impact on those in the PNG (N.E.) RRA. Recognizing the impact of the PNG West Decision 2013 on the PNG (N.E.) 2013 RRA, the Commission Panel considers that full separation of the two proceedings will have adverse consequences with an incomplete evidentiary record to draw upon. **Therefore, for practical purposes, the Commission Panel has determined that there is a need to refer to the PNG West Decision 2013 and its evidentiary record in reviewing the PNG (N.E.) 2013 RRA.**

Where appropriate, the Panel will review the PNG (N.E.) 2013 RRA from the perspective of its two Divisions, Fort St John/Dawson Creek and Tumbler Ridge.

2.0 CONTEXTUAL ISSUES

2.1 Importance of Productivity Management

The importance of productivity management was addressed within PNG West Decision 2013 and was the subject of a number of IRs in PNG (N.E.)'s proceeding. In BCUC IR 1.4.1 (Exhibit B-3), PNG (N.E.) was asked what steps have been taken within the past year to streamline the company, increase efficiency and manage costs. In response, PNG (N.E.) referred to PNG West's response to BCUC IR 1.2.1 (Exhibit B-3) in the PNG West 2013 RRA proceeding. PNG West stated that the utility has a long history of "demonstrated organisational efficiency and cost management" pointing out that as a consequence, additional improvements are limited. PNG West also noted that it would continue to pursue economies of scale through procurement opportunities with AltaGas Ltd. (AltaGas). Similarly, when asked directly as to planned actions during the current year, PNG (N.E.) referred to the following PNG West response to BCUC IR 1.2.2 (Exhibit B-3) from the PNG West 2013 RRA proceeding:

> "In 2013 and beyond PNG will continue to search for new and effective ways to streamline the company, increase efficiency and manage costs while delivering the safe, reliable service our customers expect and deserve. However, with PNG's past efforts in this area and existing lean organisational structure PNG is unable to point to specific actions other than those already discussed in this proceeding..."

Commission Panel Discussion

The Commission Panel acknowledges that PNG West and its subsidiary PNG (N.E.) have begun the process of pursuing economies of scale with its new parent AltaGas and will continue to pursue opportunities in the future. While such initiatives are helpful, they are not enough. The Panel is of the view that there is an ongoing need for utilities to manage their business in a manner that promotes processes to actively seek out and create efficiencies and manage costs. In our view, this transcends pursuing what might be termed "low hanging fruit" resulting from the new subsidiary relationship with AltaGas and needs to be expanded to include a full review of PNG (N.E.) as an organisation.

From the PNG West responses noted above, it is apparent that while its utilities seem committed to the idea of searching for new ways to increase efficiencies and potentially lower costs, there are no formal processes in place to ensure this is actually attended to. The Panel is not persuaded that PNG West or PNG (N.E.) has taken adequate steps to ensure its apparent commitment to productivity improvement is being met. At the very least, an organisation committed to managing productivity must have processes in place to conduct periodic reviews of the functions performed, whether they can be done more efficiently or whether they need to be done at all. A more formal approach to sustained productivity management processes is an area the Commission Panel expects to see addressed in PNG (N.E.)'s next revenue requirement application.

2.2 Frequency of Revenue Requirement Proceedings

PNG (N.E.), like PNG West, has an established practice of preparing its RRAs on an annual basis. This is unique in that other utilities typically submit RRAs covering a period of at least two years.

An RRA is a significant undertaking in terms of time, effort and cost on the part of the utility, the interveners and the Commission. A utility must prepare and file the initial application, prepare for and attend a Procedural Conference where required, which is followed by the preparation of responses to information requests filed by the Commission and interveners. Once this has been completed, the utility must prepare its final and reply submissions, or in the case of an NSP, prepare for the process. In the case of interveners and the Commission, the process is not dissimilar and is very time consuming. Therefore, by the time the Commission Panel issues a decision on an application, a considerable amount of cost has been expended which is ultimately reflected in customer rates.

Commission Determination

The cost of preparing and filing an application covering a two year period rather than a one year period is certainly higher given the greater span of time covered. However, there are economies of scale and cost efficiencies to be gained for both the utility and the ratepayer by handling an application covering a two year time span rather than a single year. Given this fact, the Commission Panel is of the view that filing future RRAs covering a time span of two years is both administratively efficient and prudent from a cost perspective. **Accordingly, the Commission Panel directs PNG (N.E.) to file its 2014 RRA for a two-year period.**

3.0 FORECAST GAS DELIVERIES

PNG (N.E.) submitted revised load forecast numbers as part of its updated Application for the FSJ/DC and TR divisions (Exhibit B-1-1, Tab Rates, pp. 9-14; Exhibit B-1-2, Tab Rates, pp. 3-6). The methodology for the updated load forecast values appears to have remained the same as that used in the original Application. This methodology is also consistent with that used in prior years' RRAs, which have been approved by the Commission in previous PNG (N.E.) RRA Decisions.

PNG (N.E.)'s load forecast for test year 2013 projects a gross margin of $14.7 million, of which approximately 86 percent relates to sales deliveries and 14 percent relates to transportation deliveries (Exhibit B-1-1, Tab Rates, p. 10; Exhibit B-1-2, Tab Rates, p. 4). PNG (N.E.) is forecasting an approximate 1.6 percent decrease in energy sales customer deliveries for FSJ/DC and a 20.6 percent increase in transportation deliveries for 2013 compared to 2012 actual volumes (Exhibit B-13, BCUC 2.55.1; BCUC 2.55.1.1). The increase in transportation deliveries forecasted for 2013 is partially due to a new Rate Schedule (RS) 5 customer expected to be in service in the Dawson Creek service area at the end of the third quarter of 2013 (Exhibit B-13, BCUC 2.56.1). PNG

(N.E.) TR is forecasting an approximate 14.4 percent decrease in energy sales customer deliveries and minimal change in transportation deliveries for forecast 2013 compared to the 2012 actual volumes (Exhibit B-1-2, Tab 1, p. 1).

On a consolidated basis for all customer classifications and service regions, PNG (N.E.) is forecasting relatively little change in energy usage. Actual 2012 gas deliveries were 5,423 terajoules (TJ) as compared to expected usage in 2013 of 5,526 TJ, representing less than a two percent growth in overall energy demand (Exhibit B-1-1, Tab 1, p. 1; Exhibit B-1-2, Tab 1, p. 1). Although the net change in the energy usage forecast for 2013 is small, there are variances among individual rate classes. Additionally, when comparing historical forecasts to actual usage over time, the Commission Panel has noted significant variances in certain rate classes. This issue will be examined further with particular attention paid to rate classes where no deferral account exists to capture these variances.

3.1 Forecast by Customer Group

PNG (N.E.) FSJ/DC forecasts 2013 deliveries of 4,530,389 GJ (Exhibit B-1-1, Tab Rates, p. 12). Deliveries are split between the following customer classifications:

- Residential 1,679,197 GJ
- Small Commercial 1,206,871 GJ
- Large Commercial 335,800 GJ
- Small Industrial 209,800 GJ
- Commercial and Industrial Transportation 1,098,721 GJ

PNG (N.E.) TR forecasts 2013 deliveries of 996,251 GJ (Exhibit B-1-2, Tab Rates, p. 6). Deliveries are split between the following customer classifications:

- Residential 94,652 GJ
- Small Commercial 48,599 GJ
- Large Commercial 53,000 GJ
- Industrial Transportation Service 800,000 GJ

3.1.1 Residential Customers

PNG (N.E.)'s residential load forecasts are based on the test year forecast use per account (UPA) and the forecast weighted average number of customers in each service area. The UPA is calculated using the average of the linear trend figures for test year 2013 and the forecast normalized 2012 UPA in each area.

PNG (N.E.) is requesting approval of 2013 forecast deliveries of 1,679,197 GJ to FSJ/DC's Residential customers. PNG (N.E.) FSJ/DC is forecasting a small increase to customer count for 2013. The FSJ service area forecast UPA is 109.2 GJ/year, up from the PNG (N.E.) 2012 RRA Decision (Decision 2012)[4] figure of 106.5 GJ/year. Forecast deliveries for the FSJ service area, based on the forecast average UPA of 109.2 GJ/year and the forecast weighted average customer count of 9,829 customers are 1,075,297 GJs. The DC service area forecast UPA is 102.5 GJ/year, down from the Decision 2012 figure of 104.2 GJ/year. Forecast deliveries for the DC service area, based on the forecast average UPA of 102.5 GJ/year and the forecast weighted average customer count of 5,879 customers, are 603,900 GJ. (Exhibit B-1, p. 39; Exhibit B-1-1, Tab Rates, p. 11)

PNG (N.E.) TR is requesting approval of 2013 forecast deliveries of 94,652 GJ to its Residential customers. While there has been a marginal increase in customer count, the forecast UPA for 2013 is 83.8 GJ/year, which is a decrease from the Decision 2012 UPA of 88.3 GJ/year. (Exhibit B-1, p. 26; Exhibit B-1-2, Tab Rates, p. 5)

PNG (N.E.) has a Commission-approved Rate Stabilization Adjustment Mechanism (RSAM) deferral account for both Residential and Small Commercial customers. This deferral account tracks variances between forecast and actual sales volumes pertaining to Residential and Small Commercial customers. The RSAM helps to stabilize the effects on forecasts of unforeseen circumstances over which the utility has no control. While the account tracks differences of revenue in UPA variations, it does not track variations in the number of customers.

Commission Determination

PNG (N.E.) continues to use the load forecast methodology for residential customers which has been accepted by the Commission in the past. The Commission Panel has reviewed and accepts the methodology employed by PNG (N.E.) and the forecast weighted average customer count and average use per account for 2013. In addition, the Panel notes that PNG (N.E.) operates a Commission-approved RSAM deferral account for Residential customers, which mitigates the impact of forecast variances.

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[4] In the matter of Pacific Northern Gas (N.E.) Ltd. (Fort St. John/ Dawson Creek Division) and (Tumbler Ridge Division) Application for Approval of its 2012 Revenue Requirements – Commission Order G-168-12, November 9, 2012.

For the FSJ service area, the Panel accepts PNG (N.E.)'s weighted average customer count of 9,829 and the average use per account of 109.2 GJ/year resulting in Residential customer forecast deliveries for 2013 of 1,075,297 GJ.

For the DC service area, the Panel accepts PNG (N.E.)'s 2013 forecast weighted average customer count of 5,879 and the forecast use per account of 102.5 GJ/year resulting in Residential customer forecast deliveries for the 2013 of 603,900 GJ.

For the TR service area, the Panel accepts PNG (N.E.)'s weighted average customer count of 1,126 and the average use per account of 83.8 GJ/year resulting in Residential customer forecast deliveries for 2013 of 94,652 GJ.

3.1.2 Small Commercial Customers

Forecast deliveries for Small Commercial customers are determined using the same forecasting method as is applied to Residential customers. PNG (N.E.) has not indicated any change in the forecasting methodology which has been accepted by the Commission in previous years.

PNG (N.E.) FSJ/DC is requesting approval of forecast 2013 deliveries of 1,206,871 GJ to its Small Commercial customers with a nominal increase in weighted average customer count. (Exhibit B-1-1, Tab Rates, p. 11)

Forecast deliveries for the FSJ service area, based on the average use per account of 480.2 GJ/year (up from the Decision 2012 forecast of 457.0 GJ/year) and the weighted average customer count of 1,619 customers, are 778,339 GJ. Forecast deliveries for the DC service area, based on the average use per account of 504.5 GJ/year (down from the Decision 2012 figure of 514.0 GJ/year) and the weighted average customer count of 847 customers, are 428,532 GJ. (Exhibit B-1-1, Tab Rates, p. 11)

PNG (N.E.) has forecast a nominal increase in Small Commercial customer count and an increase in the use per account forecast from 460.0 GJ/year for Decision 2012 to a forecast of 463.1 GJ/year for 2013 for TR. Forecast deliveries for TR based on the forecast average use per account of 463.1 GJ/year and the forecast weighted average customer count of 106 are 48,599 GJ. (Exhibit B-1-2, Tab Rates, p. 5)

Commission Determination

PNG (N.E.) continues to use the forecasting methodology which has been accepted by the Commission in the past. The Commission Panel has reviewed and accepts the methodology employed by PNG (N.E.) and the forecast weighted average customer count and average use per account for 2013. In addition, the Panel notes that the RSAM deferral account, which was discussed above, serves to mitigate the impact of forecast variances for Small Commercial customers.

For the FSJ service area, the Panel accepts PNG (N.E.)'s forecast weighted average customer count of 1,619, and the forecast use per account of 480.2 GJ/year, resulting in Small Commercial Sales customer forecast deliveries for 2013 of 778,339 GJ.

For the DC service area, the Panel accepts PNG (N.E.)'s forecast weighted average customer count of 847 and the forecast use per account of 504.5 GJ/year, resulting in Small Commercial Sales customer forecast deliveries for 2013 of 428,532 GJ.

For TR, the Commission Panel accepts PNG (N.E.)'s 2013 forecast weighted average Small Commercial customer count of 106, and the forecast use per account of 463.1 GJ/year. Accordingly, the Commission accepts PNG (N.E.)'s Small Commercial forecast deliveries for TR for the 2013 test year of 48,599 GJ.

3.1.3 Large Commercial Customers

PNG (N.E.) forecasts consumption of 388,800 GJ in 2013, which is based on a review of historical deliveries and expected use in 2013 (Exhibit B-1-1, Tab Rates, p. 11; Exhibit B-1-2, Tab Rates, p. 5). The 2013 forecast for FSJ/DC is slightly lower than 2012 due to a new hospital in St. John that has provided lower forecast deliveries and one large commercial customer that went bankrupt in 2012 (Exhibit B-1, p. 40).

PNG (N.E.) determines the expected use for the test year through discussions with its Large Commercial customers, relying on projections from this customer group. Due to the relatively small customer base, volatility in sales volumes from one year to the next is not uncommon. Historically, there have been large variances between forecast and actual deliveries. For the Fort St. John service area, the actual 2012 deliveries were 16.3 percent higher than forecasted, and for the Dawson Creek service area, the actual 2012 deliveries were 11.1 percent higher than forecasted (Exhibit B-3, BCUC 1.59.1.1.2, 1.59.2).

For Tumbler Ridge, the variances between forecast and actual are even more pronounced, as shown in Table 1.

TABLE 1

	Large Commercial (RS3)	Industrial Transport (CNRL)	Small Commercial (RS2)	Residential (RS1)
2004	30.3%	2.3%	-7.0%	-26.2%
2005	-3.8%	-3.0%	-10.5%	-11.0%
2006	-12.8%	20.9%	16.2%	-3.9%
2007	-17.3%	9.6%	15.8%	2.4%
2008	49.9%	26.7%	7.9%	4.0%
2009	17.8%	3.2%	8.1%	-2.6%
2010	8.7%	-8.3%	-34.1%	-11.3%
2011	-1.8%	7.9%	0.1%	2.7%
2012	50.8%	-0.4%	1.6%	-2.0%
Average	**13.5%**	**6.5%**	**-0.2%**	**-5.3%**

(Exhibit B-14, BCUC 2.36.1)

PNG (N.E.) submits in its response to BCUC IR 2.36.1.1 (Exhibit B-14) that it has followed the same forecasting methodology as in the past for the Large Commercial rate class. This is based on annual surveys of these customers for their planned usages. PNG (N.E.) also provided explanations for the years where large forecast to actual variances occurred, in particular, years 2004, 2008 and 2012.

Commission Determination

The Commission Panel accepts the test year 2013 forecast deliveries of 141,700 GJ for Fort St. John, 194,100 GJ for Dawson Creek, and 53,000 GJ for Tumbler Ridge.

Notwithstanding our acceptance of these forecasts, the Commission Panel notes the forecast variances experienced in the Large Commercial customer class in recent years. Of particular concern are the large forecast to actual variances in the Tumbler Ridge region, which show significant under-forecasting in the years 2004, 2008, 2009 and 2012. PNG (N.E.) submits that the large forecast variances experienced in these years are largely due to issues with the customer surveys completed by its Large Commercial customers. For instance, in 2008 the 49.9 percent forecast variance was primarily due to one customer that did not advise of the increased demand when the survey was conducted (Exhibit B-14, BCUC 2.36.1.1)

Given that the significant percentage forecast variances for the Large Commercial customers are mainly the result of the customer surveys provided to PNG (N.E.), the Panel recommends that PNG

(N.E.) work more closely with the Large Commercial customers to ensure that the forecast deliveries are reasonable. If the level of forecast variances for this customer class persists, the Commission, in future RRA proceedings, may consider other means to mitigate the impact of these forecast variances.

3.1.4 Small Industrial Customers

Similar to the Large Commercial customer class, PNG (N.E.) forecasts gas deliveries for the Small Industrial customers based on customer surveys and discussions with customers. PNG (N.E.) seeks approval of 2013 forecast deliveries of 209,800 GJ for the FSJ/DC divisions. Tumbler Ridge does not have a Small Industrial class of customers.

PNG (N.E.) provided the historical variances between forecast and actual deliveries for the years 2004 through 2012. For both the FSJ and the DC divisions, these variances have been significant, particularly in the years 2004 through 2007 and in 2012 (Exhibit B-3, BCUC 1.59.1.1.2, 1.59.2)

Commission Determination

The Commission Panel accepts the 2013 forecast deliveries of 169,800 GJ for Fort St. John and 40,000 GJ for Dawson Creek.

The Panel notes that the history of large percentage forecast variances discussed in the Large Commercial Customer section also exists for Small Industrial Sales customers.

Given that the forecast process for the two customer classes is similar, the Commission Panel recommends that PNG (N.E.) also work more closely with its Small Industrial Customers to ensure that the forecast deliveries are reasonable. If the level of forecast variances for this customer class persists, the Commission, in future RRA proceedings, may consider other means to mitigate the impact of these forecast variances.

3.1.5 Industrial and Commercial Transportation Service

PNG (N.E.) is forecasting 2013 deliveries of 1,098,721 GJ to FSJ/DC Industrial and Commercial Transportation Service Customers (Exhibit B-1-1, Tab Rates, p. 11). This is an increase of 142,820 GJ, or 15 percent, over Decision 2012. PNG (N.E.) submits that the increase in deliveries is mainly due to the signing of a contract with Air Liquide in Dawson Creek. Air Liquide is expected to be in service at the end of the third quarter of 2013 (Exhibit B-1, p. 40; Exhibit B-13, BCUC 2.5.6.1).

TR has one customer, Canadian Natural Resources Limited (CNRL), which receives industrial transportation service. The 2013 forecast deliveries of 800,000 GJ are based on information received from the customer and are the same amount forecasted in Decision 2012. The actual deliveries in 2012 were only nominally lower than forecasted. PNG (N.E.) TR utilizes the Industrial Customer Deliveries Deferral Account (ICDDA) to capture variances between forecast and actual deliveries to this customer. PNG (N.E) TR is requesting approval of the forecast deliveries of 800,000 GJ and is requesting approval to continue the use of the ICDDA for 2013. (Exhibit B-1, p. 27; Exhibit B-1-2, Tab Rates, p. 5)

Commission Determination

PNG (N.E.) continues to use the forecasting methodology that has been accepted by the Commission in the past. **The Panel has reviewed the 2013 forecast deliveries for the Industrial and Commercial Transportation customers and finds PNG (N.E.)'s forecasts to be reasonable given the accuracy of recent forecasts and the protection of the ICDDA.**

The Commission Panel accepts PNG (N.E.)'s 2013 forecast deliveries of 856,105 GJ for Fort St. John, 242,616 GJ for Dawson Creek, and 800,000 GJ for Tumbler Ridge. In addition, the Panel approves continued use of the ICDDA for PNG (N.E) Tumbler Ridge in 2013.

3.2 Allocation of Revenue Deficiency

PNG (N.E.) allocates the revenue deficiency/sufficiency to customer classes using the normalized forecast gross margin as the allocator for each customer class. The Panel has reviewed the allocation methodology employed by PNG (N.E.) and concludes that it is consistent with prior test periods and reasonable.

3.3 Demand Side Management

Subsequent to the filing of this Application, the Commission released its Decision for the PNG (N.E.) Resource Plan (Order G-60-13). In that Decision, PNG (N.E.) was ordered to resubmit the demand side management (DSM) portion of the 2012 Resource Plan, in order to comply with subsection 44.1(2) (b) of the UCA, which requires a public utility to file a plan that includes cost-effective demand-side measures. Therefore, the Commission Panel accepts that DSM has not been addressed in this proceeding.

4.0 ADMINISTRATIVE AND GENERAL EXPENSES

Administrative and general expenses for PNG (N.E.) include no labour costs and consists of the following account areas: administration, shared service costs charged to administration, audit, legal and consulting fees, insurance, employee benefits and a general account which includes some shared service costs. In terms of cost magnitude and change from PNG (N.E.)Decision 2012, the employee benefit and shared services areas represent the most significant cost areas.

Fort St. John/Dawson Creek

PNG (N.E.) seeks approval of Administrative and General Costs of $2.793 million for FSJ/DC for 2013 (before transfers to capital). This is an increase of $1.002 million or 56 percent over actual 2012 expenditures. Benefits and shared services costs account for 89 percent of these expenses and collectively account for $895,000 of the increase in costs over the approved 2012 amount (Exhibit B-1-1, Tab 1, p. 5).

4.1 Employee Benefits

Employee Benefits are forecast at $922,000 for FSJ/DC over the 2013 test period which is an increase of $253,000 over 2012 actual. This increase is primarily a result of higher pension plan and NPPRB costs. For greater clarity, the general employee benefit costs and issues will be addressed separately from those related to pension benefit plan costs. (Exhibit B-1, p. 9; Exhibit B-1-1, p. 4; Exhibit B-1-1, Tab 1, p. 5)

4.1.1 Employee Benefits – General

The largest non-pension benefit cost category is for Other Programs. PNG (N.E.) has used the Other Programs category to distinguish benefit programs like education and coffee and water service programs from more standard benefits like life and disability insurance, unemployment insurance, employee savings plans, medical and hospital expenses and workman’s compensation costs.

Other Programs

Forecast costs for Other Programs total $190,000, which is a 53 percent increase over 2012 actual expenses. The major part of Other Program costs relate to NPPRB costs which are addressed in Section 4.1.2 (Exhibit B-13, BCUC 2.30.1).

Within the Other Programs category are two smaller programs totalling $20,485 in forecasted expenditures: Coffee and Water Service and Educational programs. Coffee and Water Service expense is forecasted to increase by 64 percent and Education program expense is forecasted to increase by 247 percent in 2013. The amounts requested for the two programs are $9,700 greater than the average actual expenditures over the past three years. PNG (N.E.) provides no explanation for the growth in expenses in either of these areas other than stating that the budget for the Education programs is based on an assumption of how many employees' children apply for post-secondary scholarships and actual applications vary. (Exhibit B-13, BCUC 2.30.1, 2.30.2, 2.30.3)

Employee Benefit Programs

In addition to Other Programs, PNG (N.E.) has a range of common employee benefit programs with 2013 variances to 2012 actuals ranging from a 5.7 percent decrease to a 32.3 percent increase. These include Canada Pension Plan (CPP), life and disability insurance, unemployment insurance, medical and hospital insurance and workers compensation. A modest increase is proposed for most of these in 2013 with CPP, life and disability insurance, and the employee savings plan being the exceptions. PNG (N.E.) submits that much of the 17.4 percent increase for CPP relates to the new Manager Construction and Maintenance position. PNG also submits that it intends to reduce the inflation factor from 4 to 2 percent which will reduce these costs somewhat (Exhibit B-13, BCUC 2.28.2). Concerning life and disability benefits, PNG (N.E.) notes that PNG West was faced with a substantial rate increase but was able to minimize this increase by marketing its group benefits plan with AltaGas. Similar to the CPP increase, PNG (N.E.) attributes a portion of the life and disability cost increase to the inclusion of costs related to the new Manager, Construction and Maintenance (Exhibit B-13, BCUC 2.28.3).

PNG (N.E.) also offers an employee savings plan benefit to its employees. Costs related to the employee savings plan are forecasted at $99,630, a 32 percent increase over 2012 actual. It states that this results from the increase in the maximum company match amount from 5 percent to 6 percent, which came about through the recently negotiated contract with its union (Exhibit B-13, BCUC 2.28.4).

Commission Determination

The Commission Panel acknowledges that the amounts related to Education and the Coffee and Water Service are small but, in our view, the forecasts prepared for them should nonetheless be reasonable. PNG (N.E.) notes that the applications for Educational assistance vary and amounts approved may be higher or lower than forecast, but they have provided no evidence to support the expected increase in the number of applications for 2013. In consideration of this and the lack of evidence to suggest there will be an exceedingly high number of applications in 2013, the Panel is not persuaded that there is justification to forecast an amount for this program, which is over 2 times the average of the past three years. The Panel has similar concerns with the Coffee and Water Service program which forecasts a substantial increase with no justification. **The Commission Panel finds the lack of attention to such detail in the preparation of 2013 forecasts unacceptable. PNG (N.E.) is directed to reduce its 2013 forecast for Educational Expense and the Coffee and Water Service program by an amount totalling $9,000.** The amount of the reduction to be applied to each account is left to PNG (N.E.)'s discretion.

The increase in the maximum company match amount from 5 to 6 percent for the employee savings plan was a benefit negotiated by the union for its members. As discussed in the PNG West Decision 2013, the Commission Panel notes that the terms for non-bargaining unit employees do not directly mirror those of bargaining unit employees. Therefore, the Commission Panel is not persuaded there is justification for the additional costs related to the one percent increase to be borne by the ratepayer for non-bargaining unit employees and executives. **The Panel directs PNG (N.E.) to recalculate the employee savings plan, and any amounts related to the one percent increase in the non-bargaining unit and executive groups are to be charged to the account of the shareholder.**

Concerning the increase in life and disability benefits, the Commission Panel accepts the explanation of PNG (N.E.) that there was a significant cost increase that PNG (N.E.) was able to mitigate to a degree. **Concerning CPP contributions, the Panel directs PNG (N.E.) to adjust its inflation factor down to two percent as it has submitted.**

4.1.2 Employee Benefits – Pension and Non-Pension Post Retirement Benefits

On November 30, 2012, PNG filed the Pension Application. PNG (N.E.) states that its 2013 RRA reflects the handling of pension and NPPRB plan expenses and funding requirements as sought by PNG in its standalone Pension Application. The Pension Decision and accompanying Reasons for Decision for the standalone application were released on June 6, 2013. Within its Reasons for Decision, the Commission Panel made the following statement:

> "The Panel excluded from the scope broader revenue requirement related issues, such as whether PNG should be allowed to continue to recover the cost of a defined benefit pension plan in rates or whether the non-pension post retirement benefits are excessive from a rate setting perspective."
> (Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. 2012 Pension and Non-Pension Benefits Application, Order G-89-13, Appendix A, p. 1)

<u>Pension Retirement Benefits</u>

PNG (N.E.) states that a significant part of the overall increase in benefit expenses is due to higher company pension and NPPRB costs. Overall, pension benefit costs are forecasted to increase by 48 percent from $280,192 in 2012 to $413,425 in 2013. PNG (N.E.) submits that the reasons for this are mainly due to a decrease in the actuarial determined discount rate from 5.1 percent in 2012 to 4.1 percent in 2013. The lower discount rate is as a result of the current financial market conditions, which have also resulted in a decrease in the expected return on plan assets. (Exhibit B-1, p. 9; Exhibit B-1-1, p. 4; Exhibit B-1-1, Tab 1, p. 5; Exhibit B-13, BCUC 2.29.1)

<u>Non-Pension Post Retirement Benefits</u>

The forecasted cost of the NPPRB plan for 2013 is $168,000, which is $53,000 or 46 percent more than in 2012. The cost for these, like pension benefits, is determined by an actuary and has increased due to a declining discount rate and return on plan assets. (Exhibit B-13, BCUC 2.30.1)

Commission Determination

The Commission Panel accepts PNG (N.E.)'s explanation for the increase in Pension and NPPRB expense and notes that while the cost increases are substantial, they are justified. **Therefore, the Panel accepts the forecast amount of $581,425 for Pension and NPPRB costs for the 2013 test period**. However, we are nonetheless concerned that the cost of these programs is reaching a point where they are becoming unaffordable. In addition, we are not satisfied that there is sufficient evidence that the increasing costs of these programs, as they are currently structured, can be justified. **Accordingly, the Commission Panel directs PNG (N.E.) to provide a detailed justification of pension and non-pension retirement benefit program costs and benefits as part of its next RRA.** The Panel also expects PNG (N.E.) to provide the Commission with potential options it may be considering as a way to control future cost growth in these areas as part of the next application.

4.2 Other Expenses

Other expenses cover a range of categories, which include: audit, legal and consulting fees, donations, regulation, and administration, among others. PNG (N.E.) has forecast an increase in this group of costs from $243,000 approved in Decision 2012 to $317,000 in the FSJ/DC 2013 RRA. The 2013 forecasts for most of these categories are very similar to the Decision 2012. However, two areas stand out: Account 728, General (which includes regulation and donations costs) and audit, legal and consulting fees. PNG (N.E.) has proposed an increase in Account 728 for FSJ/DC from $43,000 in Decision 2012 to $56,000 in 2013 (excluding shared services) and an increase in audit, legal and consulting fees from $95,000 approved in Decision 2012 to $161,000 in 2013. (Exhibit B-1-1, Tab 1, p. 5)

PNG (N.E.) states that increased regulatory activity and costs related to Stage 2 of the GCOC proceeding have affected costs in both of these areas. With respect to audit, legal and accounting fees, PNG (N.E.) budgets a significant increase in consulting fees from $26,000 to $84,000. This is in anticipation of the need for consulting assistance in the GCOC proceeding and for PNG (N.E.)'s share of consulting expenses for the evaluation of DSM in PNG West's 2013 Resource Plan. (Exhibit B-1, p. 9; Exhibit B-13, BCUC 2.35.1, 2.24.1)

Commission Determination

The Commission Panel acknowledges the potential need for outside resources and accepts PNG (N.E.)'s explanation for the increases in costs in both the General and the Audit, Legal and Accounting Fees category as arising from Stage 2 of the GCOC proceeding and the PNG West 2013 Resource Plan. However, we note that PNG (N.E.) continues to charge 100 percent of donations expense to cost of service. This handling is inconsistent with recent Commission determinations where donations have been split between the shareholder and the ratepayer on an equal basis reflecting the benefit that each receives. **Therefore, while the amount at issue is small, the Commission Panel directs PNG (N.E.) to split the cost of donations evenly between the ratepayer and the shareholder. The Commission Panel approves the remaining $315,000 of expenses forecasted in the Other Expense category.**

Tumbler Ridge

PNG (N.E.) seeks approval of Administrative and General Costs totalling $279,000 for Tumbler Ridge for the 2013 test year (before transfers to capital). This is an increase of $95,000 or 52 percent over the 2012 approved forecast. Of this amount, benefits and shared services are 88 percent of Administrative and General Costs and collectively account for $90,000 of the increase in costs over the 2012 Decision. (Exhibit B-1-2, Tab 1, p. 5)

4.3 Employee Benefits

Employee Benefits are forecast at $141,000 for Tumbler Ridge in 2013, which is an increase of $44,000 over the 2012 Decision. This increase, like that of FSJ/DC, is primarily a result of higher pension plan and NPPRB costs. Consistent with FSJ/DC, general employee benefit costs and issues will be addressed separately from those related to pension benefit plan costs. However, where circumstances are similar to those of FSJ/DC or reliant upon similar evidence, the Commission Panel will refrain from unnecessary repetition. (Exhibit B-1-2, p. 4; Tab 1, p. 5)

4.3.1 Employee Benefits – General

Similar to FSJ/DC, PNG (N.E.) has forecasted Tumbler Ridge costs for Other Program category items Coffee and Water Service and Educational programs higher than would be reasonable given recent experience.

Issues related to more common employee benefit programs are similar to those raised in the review of FSJ/DC. Life and disability insurance costs are accelerating and the inflationary rate applied to CPP seems high. Like FSJ/DC, the forecast costs for the Employee Savings plan have risen significantly due to the increase in the company match amount from 5 to 6 percent which came about as result of the recently negotiated collective bargaining agreement.

Commission Determination

The Commission Panel is not persuaded that the forecasts related to Coffee and Water Service and Educational programs were prepared with reasonable rigor. However, the amounts in question are less than $1,000 in total and we do not consider it necessary for the amounts to be reforecast. However, the Panel expects forecast amounts to reflect a more realistic trend in future RRAs. **Consistent with PNG West and PNG (N.E.) FSJ/DC, the Panel directs PNG (N.E.) TR to charge any employee savings plan amounts related to the one percent increase in the non-bargaining unit and executive groups to the account of the shareholder. Accordingly, the Commission Panel approves the Tumbler Ridge Administrative and General cost forecast of $279,000 less any amounts related to the employee savings plan.**

4.4 Performance/Incentive Pay (2012 Directive)

Decision 2012 directed PNG (N.E.) to conduct a detailed review of its Performance/Incentive Pay program and to analyze of how well it is working. PNG (N.E.) submits that it has in place two incentive programs: the Short Term Incentive Plan (STIP) and a gain sharing plan called PERCS.

The STIP is a goals based program designed to reward individual employees for achievement of mutually agreed upon goals with related annual targets. Goals typically relate to operational efficiency, environment, health and safety, improved financial performance and project based achievements. Employee earnings on this program are based upon results as compared to predefined targets and then aggregated. The program rewards performance with a range up to 150 percent thereby incenting performance beyond expectations. The average payout for this program for 2009 through 2011 ranged from $10,000 to $11,000.

PERCS is a group incentive program that applies to non senior managers and executives, and bonuses are earned on the basis of achievement against corporate measures including net income, controllable operating costs and safety performance. The maximum payout on this program is $1,500. Historically, the annual payout per employee for 2009 through 2011 has ranged from $1,084 to $1,283.

PNG (N.E.) submits that the STIP goals are designed to benefit ratepayers as the workforce is "engaged to bring about improvements that will manage PNG's cost structure more efficiently and/or bring new business that will increase pipeline throughput thus lowering customer rates." PNG (N.E.) further submits that the PERCS plan is focused on the ratepayer in that "it focuses upon utility expenses, operating costs and keeping our WorksafeBC premiums as low as possible through minimal lost time accidents." (Exhibit B-1, pp. 10-11; Exhibit B-3, BCUC 1.12.2)

Commission Panel Discussion

The Commission Panel has reviewed and accepts PNG (N.E.)'s outline of the incentive/performance pay programs it has in place. The Panel finds that both the STIP and PERCS reward the achievement of targets which have the potential to benefit ratepayers. In addition, the programs are sufficiently substantive on a collective basis to motivate both individual employee and team performance.

The Panel considers such programs to be helpful in motivating employees to exceed performance targets, many of which provide benefit to the ratepayer. Additionally, we recognize that such programs are expected in today's marketplace and therefore are required to attract and retain employees. The lower turnover and ability to attract good employees resulting from such programs again provides benefit to the ratepayer.

4.5 Shared Services Cost Recovery

PNG (N.E.) reimburses its parent company, PNG West, for shared services, which is determined based on a shared services cost recovery methodology.

Pursuant to Order G-93-11 (Decision 2011) of the 2011 Negotiated Settlement Agreement (NSA)[5], PNG was directed to file a Cost Allocators and Level of Shared Service Cost Recovery Application as a standalone application in the fall of 2012. This was to be based on a shared service cost study prepared by a third party consultant (Shared Services Study). PNG was also directed to incorporate into the Shared Services Study a one-year time study commencing in July 2011 to analyze the Labour Cost Allocator.

On September 19, 2012, PNG filed a request with the Commission to incorporate and include the 2012 Shared Services Study as part of its 2013 revenue requirements application, rather than filing it as a separate application. The Commission granted PNG's request on October 18, 2012 by Letter L-62-12.

PNG (N.E.) is requesting approval of the shared service charges allocated to it from PNG West, as proposed in the 2012 Shared Services Study and as set forth in the Application (PNG (N.E.) Final Submission, p. 17). The Commission, as part of the PNG West Decision 2013, approved the revised shared services methodology, which included revised cost pools and cost allocators. The Commission also approved the requested shared service cost allocation from PNG West to PNG (N.E.), subject to certain adjustments required to be made to PNG West's Administrative and General Expenses which were directed by the Commission as part of the PNG West Decision 2013.

The proposed shared service cost recovery from PNG (N.E.) is $3.141 million for Test Year 2013. PNG (N.E.) FSJ/DC Division's proposed contribution to shared service costs for 2013 is $2.944 million (Exhibit B-1-1, Tab 1, pp. 3, 5) and PNG (N.E.) TR Division's proposed contribution is $197,000 (Exhibit B-1-2, Tab 1, pp. 3, 5). In total this is an increase in cost recovery from PNG (N.E.) of $764,000 from amounts approved in Decision 2012. (Exhibit B-1-1, Tab 1, pp. 3, 5; Exhibit B-1-2, Tab 1, pp. 3, 5) Of this, approximately $302,000 is attributable to the change in shared services methodology (PNG West Proceeding, Exhibit B-12, BCUC 2.3.1, Table 3.1-2). The remaining $462,000 increase is a result of higher Administrative & General Expenses proposed by PNG West for Test Year 2013.

Commission Determination

As part of the PNG West Decision 2013, the Commission approved the cost pools and the cost allocators as proposed in the 2012 Shared Services Study and as set forth in the PNG West 2013

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[5] In the Matter of Pacific Northern Gas (N.E.) Ltd. (Fort St. John/Dawson Creek and Tumbler Ridge Divisions) Application for Approval of its 2011 Revenue Requirements – Commission Order G-93-11, May 20, 2011.

RRA. The Commission also approved the requested shared service cost recovery by PNG West from PNG (N.E.) for the 2013 Test Year subject to certain adjustments required to be made to PNG West's Administrative and General Expenses as directed in the PNG West Decision 2013.

Given these approvals within the PNG West Decision 2013, the Commission Panel is of the view that there is no further determination required by the Commission Panel as part of this proceeding.

5.0 OPERATING AND MAINTENANCE EXPENSE

Fort St. John/Dawson Creek

PNG (N.E.) seeks approval for the FSJ/DC Division of O&M expenses of $4.873 million for operating expenses and $388,000 for maintenance expenses for 2013, before transfers to capital and not including Company Use Gas. This is an increase of $265,000 for operating expenses and a decrease of $50,000 for maintenance expenses over amounts approved in Decision 2012. (Exhibit B-1-1, Tab 1, p. 2)

Tumbler Ridge

PNG (N.E.) seeks approval for the TR Division of O&M expenses of $768,000 for operating expenses and $173,000 for maintenance expenses for test year 2013. This is an increase of $28,000 for each of operating and maintenance expenses over amounts approved in Decision 2012. (Exhibit B-1-2, Tab 1, p. 2)

The main drivers for the increase to O&M for both PNG (N.E.) Divisions are labour cost increases, which are discussed below in Section 5.1, and the increased shared service cost recovery from PNG West. This second issue has been addressed in Section 4.5 of this Decision.

5.1 Labour Costs

Fort St. John/Dawson Creek

PNG (N.E.) seeks to increase its FSJ/DC 2013 forecast for wages relating to operating expenses by $170,000 and decrease its forecast for wages relating to maintenance expenses by $5,000 from Decision 2012. For operating expenses, this is approximately a 10 percent increase from the amounts approved in Decision 2012 (Exhibit B-1-1, Tab 1, p. 2). PNG (N.E.) states that the largest proportion of the increase is reflected in the hiring of a non-bargaining unit position (doubling the field management complement from one to two) to support the operation, construction and maintenance of the PNG (N.E.) system. PNG (N.E.) suggests that the additional full time employee will ensure an adequate field management complement is reporting to work within its service area (Exhibit B-1, p. 5). The Applicant advises that in the past, one non-union manager has been successfully leading the operation. However, the recent growth in the area has indicated that oversight of the construction and maintenance departments, as well as the Gas Plant operations in Tumbler Ridge, requires additional attention. In addition, PNG (N.E.) points out that this is also a succession planning initiative given the potential retirement of key operations and engineering management and need for knowledge transfer (Exhibit B-3, BCUC 1.5.3).

Tumbler Ridge

PNG (N.E.) seeks to increase its TR 2013 forecast for wages relating to operating expenses by $32,000 and increase its forecast for wages relating to maintenance expenses by $2,000 from amounts approved in Decision 2012. For operating expenses, this is close to a 12 percent increase (Exhibit B-1-2, Tab 1, p. 2). The Applicant states that the largest proportion of the increase is due to the fact that it allocates 10 percent of each PNG (N.E.) manager's time to Tumbler Ridge operations. Thus, the hiring of an additional non-bargaining unit position in PNG (N.E.) has increased the allocation of wages to Tumbler Ridge (Exhibit B-14, BCUC 2.13.1).

While BCPSO has indicated a level of general dissatisfaction with increases to the Administrative and General Expenses, it has not provided specific comment on these labour cost increases for O&M expenses.

Commission Determination

The Commission Panel acknowledges the recent growth in the northeast region of the province, and the need for organizations to transfer knowledge. **In consideration of this, the Panel approves the 2013 O&M labour cost increase of $165,000 for FSJ/DC and the 2013 O&M labour cost increase of $34,000 for TR.**

The Commission Panel has reviewed the evidence and given that the increase to O&M, excluding the impact of the increase to labour costs, is less than three percent, the Panel finds the 2013 forecast cost of service for O&M expenses of $5.261 million for FSJ/DC and $941,000 for TR to be fair, just and reasonable.

6.0 RATE BASE

PNG (N.E.)'s rate base represents its investment in regulated operations and includes net working capital, deferred assets and property, plant and equipment net of depreciation. Rate base for a test year is calculated based on the average of its opening and closing rate base balances.

6.1 Capital additions

6.1.1 Capital Additions – FSJ/DC

PNG (N.E.) has forecasted capital additions totalling $9.308 million plus $525,000 capitalized overhead (OH) for FSJ/DC for the 2013 test year. This amount is substantially higher than the $4.171 million plus $400,000 OH approved in Decision 2012 (Exhibit B-1-1, Tab 2, pp. 1-3).

The most significant expenditures forecasted for 2013 (excluding OH) are as follows:

Pouce Coupe Lateral – Partial Replacement ($1.857 million)
PNG (N.E.) states that system growth in the Dawson Creek/Pouce Coupe area has placed strain on the existing high pressure system which has a maximum operating pressure (MOP) of 1,378 kPa. The system is now 55 years old with a number of issues and concerns. Noting this, PNG (N.E.) proposes to replace a segment of the pipe with one capable of operating with a higher MOP of 5,515 kPa. (Exhibit B-1, pp. 29-30)

New Facilities to Service Air Liquide ($1.565 million)
PNG (N.E.) entered into an agreement with Air Liquide for delivery of natural gas to their nitrogen production facility in Dawson Creek for the purpose of electrical generation. As of the close of the evidentiary record neither an agreement or related tariff have been filed with the Commission. The new facilities require construction of 6,500 meters of 3-inch diameter high pressure pipeline capable of handling a MOP of 5,515 kPa. PNG (N.E.) has provided a financial analysis of the costs and financial benefits of its agreement with Liquide Air. (Exhibit B-1, p. 32)

Distribution Main Improvements ($1.360 million)
PNG (N.E.) has planned a number of projects in the FSJ/DC area with forecast costs ranging from $245,000 to $655,000. The largest of these involves the installation of 13 kilometers of distribution main to meet increased system capacity requirements which, when complete, will allow for future operating cost reductions due to the elimination of two pressure reducing units.

New Services ($944,000)
These expenditures cover the installation of new distribution lines to meet new customer needs.

Dawson Creek Operations Centre ($890,000)
Previously approved by the Commission by Order G-160-12, this project is for the construction of a new operations facility in Dawson Creek.

The balance of capital funds are spread over a number of projects including new distribution mains, mobile equipment, station modifications and new and replacement meters.

PNG (N.E.) was asked as to how confident it is that the forecast cost of $3.369 million for mains additions (inclusive of some of the above projects) accurately reflected anticipated growth. Its response was that this amount was representative of the growth at the time that budgets were prepared and includes past history, local and provincial government reports and consultation with builders and developers. PNG (N.E.) also noted that a large part of the forecast mains additions cost are for the Air Liquide and the Pouce Coupe projects and both of these are well defined. (Exhibit B-3, BCUC 1.48.2)

BCPSO raised no specific concerns with the projects themselves but rather, with the size of expenditures in relation to previous years. BCPSO notes that PNG (N.E.) capital additions are typically half the amount of the $8.5 million requested and more than three times the average of the annual additions for 2009 to 2011. BCPSO submits that $8.5 million is too high based on historical experience and the ratepayer will be required to pay a return in 2013 rates on any difference between the $8.5 million and the actual 2013 capital additions. BCPSO further submits that a minimum $2 million reduction in capital additions is warranted. (BCPSO Final Submission, para. 11-17)

PNG (N.E.) confirms that the ratepayer will pay a rate of return on any unspent amounts in 2013. It also confirms that for the period 2009-2011 where capital additions were higher than forecast, the company received no return on the additional amounts. (Exhibit B-5, BCPSO 1.7.3)

PNG (N.E.) submits that it has provided substantial evidence to support the need for its one time capital projects totalling $5.6 million of its $8.5 million forecast for 2013 capital additions. It agrees with BCPSO that an unprecedented level of capital expenditures have been forecasted but argues that all of the projects are needed to ensure the safety and reliability of pipelines, to provide service or to satisfy new customer demands. It further submits that a perception that the amount of capital is too high is no reason to disallow new capital additions. (PNG (N.E.) Reply, pp. 2-3)

Commission Determination

The Commission Panel notes that the capital additions listed in the Application Update of March 4, 2013 (Exhibit B-1-1), are substantially higher than the detailed listing of $8.499 million in capital additions plus $526,000 in OH prepared in response to BCUC IR 2.50.1 (Exhibit B-13). The Panel further notes that no explanation was provided as to why the $808,000 variance exists. We also note that PNG (N.E.) in its Reply relies upon the $8.5 million in capital additions (plus OH) when addressing concerns raised by BCPSO. Therefore, the Panel will consider PNG (N.E.)'s capital additions request to be $8.499 million plus $526,000 in OH.

The Commission Panel has considered the evidence and accepts the need for capital expenditures as outlined by PNG (N. E.) in the Application. In its evidence and submissions, PNG (N.E.) has laid out a compelling case for the need to move forward with the projects it has outlined in a timely manner. As noted by PNG (N.E.), a considerable amount of the capital expenditures are related to four onetime projects. Of these, the Dawson Creek Operations Centre has been previously approved and the Pouce Coupe Lateral is required immediately to maintain system reliability (Exhibit B-3, BCUC 1.50.2). In addition, the Commission Panel has reviewed the costs/benefits of the Air Liquide agreement and is satisfied that the project is warranted. **The Commission Panel approves capital expenditures of $8.5 million plus $526,000 for OH for the 2013 test period.**

The Panel has considered the concern raised by BCPSO with respect to PNG (N.E.) earning a return on the full amount even if all of the planned projects are not undertaken as planned. Given that there is a significant increase in the capital expenditures planned in the 2013 test period, the Panel accepts there is a possibility that all of the planned work may not be completed. **To address this, the Panel directs PNG (N.E.) to establish a rate base deferral account to capture variances between forecasted and actual capital expenditures specific to the capital additions outlined in the Application in the 2013 test period.** Given that the expenditures are capital in nature, it is appropriate for PNG (N.E.) to include this deferral account in rate base, thereby enabling it to earn a return based on PNG (N.E.)'s weighted average cost of capital. The Panel further directs PNG (N.E.) to amortize any positive or negative variances into rates in the 2014 test period. This will protect both the ratepayer and the company from the impact of positive or negative variances.

6.1.2 Capital Additions – Tumbler Ridge

PNG (N.E.) has forecasted capital additions totalling $312,000 plus $28,000(OH) for Tumbler Ridge for the 2013 test year (Exhibit B-1, p. 28). This amount was updated to a new total (including OH) of $281,000 in the Application Update of March 4, 2013 (Exhibit B-1-2, Tab 2, p. 1). No explanation was provided as to why the proposed capital amounts were reduced. Both of these amounts are substantially higher than the $219,000 approved in Decision 2012. The primary projects planned for the 2013 are as follows:

- $124,000 for station modifications to meet load requirements and replacement of a line heater at the Quintette Mine site.
- $68,000 for the annual gas plant turnaround.
- $49,000 for a replacement truck.
- $32,000 for the acquisition of replacement meters.

PNG (N.E.) states that all of the 2013 test year capital expenditures relate to the sustainment of safe, secure and reliable operations.

Commission Determination

The Commission Panel approves capital expenditures of $281,000 (including OH) as proposed for Tumbler Ridge. The Panel accepts that Quintette Mines is an important source of revenue for Tumbler Ridge and if this customer were lost, customer rates would be adversely affected. We also accept that Quintette mines has identified additional load requirements which has created a need to rebuild the pressure regulating station on site and will result in additional revenue over time. (Exhibit B-3-1, BCUC 1.32.1, 1.36.2; Exhibit B-14, BCUC 2.33.1)

The balance of capital requirements are for maintenance and necessary replacement items and the Panel accepts that forecasted amounts are appropriate.

6.2 Management of Capital Costs

In the Decision 2012 the Commission requested the following:

- The provision of more fulsome capital addition expenditure reporting.
- The provision of an analysis of the budget variances with respect to its capital additions forecasting.

The purpose of these requests is to allow for greater transparency concerning capital expenditures on a project by project and a year by year basis allowing for greater granularity in the review of capital expenditures in future years. PNG (N.E.) was directed in Decision 2012 to provide this information in schedule format in its next RRA.

PNG (N.E.) acknowledges the Commission directive in the current Application and notes that it expected to file the requested schedule in late February or early March 2013 with its Application Update. The Commission made further reference to this in BCUC 1.54.1 (FSJ/DC) and BCUC 1.37.1 (TR) where PNG (N.E.) was asked to provide analysis on expense variances of greater than $25,000 and $15,000 for FSJ/DC and TR, respectively and include not only the previous year, 2012, but also the year 2011. PNG (N.E.) responded that it had neither the systems capability nor the resources to perform the work for 2011. The information and analysis was provided on 2012 variances as part of the application update on March 4, 2013. (Exhibit B-1: FSJ/DC, p. 37; Exhibit B-1-1, BCUC 1.54.1; Exhibit B-1: TR, p. 23; Exhibit B-1-2, BCUC 1.37.1)

Commission Determination

The Commission Panel acknowledges that some progress has been made with respect to providing more fulsome explanations on the status of capital additions and any significant variances that exist. However, the Panel notes that the provision of this information was late in the process that limited the Commission's and interveners' review to the second round of IRs only.

The Commission Panel directs PNG (N.E.) to provide the completed Schedule 1 report (in the same format as the Schedule 1 provided in Exhibit A-4, BCUC 1.54.1) of 2013 capital additions as part of its next RRA as well as an update on 2012 capital additions detailing any further variances. In addition, any project with a variance in excess of $25,000 is to be accompanied by an explanation detailing the reasons for the variance. The Panel recognizes that because of the timing of the application, the amounts shown may not be reflective of final project totals. However, we are of the view that the information, while potentially incomplete, will be useful at this stage and can be updated as the proceeding moves forward.

6.3 Deferred Income Tax Drawdown

The opening 2013 deferred income tax balance is $453,000 for FSJ/DC and $332,000 for TR. PNG (N.E.) requests approval to amortize $100,000 and $41,000 of the deferred income tax balance as a credit to the income tax component of the 2013 cost of service for FSJ/DC and TR, respectively.

The deferred income tax balance is a credit to rate base, thereby reducing the return on rate base included in the 2013 cost of service.

The Commission directed PNG West and PNG (N.E.) in the Pension Decision to amortize $2.525 million of the deferred income tax balance on a consolidated basis over six years, commencing January 1, 2013, to offset the amortization of the NPPRB Regulatory Asset Deferral Account.

Fort St. John/Dawson Creek

The opening 2013 deferred income tax balance for FSJ/DC is $453,000. PNG (N.E.) requests approval to amortize $100,000 of deferred income taxes as a credit to the income tax component of the 2013 cost of service. Decision 2012 did not provide for amortization amounts (Exhibit B-1-1, Tab 2, p. 22).

As noted, the Commission directed PNG West and PNG (N.E.) to amortize $2.525 million of the deferred income tax balance on a consolidated basis over six years, commencing January 1, 2013, to offset the amortization of the NPPRB Regulatory Asset Deferral Account. PNG West submits in the Pension Application proceeding that the portion of the $2.525 million attributable to the FSJ/DC Division is equal to the total FSJ/DC deferred income tax balance available to be drawn down. Accordingly, PNG West submits that "…the proposed $100 thousand annual amortization of the deferred income tax balance in FSJ/DC in 2013 [can] no longer be maintained" as the entire balance will be drawn down in accordance with the Pension Decision. (Pension Application, Exhibit B-4, BCUC 1.15.7)

Commission Panel Determination

Given that the entire deferred income tax balance for FSJ/DC will be drawn down in accordance with the Pension Decision over a period of six years commencing January 1, 2013, the Commission Panel agrees that the request to amortize the deferred income balance by $100,000 in 2013 cannot be maintained. The Panel directs PNG (N.E.) to amortize only the amounts provided for in the Pension Decision for deferred income taxes for FSJ/DC in 2013.

Tumbler Ridge

In its Application, PNG (N.E.) proposes no amortization of deferred income taxes for TR (Exhibit B-1, Tab 2, p. 21). In the Application Update, PNG (N.E.) has requested approval to amortize $41,000 of deferred income taxes as a credit to the income tax component of the 2013 cost of service. This amount is the same as amounts amortized in 2011 and 2012. The average test year 2013 deferred income tax balance is $311,000 (Exhibit B-1-2, Tab 2, p. 21).

With respect to establishing a set amortization period for the deferred income taxes, PNG (N.E.) submits that they consider an annual amount of $41,000 to be appropriate, consistent with the 10 year straight-line amortization agreed to in the 2011 NSA approved by Decision 2011. In support of this, PNG (N.E.) notes that "Given the relatively large size of the deferred income tax balance in Tumbler Ridge relative to its rate base, a shorter amortization period would cause rate instability by increasing rate base at a faster pace." (Exhibit B-3-1, BCUC 13.2.1)

Commission Panel Determination

The Commission Panel accepts PNG (N.E.)'s proposal of an annual amortization of $41,000 of deferred income taxes as a credit to the income tax component for test year 2013.

The Panel is in agreement with PNG (N.E.) that the average test year 2013 deferred income tax balance of $311,000 is substantial relative to the total 2013 mid-year rate base balance of $2.6 million (Exhibit B-1-2, Tab 2, pp. 1, 21). **Accordingly, the Panel directs PNG (N.E.) to amortize the remaining deferred income tax balance over a period of 7 years commencing January 1, 2014.** This is consistent with the 10 year straight-line amortization agreed to in Decision 2011. The set amortization amount will create certainty regarding the timing of the refund of the deferred income taxes to ratepayers.

6.4 Deferral Accounts

PNG (N.E.) is seeking a number of approvals relating to its existing deferral accounts. These include approval of the 2012 deferral account additions and the 2013 amortization expense to be included in PNG (N.E.)'s cost of service. The proposed 2013 amortization expense for each deferral account is summarized in Exhibit B-1, pp. 19-23 for FSJ/DC and pp. 14-17 for TR, with updates summarized in Exhibit B-1-1 and Exhibit B-1-2. Additionally, information on the 2012 deferral account additions are provided in the Continuity of Deferred Charges Schedules in Exhibit B-1-1 and Exhibit B-1-2, Tab 2, pp. 8-9.

There are two important issues which must be considered in determining whether to approve the deferral accounts as proposed by PNG (N.E.): the Appropriate Length of Amortization Period and the Appropriate Financing Charge.

In the FortisBC Decision the Commission established key principles for the treatment of deferral accounts. Excerpts from the FortisBC Decision, which outlined the principles were provided as part of BCUC IR 1.36 for FSJ/DC (Exhibit B-3) and BCUC IR 1.23 for TR Exhibit B-3-1). These principles with application to this proceeding are summarized as follows:

(a) When determining the length of an amortization period for a deferral account, the key factors to consider are the benefits of rate smoothing, the length of time where there is direct value related to the item being amortized, and the increased costs that longer amortization periods impose on rate-payers due to the accumulation of financing charges;

(b) Deferral accounts are regulatory assets, not true capital assets; therefore, it is more appropriate for deferral accounts for non-capital items to earn an interest rate of return, not a rate base rate of return;

(c) For deferral accounts for non-capital items that are amortized beyond one year, the appropriate return is the utility's Weighted Average Cost of Debt (WACD). For deferral accounts for non-capital items that are amortized over a period of one year or less, the appropriate return is the utility's short term interest cost;

(d) For deferral accounts related to capital, the appropriate return is the utility's WACC. [Order G-110-12, pp. 104-106]

The Commission Panel finds it appropriate to apply these principles to PNG (N.E.)'s deferral accounts. The Panel will address the issues of amortization periods and financing costs separately for both PNG (N.E.) FSJ/DC and PNG (N.E.) TR. Specific attention will be paid to the existing deferral accounts that are not in line with the principles established in the FortisBC Decision.

1. Amortization Period

Fort St. John/Dawson Creek

PNG (N.E.) FSJ/DC currently has two deferral accounts with amortization periods greater than 3 years: (i) Plant Gains and Losses and (ii) Investigative Digs (Exhibit B-3, BCUC 1.36.1).

(i) The Plants Gains and Losses deferral account covers the loss or gain when an asset is retired. A 5-year amortization period for this account was established by the Commission in Decision 2012. (Exhibit B-1, p. 19)

(ii) The Investigative Digs deferral account is more unique in that the amortization rate is based on a 10% declining balance. (Exhibit B-3, BCUC 1.36.1) The balance of this deferral account is zero and there are no forecast additions for Test Year 2013. (Exhibit B-1-1, Tab 2, p. 9)

Tumbler Ridge

PNG (N.E.) TR currently has one deferral account with an amortization period greater than 3 years: Plants Gains and Losses. (Exhibit B-3-1, BCUC 1.23.1) The Plants Gains and Losses deferral account covers the loss or gain when an asset is retired. The Commission established a 5-year amortization period for this account in the Decision 2012. PNG (N.E.) states that the Commission determined that this amortization period represented an acceptable balance between rate smoothing and cost to rate-payers. (Exhibit B-1, p. 14; Exhibit B-3-1, BCUC 1.23.1.4)

<u>Amortization of Rate Stabilization Adjustment Mechanism (RSAM)</u>

An additional issue for both PNG (N.E.) divisions is that of the amortization of the RSAM. PNG (N.E.) has requested approval to change the amortization period of the RSAM deferral account from a one-year period to a two-year period (Exhibit B-1: FSJ/DC, pp. 41-42; TR, pp. 27-28). While PNG (N.E.) confirms that US GAAP allows for any amortization period to be set which falls within the range of zero to twenty-four months, PNG (N.E.) submits that twenty-four months, or two years, provides the most benefit to rate-payers as it allows for rate smoothing (Exhibit B-3, BCUC 1.36.1, 1.43.2; Exhibit B-3-1, BCUC 1.23.1.1, 1.29.2).

2. Deferral Account Financing Costs

Fort St. John/Dawson Creek

PNG (N.E.) FSJ/DC currently has four deferral accounts which are included in rate base and are earning a return based on PNG (N.E.)'s WACC. The four rate base deferral accounts are as follows: (i) Plant Gains and Losses, (ii) Investigative Digs, (iii) RSAM, and (iv) IFRS/US GAAP. (Exhibit B-3, BCUC 1.36.1)

Tumbler Ridge

PNG (N.E.) TR currently has four deferral accounts which are included in rate base and are earning a return based on PNG (N.E.)'s WACC. The four rate base deferral accounts are as follows: (i) Plants Gains and Losses, (ii) Studies, (iii) RSAM, and (iv) IFRS/US GAAP. (Exhibit B-3-1, BCUC 1.23.1)

PNG (N.E.) submits that it is appropriate for these accounts to be included in rate base because PNG (N.E.) would be unable to obtain 100 percent debt financing for these long-term regulatory assets. (Exhibit B-3, BCUC 1.36.1.1; Exhibit B-3-1, BCUC 1.23.1.1)

Commission Determination

As stated above, the Commission Panel is of the view it is appropriate to apply the principles of the FortisBC Decision to PNG (N.E.)'s deferral accounts. With respect to the issue of whether to include non-capital items in rate base, there are two issues:

- The appropriate compensation for deferred non-capital items
- The appropriate amortization period for deferred non-capital items

The Panel is of the view that there is a distinction between non-capital items and capital items which are allowed in rate base. Capital assets refer to tangible investments upon which the utility has a right to a return. Non-capital items, while regulatory assets, are deferred costs or expenses which would be expensed in the year in which they occur were it not for the use of regulatory deferral accounts. In the view of the Panel, the act of deferring such operational costs for a reasonable time period does not equate to their earning a return commensurate with a capital asset. Such deferred expenses should more appropriately draw an interest return in recognition of the amounts expended but not yet collected from ratepayers. The Commission Panel considers the WACD as appropriate proxy compensation for such deferred amounts as it represents the cost of borrowing which is, in effect, what the ratepayer is doing.

This raises the question as to whether deferral accounts for non-capital items should be carried for indefinite periods at the WACD. The Commission Panel concedes that there should be a limit on the amount of time a utility should be restricted to the WACD on a deferred expense. Amounts amortized for periods greater than 5 years are excessive and more appropriately qualify for a rate base rate of return. Accordingly, the Panel accepts that it is appropriate for non-capital expenses deferred for periods of greater than 5 years to be granted a full WACC return.

The Commission Panel makes the following determinations with respect to existing deferral accounts:

- <u>Plants Gains and Losses – FSJ/DC & TR Divisions</u>

Plants Gains and Losses is an account which deals with capital expenditures which are no longer in use. **Because these expenditures were originally a capital expense and are not fully amortized, the Commission Panel finds that it is appropriate to earn the WACC on this deferral account. The Plants Gains and Losses deferral account is therefore approved to remain in rate base. The Panel**

also finds the five-year amortization period, as approved in the PNG (N.E.) 2012 RRA Decision, to be appropriate.

- Investigative Digs – FSJ/DC Division

PNG (N.E.) FSJ/DC Division provided no commentary in its Application on the Investigative Digs deferral account; however, this account is included as a rate base deferral account in both the Continuity of Deferred Charges Schedules (Exhibit B-1-1, Tab 2, pp. 8-9) and in the table provided as part of PNG (N.E.) FSJ/DC's response to BCUC IR 1.36.1. The Panel has therefore drawn the conclusion that the Investigative Digs deferral account is used for the same purpose as in PNG West. Thus, the Panel has addressed the same questions as it did in the PNG West Decision 2013, starting with whether the use of a deferral account is appropriate for investigative digs or whether these costs are an expense which should be reflected in cost of service as they are incurred.

Is the use of the deferral account appropriate?

In the PNG West Decision 2013, the Panel noted that it "...can be inferred that future costs [for investigative digs] can be estimated with a degree of confidence notwithstanding the potential for additional requirements due to unplanned circumstance." **Accordingly, the Commission Panel has determined that the current treatment of the Investigative Digs deferral account is not appropriate.**

What is an appropriate forecast for 2013 and how should variances be handled?

Based on the Continuity of Deferred Charges Schedule in Tab 2 of Exhibit B-1-1, it appears that PNG (N.E.) has not forecasted any investigative digs for the 2013 Test Year. Therefore, the Panel accepts PNG (N.E.)'s forecast of zero for investigative digs for the Test Year. **Going forward, the Panel directs PNG (N.E.) to include its forecast cost of investigative digs in its cost of service.**

The Commission Panel accepts that there is a potential for variances due to unforeseen circumstances. **To minimize the impact of these variances, commencing in 2013, PNG (N.E.) is directed to utilize the Investigative Digs deferral account to record variances between the forecast cost for investigative digs included in PNG (N.E.)'s cost of service and the actual costs incurred in the corresponding test year.**

The Panel finds the most appropriate amortization period for the Investigative Digs deferral account to be one year as this is consistent with PNG (N.E.)'s other variance deferral accounts for expense-related items. The Panel further directs PNG (N.E.) to remove the Investigative Digs deferral account from rate base and to calculate future returns on this deferral account based on PNG (N.E.)'s short term interest rate. This financing treatment is consistent with PNG (N.E.)'s other deferral accounts with one-year amortization periods and is consistent with the principles of the FortisBC Decision.

- Rate Stabilization Adjustment Mechanism (RSAM) – FSJ/DC & TR Divisions

The Commission Panel approves PNG (N.E.)'s request to change the amortization period of the RSAM to two years. This provides rate-smoothing benefits to customers while still maintaining PNG (N.E.)'s compliance with US GAAP Revenue Recognition criteria.

The Panel approves the RSAM rate rider of $0.004/GJ for FSJ/DC and $0.233/GJ for TR for the 2013 Test Year.

The Panel directs PNG (N.E.) to remove the RSAM from rate base and to record an interest return on this account at PNG (N.E.)'s WACD. This treatment is consistent with the handling of expense-related deferral accounts and the principles established in the FortisBC Decision.

- IFRS/US GAAP – FSJ/DC & TR Divisions

The Panel accepts the currently approved amortization period for the IFRS/US GAAP deferral account as appropriate.

The Panel directs PNG (N.E.) to remove the IFRS/US GAAP deferral account from rate base and to record an interest return on this account at PNG (N.E.)'s WACD. This treatment is consistent with the handling of expense-related deferral accounts and the principles established in the FortisBC Decision.

- Studies – TR Division

The Studies deferral account captures expenses related to assessments of gas supply for Tumbler Ridge and is expected to be capitalized into PP&E when and if the studies' conclusions are required to be implemented. **In keeping with the principles established in the FortisBC Decision, the Commission Panel finds that it is appropriate to earn the WACD on this deferral account until such time as they become part of a specific project.** The Panel accepts PNG (N.E.)'s statement in BCUC 1.23.1.4 (Exhibit B-3-1) that it will apply for disposition of the Studies deferral account as at the time it files its Certificate of Public Convenience and Necessity (CPCN) application on the plan to address Tumbler Ridge gas supply issues.

The Commission Panel expects that in the future PNG (N.E.) will apply the principles established in the FortisBC Inc. Decision when applying for the establishment of future deferral accounts.

Subject to the specific changes directed by the Panel to the deferral accounts discussed above, the Commission Panel approves the 2012 additions and 2013 amortization expense amounts for PNG (N.E.)'s deferral accounts.

Other Deferral Account Issues

(a) Quintette Mine Security of Supply Deferral Account

Pursuant to Order G-183-12 dated November 29, 2012, PNG (N.E.) Tumbler Ridge Division received approval to establish a deferral account to record the incremental costs associated with the Quintette Mine Security of Supply Agreement for the period of December 2012 through March 2013. In its response to BCUC IR 2.34.1 (Exhibit B-14), PNG (N.E.) confirmed that it had set up this deferral account in its accounting records for Tumbler Ridge but had not included details of the deferral account in the 2013 RRA. PNG (N.E.) further stated that it would provide a fulsome discussion of the deferral account, including details of the balance and the proposed recovery treatment, in the upcoming CPCN application for supplemental gas supply for Tumbler Ridge to be filed with the Commission later in 2013. (Exhibit B-14, BCUC 2.34.4)

The Commission Panel accepts PNG (N.E.)'s rationale for not including the details of the Quintette Mine Security of Supply deferral account in the 2013 RRA and re-affirms PNG (N.E.)'s statement that a fulsome discussion of the deferral account will be provided in the forthcoming CPCN application.

(b) Presentation & Discussion of Deferral Accounts in Future RRAs

The Commission Panel notes that PNG (N.E.)'s description and presentation of its deferral accounts in its Application contained a number of inaccuracies and a lack of adequate discussion in the Application Narrative. For instance, PNG (N.E.) TR Division provided no discussion of the Studies Deferral Account or the Quintette Mine Security of Supply Deferral Account in the Application Narrative. There was also confusion with regards to PNG (N.E.) FSJ/DC's Investigative Digs deferral account. PNG (N.E.) included this account in its Continuity of Deferred Charges schedules but provided no discussion of the account in the Application Narrative. Additionally, certain deferral accounts were incorrectly classified as rate base accounts. An example of these is the Resource Plans deferral account.

The Panel directs PNG (N.E.) to provide a more fulsome discussion of its deferral accounts in future RRAs and to ensure that the information provided is complete and accurate.

6.5 Budget Billing Program

The cash working capital balance included in PNG (N.E.)'s rate base is offset by a Budget Billing Plan adjustment. PNG West submits, "The Budget Billing Plan allows customers to pay their estimated annual gas use and charges over 11 months of equal installments. This plan is provided to help customers manage their payments and cash flow more easily. It is available to any PNG residential or commercial customer whose account is in good standing." (Exhibit B-3, BCUC 1.45.3; PNG West 2013 RRA, Exhibit B-3, BCUC 1.10.1)

The Budget Billing Plan balance is an offsetting adjustment to the cash working capital balance included in rate base. Therefore, when the Budget Billing Plan balance is understated, rate base and the return on rate base are both overstated.

The following schedules summarize the difference between the actual Budget Billing Plan balance reported by PNG (N.E.) and the Decision/NSP balance over the past three years:

TABLE 2 – Fort St. John / Dawson Creek

Budget Billing Plan Adjustment	Test Year 2013	2012	2011	2010
	($000s)			
Forecast (Decision / NSP)	(632)	(510)	(165)	(166)
Actual		(1,114)	(1,606)	(1,433)
Difference		**604**	**1,441**	**1,267**

(Exhibit B-1-1, BCUC 1.45.2; Exhibit B-1-1, Tab 2, p. 10)

TABLE 3 – Tumbler Ridge

Budget Billing Plan Adjustment	Test Year 2013	2012	2011	2010
	($000s)			
Forecast (Decision / NSP)	(28)	(25)	(6)	(7)
Actual		(29)	(63)	(42)
Difference		**4**	**57**	**35**

(Exhibit B-1-2, BCUC 1.30.2)

The Budget Billing Plan balance is an offsetting adjustment to the cash working capital balance included in rate base. Therefore, when the Budget Billing Plan balance is understated, rate base and the return on rate base are both overstated.

PNG (N.E.) submits that the historical differences between the actual balance reported and the approved balance are due to issues with the data that PNG (N.E.) has used for its historical actual Budget Billing Plan balance. Specifically, PNG (N.E.) uses the average month-end payable Budget Billing Plan balance from PNG (N.E.)'s general ledger for its historical actual balance. This results in several cumulative errors. PNG (N.E.) notes that they are uncertain that their billing system can present the data required to adjust the historical actual balances to address the cumulative errors resulting from using the average month-end payable Budget Billing Plan balance. Accordingly, PNG (N.E.) submits the following with respect to the FSJ/DC Division:

> "PNG(N.E.) proposes using a three-year running average, 2010 thru 2012, of its historical 'actuals' for its 2013 test year provision for the budget billing plan adjustment to cash working capital. PNG(N.E.) would also propose to continue use of the three-year running average of historical actuals until such time as it can demonstrate the veracity of its test year calculation methodology for the budget billing balance..." (Exhibit B-13, BCUC 2.7.1)

PNG (N.E.) proposes the same treatment for the TR Division Budget Billing Plan balance. Specifically, PNG (N.E.) proposes "...using a 3-year historical average of its calculated actual budget billing credit, or $45 thousand, rather than the $28 thousand budget billing credit previously proposed per the calculations provided in response to question 6.2, Exhibit B-14." (PNG (N.E.) Final Submissions, p. 12)

Commission Determination

The Commission Panel agrees with PNG (N.E.) that in the absence of an accurate measure of the forecast Budget Billing Plan balance compared to the reported historical actual balances, using a three-year running average of historical actual balances as a proxy for test year 2013 is appropriate.

The Commission Panel directs PNG (N.E.) to use a Budget Billing Plan adjustment to cash working capital of $1.384 million for FSJ/DC and $45,000 for TR in test year 2013. In addition, PNG (N.E.) is directed to use a three-year running average of the historical actual amounts to determine the forecast Budget Billing Plan adjustment until such time as the accuracy of the calculation can be demonstrated.

7.0 OTHER ISSUES

7.1 Permanent to Interim Rate Adjustment

PNG (N.E.) owes a refund to ratepayers, which relates to the difference between the revenue deficiency that supported the interim rates effective January 1, 2012. The approved 2012 revenue sufficiency for FSJ/DC and the approved 2012 revenue deficiency for TR is to be paid with interest at the average prime rate of the principal bank with which PNG (N.E.) conducts its business (Order G-168-12). In the current Application, PNG (N.E.) has requested that the Commission Panel approve PNG (N.E.) to hold those customer refunds of $509,000 and $108,000 for the FSJ/DC and TR Divisions, respectively, in an interest-bearing deferral account and to fully amortize these amounts in the 2013 rates (Exhibit B-1, p. 22).

BCPSO notes that the impact of refunding the 2012 rate surplus makes the 2013 rate increases artificially lower, in that it is not a permanent reduction in cost of service (BCPSO Final Submission, para. 19).

PNG (N.E.) made no further submissions on this matter.

Commission Determination

The Commission Panel determines that it is appropriate to hold the customer refunds for the 2012 RRA discrepancy between approved interim rates and approved final rates in an interest-bearing deferral account and refund this amount over the remainder of the 2013 test year. The Panel notes BCPSO's concerns with regard to the impact on rates and the fact that it does not reflect a permanent reduction in the cost of service. We acknowledge that the refund should have occurred in 2012 but circumstances related to timing made this impractical. However, we also note that this method of disbursement was approved on an interim basis in Order G-193-12. Given the timing of this Decision, the Commission Panel is of the view that it is administratively efficient to continue to handle the refund in this manner.

7.2 Replacement of Revolving Debt Facility

PNG (N.E.) states that PNG will "... seek to renegotiate, extend or replace the existing 5-year revolving debt facility early in 2013, or as market conditions allow." Once this has been completed, PNG (N.E.) intends to enter into a replacement intercompany loan with PNG West to reflect the same terms achieved by PNG West under the new facility (Exhibit B-1, p. 25). The calculation of

PNG (N.E.)'s return on rate base included in the 2013 cost of service incorporates the initial indicative terms of the new facility obtained from one of PNG's current facility providers.

On May 6, 2013, PNG applied to the Commission for approval to enter into a committed five year term revolving debt facility with its parent company, AltaGas. By way of Order G-82-13 dated May 23, 2013, the Commission approved the request.

Commission Determination

The Commission Panel has reviewed the term sheet for the AltaGas Ltd. debt facility approved by Order G-82-13 against the indicative terms used to calculate the return on rate base included in the 2013 cost of service.

The Panel does not consider the differences between the two term sheets to be significant. In addition, the indicative terms are tested through evidence in this proceeding. Accordingly, the Panel accepts the use of the indicative terms to calculate the return on rate base included in PNG (N.E.)'s 2013 cost of service.

7.3 Unaccounted for Gas

Fort St John/Dawson Creek

The 2011 NSA approved by Commission Order G-93-11 provided that PNG (N.E.) must forecast Unaccounted for Gas (UAF) losses at one percent of deliveries and amounts up to 1.5 percent of deliveries can be recorded in the UAF volume deferral account without further approval from the Commission (Order G-93-11, NSA 2011, Item 12). PNG (N.E.) has not requested any changes to treatment of UAF used in the previous test year nor has anything come to the Commission's attention that would cause it to rescind this decision. The Panel sees no reason to vary Order G-93-11 and therefore, will continue to allow PNG (N.E.) FSJ/DC to forecast UAF volume at one percent of deliveries and to record a UAF volume of up to 1.5 percent of deliveries in the UAF volume deferral account without seeking further Commission approval (Order G-93-11, NSA 2011, Item 13).

Tumbler Ridge

Order G-93-11 allowed PNG (N.E.) TR division to forecast a zero percent UAF gas loss and to record up to a one percent UAF loss in the UAF gas volume deferral account without further Commission approval (Order G-93-11, NSA 2011, Item 13).

PNG (N.E.) has not requested any changes to treatment of UAF used in the previous test year nor has anything come to the Commission's attention that would cause it to rescind this decision. Therefore, the Panel sees no reason to vary Order G-93-11. PNG (N.E.) TR remains authorized to forecast UAF volume at zero percent of deliveries and to record a UAF volume of up to one percent of deliveries in the UAF volume deferral account for TR without seeking further Commission approval.

7.4 Future RRA Filing Requirements

As noted in Section 2.2, the preparation of an RRA and the process leading to a decision is both time consuming and expensive. There were a number of instances within the Application where the information provided by PNG (N.E.) was incomplete (some of these have been addressed within this Decision). This necessitated additional IRs which might have been avoided. **To ensure a more efficient process, the Commission Panel directs PNG (N.E.) in future RRA's to include the following information:**

- **Working excel model of all regulatory schedules contained in the RRA, in electronic format.**
- **Historical actual customer load data**
- **More detailed narrative explaining the changes made in the Updated Application**

8.0 SUMMARY OF DETERMINATIONS

This Summary is provided for the convenience of readers. The content of this directive list is not inclusive of all decisions and determinations made throughout the reasons for decision. Where directives are listed below, additional context may be provided through the reasons for decision. Where any discrepancy or confusion may arise due to lack of context, the determinations made within the reasons for decision shall prevail.

No.	Directive	Page
1.	<u>1.5 – Approach to this Application</u> For practical purposes, the Commission Panel has determined that there is a need to refer to the PNG West Decision 2013 and its evidentiary record in reviewing the PNG (N.E.) 2013 RRA.	4
2.	<u>2.2 – Frequency of Revenue Requirement Proceedings</u> The Commission Panel directs PNG (N.E.) to file its 2014 RRA for a two-year period.	6
3.	<u>3.1.1 – Residential Customers</u> For the FSJ service area, the Panel accepts PNG (N.E.)'s weighted average customer count of 9,829 and the average use per account of 109.2 GJ/year resulting in Residential customer forecast deliveries for 2013 of 1,075,152 GJ.	9
4.	<u>3.1.1 – Residential Customers</u> For the DC service area, the Panel accepts PNG (N.E.)'s 2013 forecast weighted average customer count of 5,879 and the forecast use per account of 102.5 GJ/year resulting in Residential customer forecast deliveries for the 2013 of 603,900 GJ.	9
5.	<u>3.1.1 – Residential Customers</u> For the TR service area, the Panel accepts PNG (N.E.)'s weighted average customer count of 1,126 and the average use per account of 83.8 GJ/year resulting in Residential customer forecast deliveries for 2013 of 94,652 GJ.	9
6.	<u>3.1.2 – Small Commercial Customers</u> For the FSJ service area, the Panel accepts PNG (N.E.)'s forecast weighted average customer count of 1,619, and the forecast use per account of 480.2 GJ/year, resulting in Small Commercial Sales customer forecast deliveries for 2013 of 778,339 GJ.	10

7.	<u>3.1.2 – Small Commercial Customers</u> For the DC service area, the Panel accepts PNG (N.E.)'s forecast weighted average customer count of 847 and the forecast use per account of 504.5 GJ/year, resulting in Small Commercial Sales customer forecast deliveries for 2013 of 428,532 GJ.	10
8.	<u>3.1.2 – Small Commercial Customers</u> For TR, the Commission Panel accepts PNG (N.E.)'s 2013 forecast weighted average Small Commercial customer count of 106, and the forecast use per account of 463.1 GJ/year. Accordingly, the Commission accepts PNG (N.E.)'s Small Commercial forecast deliveries for TR for the 2013 test year of 48,599 GJ.	10
9.	<u>3.1.3 – Large Commercial Customers</u> The Commission Panel accepts the test year 2013 forecast deliveries of 141,700 GJ for Fort St. John, 194,100 GJ for Dawson Creek, and 53,000 GJ for Tumbler Ridge.	11
10.	<u>3.1.4 – Small Industrial Customers</u> The Commission Panel accepts the 2013 forecast deliveries of 169,800 GJ for Fort St. John and 40,000 GJ for Dawson Creek.	12
11.	<u>3.1.5 – Industrial and Commercial Transportation Service</u> The Panel has reviewed the 2013 forecast deliveries for the Industrial and Commercial Transportation customers and finds PNG (N.E.)'s forecasts to be reasonable given the accuracy of recent forecasts and the protection of the ICDDA.	13
12.	<u>3.1.5 – Industrial and Commercial Transportation Service</u> The Commission Panel accepts PNG (N.E.)'s 2013 forecast deliveries of 856,105 GJ for Fort St. John, 242,616 GJ for Dawson Creek, and 800,000 GJ for Tumbler Ridge. In addition, the Panel approves continued use of the ICDDA for PNG (N.E) Tumbler Ridge in 2013.	13
13.	<u>4.1.1 – Employee Benefits – General</u> The Commission Panel finds the lack of attention to such detail in the preparation of 2013 forecasts unacceptable. PNG (N.E.) is directed to reduce its 2013 forecast for Educational Expense and the Coffee and Water Service program by an amount totalling $9,000.	16

14.	<u>4.1.1 – Employee Benefits – General</u> The Panel directs PNG (N.E.) to recalculate the employee savings plan, and any amounts related to the one percent increase in the non-bargaining unit and executive groups are to be charged to the account of the shareholder.	16
15.	<u>Section 4.1.1 – Employee Benefits – General</u> Concerning CPP contributions, the Panel directs PNG (N.E.) to adjust its inflation factor down to two percent as it has submitted.	16
16.	<u>4.1.2 – Employee Benefits – Pension and Non-Pension Post Retirement Benefits</u> The Panel accepts the forecast amount of $581,425 for Pension and NPPRB costs for the 2013 test period.	17
17.	<u>4.1.2 – Employee Benefits – Pension and Non-Pension Post Retirement Benefits</u> The Commission Panel directs PNG (N.E.) to provide a detailed justification of pension and non-pension retirement benefit program costs and benefits as part of its next RRA.	17
18.	<u>4.2 – Other Expenses</u> Therefore, while the amount at issue is small, the Commission Panel directs PNG (N.E.) to split the cost of donations evenly between the ratepayer and the shareholder. The Commission Panel approves the remaining $315,000 of expenses forecasted in the Other Expense category.	18
19.	<u>4.3.1 – Employee Benefits – General</u> Consistent with PNG West and PNG (N.E.) FSJ/DC, the Panel directs PNG (N.E.) TR to charge any employee savings plan amounts related to the one percent increase in the non-bargaining unit and executive groups to the account of the shareholder. Accordingly, the Commission Panel approves the Tumbler Ridge Administrative and General cost forecast of $279,000 less any amounts related to the employee savings plan.	19
20.	<u>5.1 – Labour Costs</u> The Panel approves the 2013 O&M labour cost increase of $165,000 for FSJ/DC and the 2013 O&M labour cost increase of $34,000 for TR.	23

21.	<u>5.1 – Labour Costs</u> The Commission Panel has reviewed the evidence and given that the increase to O&M, excluding the impact of the increase to labour costs, is less than three percent, the Panel finds the 2013 forecast cost of service for O&M expenses of $5.261 million for FSJ/DC and $941,000 for TR to be fair, just and reasonable.	23
22.	<u>6.1.1 – Capital Additions – FSJ/DC</u> The Commission Panel approves capital expenditures of $8.5 million plus $526,000 for OH for the 2013 test period.	26
23.	<u>6.1.1 – Capital Additions – FSJ/DC</u> To address this, the Panel directs PNG (N.E.) to establish a rate base deferral account to capture variances between forecasted and actual capital expenditures specific to the capital additions outlined in the Application in the 2013 test period.	26
24.	<u>6.1.2 – Capital Additions – Tumbler Ridge</u> The Commission Panel approves capital expenditures of $281,000 (including OH) as proposed for Tumbler Ridge.	27
25.	<u>6.2 – Management of Capital Costs</u> The Commission Panel directs PNG (N.E.) to provide the completed Schedule 1 report (as outlined in IR 1.66.1 from the PNG 2011 RRA) on 2013 capital additions as part of its next RRA as well as an update on 2012 capital additions detailing any further variances. In addition, any project with a variance in excess of $25,000 is to be accompanied by an explanation detailing the reasons for the variance.	28
26.	<u>6.3 – Deferred Income Tax Drawdown</u> Given that the entire deferred income tax balance for FSJ/DC will be drawn down in accordance with the Pension Decision over a period of six years commencing January 1, 2013, the Commission Panel agrees that the request to amortize the deferred income balance by $100,000 in 2013 cannot be maintained. The Panel directs PNG (N.E.) to amortize no additional deferred income taxes for FSJ/DC in 2013.	29
27.	<u>6.3 – Deferred Income Tax Drawdown</u> The Commission Panel accepts PNG (N.E.)'s proposal of an annual amortization of $41,000 of deferred income taxes as a credit to the income tax component for test year 2013.	30

28.	<u>6.3 – Deferred Income Tax Drawdown</u> The Panel directs PNG (N.E.) to amortize the remaining deferred income tax balance over a period of 7 years commencing January 1, 2014.	30
29.	<u>6.4 – Deferral Accounts</u> Because these expenditures were originally a capital expense and are not fully amortized, the Commission Panel finds that it is appropriate to earn the WACC on this deferral account. The Plants Gains and Losses deferral account is therefore approved to remain in rate base. The Panel also finds the five-year amortization period, as approved in the PNG (N.E.) 2012 RRA Decision, to be appropriate.	33
30.	<u>6.4 – Deferral Accounts</u> The Commission Panel has determined that the current treatment of the investigative digs deferral account is not appropriate for the reasons outlined in the PNG West Decision 2013.	34
31.	<u>6.4 – Deferral Accounts</u> Going forward, the Panel directs PNG (N.E.) to include its forecast cost of investigative digs in its cost of service.	34
32.	<u>6.4 – Deferral Accounts</u> To minimize the impact of these variances, commencing in the Test Year, PNG (N.E.) is directed to utilize the Investigative Digs deferral account to record variances between the forecast cost for Investigative Digs included in PNG (N.E.)'s cost of service and the actual costs incurred in the corresponding test year.	34
33.	<u>6.4 – Deferral Accounts</u> The Panel finds the most appropriate amortization period for the Investigative Digs deferral account to be one year as this is consistent with PNG (N.E.)'s other variance deferral accounts for expense-related items. The Panel further directs PNG (N.E.) to remove the Investigative Digs deferral account from rate base and to calculate future returns on this deferral account based on PNG (N.E.)'s short term interest rate.	34
34.	<u>6.4 – Deferral Accounts</u> The Commission Panel approves PNG (N.E.)'s request to change the amortization period of the RSAM to two years. This provides rate-smoothing benefits to customers while still maintaining PNG (N.E.)'s compliance with US GAAP Revenue Recognition criteria.	35

35.	<u>6.4 – Deferral Accounts</u> The Panel approves the RSAM rate rider of $0.004/GJ for FSJ/DC and $0.233/GJ for TR for the 2013 Test Year.	35
36.	<u>6.4 – Deferral Accounts</u> The Panel directs PNG (N.E.) to remove the RSAM from rate base and to record an interest return on this account at PNG (N.E.)'s WACD.	35
37.	<u>6.4 – Deferral Accounts</u> The Panel directs PNG (N.E.) to remove the IFRS/US GAAP deferral account from rate base and to record an interest return on this account at PNG (N.E.)'s WACD.	35
38.	<u>6.4 – Deferral Accounts</u> In keeping with the principles established in the FortisBC Decision, the Commission Panel finds that it is appropriate to earn the WACD on this deferral account until such time as they become part of a specific project.	35
39.	<u>6.4 – Deferral Accounts</u> The Commission Panel expects that in the future PNG (N.E.) will apply the principles established in the FortisBC Inc. Decision when applying for the establishment of future deferral accounts.	35
40.	<u>6.4 – Deferral Accounts</u> Subject to the specific changes directed by the Panel to the deferral accounts discussed above, the Commission Panel approves the 2012 additions and 2013 amortization expense amounts for PNG (N.E.)'s deferral accounts.	36
41.	<u>6.4 – Deferral Accounts</u> The Panel directs PNG (N.E.) to provide a more fulsome discussion of its deferral accounts in future RRAs and to ensure that the information provided is complete and accurate.	36
42.	<u>6.5 – Budget Billing Program</u> The Commission Panel directs PNG (N.E.) to use a Budget Billing Plan adjustment to cash working capital of $1.384 million in test year 2013. In addition, PNG (N.E.) is directed to use a three year running average of the historical actual amounts to determine the forecast Budget Billing Plan adjustment until such time as the accuracy of the calculation can be demonstrated.	38

43.	7.1 – Permanent to Interim Rate Adjustment The Commission Panel determines that it is appropriate to hold the customer refunds for the 2012 RRA discrepancy between approved interim rates and approved final rates in an interest-bearing deferral account and refund this amount over the remainder of the 2013 test year.	39
44.	7.4 – Future RRA Filing Requirements To ensure a more efficient process, the Commission Panel directs PNG (N.E.) in future RRA's to include the following information: • Working excel model of all regulatory schedules contained in the RRA, in electronic format. • Historical actual customer load data • More detailed narrative explaining the changes made in the Updated Application	41

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of August 2013.

Original signed by:

____

D.A. COTE
PANEL CHAIR/COMMISSIONER

Original signed by:

____

C.A. BROWN
COMMISSIONER

Original signed by:

____

C. van Wermeskerken
COMMISSIONER

COMMISSION ORDERS SOUGHT BY PNG (N.E.)

Fort St. John/Dawson Creek Division

PNG (N.E.) is seeking the following Commission approvals under the FSJ/DC 2013 revenue requirements application:

1. Approval, effective January 1, 2013, on a permanent basis pursuant to sections 58 to 61, 89 and 90 of the B.C. Utilities Commission Act, of the delivery charges set forth under the heading "Proposed Rates January 1, 2013" as set forth in the table under Tab Rates entitled "Summary of Proposed Rates Effective January 1, 2013".

2. Approval pursuant to sections 59 to 61 of the B.C. Utilities Commission Act, of the 2013 revenue deficiency of approximately $198,000, as filed in the schedules accompanying PNG (N.E.)'s Application.

3. Approval of the Shared Services charges from PNG West Division to PNG (N.E.), as proposed in the 2012 Shared Services Study and as set forth in this Application for 2013.

4. Approval of the deferral accounts and amortization expenses for 2013 as set forth under Tab 2 of this Application.

5. Approve a two-year amortization period for RSAM to ensure compliance with US GAAP Revenue Recognition criteria.

6. Approval to continue the unaccounted for gas volume deferral account to record the difference between forecast and actual unaccounted for gas (UAF) volumes in Test Year 2013 based on using a 1 percent of deliveries UAF loss factor for 2013 and requiring PNG (N.E.) to apply for Commission approval to record actual 2013 UAF losses above 1.5 percent in the deferral account.

7. Approval to draw down $100,000 of deferred income taxes as a credit to the income tax component of the 2013 cost of service.

Tumbler Ridge Division

PNG(N.E.) is seeking the following Commission approvals under the TR 2013 revenue requirements application:

1. Approval, effective January 1, 2013, on a permanent basis pursuant to sections 58 and 89 of the B.C. Utilities Commission Act (the "Act"), of the delivery charges set forth under the heading "Proposed Rates January 1, 2013" as set forth in the table under Tab Rates entitled "Summary of Proposed Rates Effective January 1, 2013."

2. Approval pursuant to sections 59 to 61 of the B.C. Utilities Commission Act (the "Act"), of the 2013 revenue sufficiency of approximately $41,000 as filed in the schedules accompanying PNG (N.E.)'s Application.

3. Approval of the Shared Services charges from PNG West Division to PNG (N.E.), as proposed in the 2012 Shared Services Study and as set forth in this Application for 2013.

4. Approval of the deferral accounts and amortization expenses for 2013 as set forth under Tab 2 of this Application.

5. Approve a two year amortization period for RSAM to ensure compliance with US GAAP Revenue Recognition criteria.

6. Approval to continue the unaccounted for gas volume deferral account to record the difference between forecast and actual unaccounted for gas (UAF) volumes in Test Year 2013 based on using a zero percent of deliveries UAF loss factor for 2013 and requiring PNG (N.E.) to apply for Commission approval to record actual 2013 UAF losses above 1.0 percent in the deferral account.

7. Approval to draw down $41,000 of deferred income taxes as a credit to the income tax component of the 2013 cost of service.

LIST OF ACRONYMS

AltaGas	AltaGas Ltd.
BCPSO	British Columbia Pensioners' and Seniors' Organization et al.
CNRL	Canadian Natural Resources Limited
Commission	British Columbia Utilities Commission
CPP	Canada Pension Plan
DSM	demand side management
FortisBC Decision	FortisBC Inc. 2012-2013 Revenue Requirements Application
FSJ/DC	Fort St. John/Dawson Creek Division
GCOC	Generic Cost of Capital
ICDDA	Industrial Customer Deliveries Deferral Account
IFRS	International Financial Reporting Standards
IR	information request
LNG	Liquefied Natural Gas
MOP	maximum operating pressure
NPPRB	non-pension post-retirement benefits
NSP	Negotiated Settlement Process
O&M	Operating and Maintenance
OH	Overhead
Pension Application	2012 Pension and Non-Pension Benefits Application
Pension Decision	Commission Decision issued by Order G-89-13 dated June 4, 2013
PNG (N.E.), the Applicant	Pacific Northern Gas (N.E.) Ltd.
PNG West	Pacific Northern Gas Ltd.
RRA	Revenue Requirements Application
RS	Rate Schedule

RSAM	Revenue Stabilization Adjustment Mechanism
Shared Services Study	a shared service cost study prepared by a third party consultant
STIP	Short Term Incentive Plan
the Divisions	Fort St. John/Dawson Creek Division and Tumbler Ridge Division
TR	Tumbler Ridge Division
UAF	Unaccounted for Gas
UCA	Utilities Commission Act
UPA	use per account
US GAAP	US Generally Accepted Accounting Principles
WACC	Weighted Average Cost of Capital
WACD	Weighted Average Cost of Debt

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Pacific Northern Gas (N.E.) Ltd
NE Division 2013 Revenue Requirements Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated December 14, 2012 – Commission Order G-193-12 establishing a preliminary Regulatory Timetable
A-2	Letter Dated January 15, 2013 – Amended Preliminary Regulatory Timetable
A-3	Letter Dated February 1, 2013 – Commission Information Request No. 1 for Tumbler Ridge Division
A-4	Letter Dated February 1, 2013 – Commission Information Request No. 1 for Fort St John/Dawson Creek Division
A-5	~~CONFIDENTIAL~~ Letter Dated February 1, 2013 – Confidential Commission Information Request No. 1
A-6	Letter Dated February 6, 2013 – Appointment of Panel
A-7	Letter L-8-13 Dated March 1, 2013 – Application Update Filing Extension
A-8	Letter L-11-13 Dated March 7, 2013 – Regulatory Process
A-9	Letter Dated March 20, 2013 – Order G-43-13 establishing Regulatory Process and Amended Regulatory Timetable
A-10	Letter Dated March 22, 2013 – Commission Information Request No. 2 for Tumbler Ridge Division
A-11	Letter Dated March 22, 2013 – Commission Information Request No. 2 for Fort St John/Dawson Creek Division
A-12	~~CONFIDENTIAL~~ Letter Dated March 22, 2013 – Confidential Commission Information Request No. 2
A-13	Letter Dated August 7, 2013 - Commission Notice of Lift of Confidentiality

Exhibit No.	Description
APPLICANT DOCUMENTS	
B-1	**PACIFIC NORTHERN GAS (NE) LTD.** Letter Dated November 30, 2012 – 2013 Revenue Requirements Application
B-1-1	Letter Dated March 4, 2013 – PNGNE Submitting Updated Application Fort St. John/Dawson Creek Division
B-1-1-1	Letter Dated March 11, 2013 – PNGNE Submitting Errata pages to Updated Application Fort St. John/Dawson Creek Division
B-1-2	Letter Dated March 4, 2013 – PNGNE Submitting Updated Application Tumbler Ridge Division
B-1-2-1	Letter Dated March 11, 2013 – PNGNE Submitting Errata pages to Updated Application Tumbler Ridge Division
B-2	~~CONFIDENTIAL~~ Letter Dated January 9, 2013 – PNGNE Submitting Confidential Customer Load Forecast Data
B-2-1	Letter Dated January 14, 2013 – PNGNE Submitting Request for Confidentiality of Exhibit B-2
B-3	Letter Dated February 22, 2013 – PNGNE Submitting Response to BCUC IR No. 1 Fort St. John/Dawson Creek Division
B-3-1	Letter Dated February 22, 2013 – PNGNE Submitting Response to BCUC IR No. 1 Tumbler Ridge Division
B-4	~~CONFIDENTIAL~~ Letter Dated February 22, 2013 – PNGNE Submitting Response to BCUC Confidential IR No. 1 Redacted
B-5	Letter Dated February 22, 2013 – PNGNE Submitting Response to BCPSO IR No. 1 Fort St. John/Dawson Creek Division
B-6	Letter Dated February 22, 2013 – PNGNE Submitting Response to BCPSO IR No. 1 Tumbler Ridge Division
B-7	Letter Dated February 28, 2013 – PNGNE Requesting Application Update Filing Extension

Exhibit No.	Description
B-8	Letter Dated March 1, 2013 – PNGNE Submitting Response to BCPSO IR No. 1 Fort St. John/Dawson Creek Division Shared Services Cost Recovery
B-9	Letter Dated March 1, 2013 – PNGNE Submitting Response to BCPSO IR No. 1 Fort Tumbler Ridge Division Shared Services Cost Recovery
B-10	Letter Dated March 11, 2013 – PNGNE Submitting Comments on BCPSO's submissions
B-11	Letter Dated April 12, 2013 - PNGNE Submitting Response to BCPSO IR No. 2 Fort St. John/Dawson Creek Division
B-12	Letter Dated April 12, 2013 - PNGNE Submitting Response to BCPSO IR No. 2 Tumbler Ridge Division
B-13	Letter Dated April 12, 2013 - PNGNE Submitting Response to BCUC IR No. 2 Fort St. John/Dawson Creek Division
B-14	Letter Dated April 12, 2013 - PNGNE Submitting Response to BCUC IR No. 2 Tumbler Ridge Division
B-15	~~CONFIDENTIAL~~ Letter Dated April 12, 2013 - PNGNE Submitting Response to BCUC Confidential IR No. 2 Redacted

INTERVENER DOCUMENTS

C1-1	**BC PENSIONERS' AND SENIORS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, BC COALITION OF PEOPLE WITH DISABILITIES, COUNSEL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCPSO ET AL)** Letter Dated January 15, 2013 – Request for Intervener Status by James Wightman and Eugene Kung
C1-2	Letter Dated February 8, 2013 – BCPSO Submitting Information Request No. 1 Fort St. John/Dawson Creek Division
C1-3	Letter Dated February 8, 2013 – BCPSO Submitting Information Request No. 1 Tumbler Ridge Division
C1-4	Letter Dated February 14, 2013 – BCPSO Submitting Information Request No. 1 for Fort St. John-Dawson Creek Division for SSCR
C1-5	Letter Dated February 14, 2013 – BCPSO Submitting Information Request No. 1 for Tumbler Ridge Division for SSCR

Exhibit No.	Description
C1-6	Letter Dated February 26, 2013 – BCPSO Submissions Regarding Regulatory Process
C1-7	Letter Dated March 22, 2013 – BCPSO Submitting Information Request No. 2 for Fort St. John-Dawson Creek Division
C1-8	Letter Dated March 22, 2013 – BCPSO Submitting Information Request No. 2 for Tumbler Ridge Division
C2-1	**PEACE RIVER REGIONAL DISTRICT (PRRD)** Letter Dated January 24, 2013 – Request for Late Intervener Status by Carolyn MacEachern

INTERESTED PARTY DOCUMENTS

D-1	**PEACE RIVER REGIONAL DISTRICT (PRRD)** Letter Dated January 18, 2013 – Changed to Intervener

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-131-13

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Pacific Northern Gas (N.E.) Ltd.
Application for Approval of 2013 Revenue Requirements
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

BEFORE: D.A. Cote, Panel Chair/Commissioner
C.A. Brown, Commissioner
C. van Wermeskerken, Commissioner

August 23, 2013

O R D E R

WHEREAS:

A. On November 30, 2012 Pacific Northern Gas (N.E.) Ltd. [PNG (N.E.)] filed its 2013 Revenue Requirements Application (RRA) for the Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions with the British Columbia Utilities Commission (Commission), pursuant to sections 58 to 61 of the *Utilities Commission Act* (Act) (Application). The Applications seeks Commission approval to, among other things, increase delivery rates for FSJ/DC and decrease delivery rates for TR. On the same date, Pacific Northern Gas Ltd. (PNG) filed its 2013 RRA for the West Division;

B. PNG(N.E.) also seeks interim relief in the Application, pursuant to sections 58 to 61, 89 and 90 of the Act, to allow PNG(N.E.) to amend its rates on an interim and refundable basis, effective January 1, 2013, pending the hearing of the Application and orders subsequent to that hearing;

C. Commission Order G-193-12, dated December 14, 2012, approved the delivery rates and the Rate Stabilization Adjustment Mechanism (RSAM) rider set forth in the Application on an interim basis, effective January 1, 2013, and established a Preliminary Regulatory Timetable for the review of the Application;

D. Commission Order G-4-13, dated January 15, 2013, established an Amended Preliminary Regulatory Timetable to allow Interveners and Commission staff sufficient opportunity to review the 2013 Shared Services Cost Allocation from PNG to PNG(N.E.) in the context of both the Application and the PNG 2013 RRA for the West Division;

E. The Peace River Regional District (PRRD) and British Columbia Pensioners' and Seniors Organization et al. (BCPSO) registered as Interveners and BCPSO actively participated in the proceeding;

F. On March 4, 2013 PNG(N.E.) filed an updated Application, which forecasts a revenue deficiency of $0.198 million for FSJ/DC, down from $0.274 million in the original Application, and a revenue sufficiency of $0.041 million for TR, down from $0.098 million in the original Application (collectively, the Application). The 2013 cost of service includes a decrease in cost of service of $509,000 and $108,000 for FSJ/DC and TR, respectively, to account for the difference between the revenue deficiency that supported the interim rates effective January 1, 2012 and the approved 2012 revenue sufficiency for FSJ/DC and the approved 2012 revenue deficiency for TR;

G. Commission Order G-43-13, dated March 20, 2013, established that the Application would be heard though a public written hearing process;

H. The Commission considered the Application, the evidence and the written arguments as set forth and discussed in the Decision issued concurrently with this Order.

NOW THEREFORE the Commission, for the reasons stated in the Decision issued concurrently with this order, makes the following determinations:

1. Pursuant to sections 59 to 61 of the *Utilities Commission Act*:

    a. The 2013 revenue deficiency of $0.198 million for the Fort St. John/Dawson Creek Division and the 2013 revenue sufficiency of $0.041 million for the Tumbler Ridge Division are not approved, as filed.

    b. The 2013 Rate Stabilization Adjustment Mechanism rider of $0.004/GJ for the Fort St. John/Dawson Creek Division and $0.233 for the Tumbler Ridge Division are approved, as filed.

2. Pacific Northern Gas (N.E.) Ltd. must resubmit its financial schedules incorporating all the adjustments outlined in the Decision, on or before September 23, 2013. The financial schedules must incorporate all of the adjustments identified by Pacific Northern Gas (N.E.) Ltd. in response to Information Requests in this proceeding.

3. The Commission will accept amended Tariff Rate Schedules filed on or before September 23, 2013 which conform to determinations made in the Decision.

4. Pacific Northern Gas (N.E.) Ltd. is to inform all customers of permanent rates by way of written notice included with their next customer invoice.

5. If the 2013 permanent rates, including delivery rates and the Rate Stabilization Adjustment Mechanism rider, are less than the 2013 interim rates, Pacific Northern Gas (N.E.) Ltd. is to refund to customers the difference in revenue with interest at the average prime rate of Pacific Northern Gas (N.E.) Ltd.'s principal bank for its most recent year. If the 2013 permanent rates exceed the 2013 interim rates, Pacific Northern Gas (N.E.) Ltd. is to reflect this difference in customer rates over the balance of 2013.

6. Pacific Northern Gas (N.E.) Ltd. is directed to comply with all other directives in the Decision issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of August, 2013.

BY ORDER

Original signed by:

D.A. Cote
Panel Chair/Commissioner