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Pacific Northern Gas (N.E.) Ltd.

2022 Revenue Requirements Application  
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

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Decision  
and Order G-292-22

October 21, 2022

Before:

A. K. Fung, KC, Panel Chair  
A. C. Dennier, Commissioner  
B. A. Magnan, Commissioner

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### **APPENDICES**

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## Executive Summary

Pacific Northern Gas (N.E.) Ltd. [PNG(NE)] owns and operates a natural gas processing plant and natural gas distribution systems in northeastern British Columbia providing service to approximately 21,500 natural gas customers. It is a wholly owned subsidiary of Pacific Northern Gas Ltd., which in turn is a wholly owned subsidiary of TriSummit Utilities Inc. (TSU).<sup>1</sup>

On March 7, 2022, PNG(NE) filed its 2022 revenue requirements application requesting approval of permanent 2022 delivery rates for all rate classes, in addition to other approvals sought (the Application). The permanent 2022 delivery rates contained in the Application include the following:<sup>2</sup>

Rate Class	Fort St. John	Dawson Creek	Tumbler Ridge
Residential	\$5.870/GJ	\$5.672/GJ	\$11.638/GJ
Small Commercial	\$4.440/GJ	\$3.903/GJ	\$9.135/GJ

PNG(NE) also applies for approval of a permanent Revenue Stabilization Adjustment Mechanism (RSAM) rate rider, effective January 1, 2022, as follows:

- Fort St John / Dawson Creek: a decrease from a debit rider of \$0.054/gigajoule (GJ) to a credit rider of \$0.284/GJ.
- Tumbler Ridge: a decrease from a credit rider of \$0.309/GJ to a credit rider of \$0.366/GJ.

The Panel established a written public hearing process, in which three parties, British Columbia Old Age Pensioner's Organization, Active Support Against Poverty, Council of Senior Citizen's Organizations of BC, Disability Alliance BC, and Tenants Resource and Advisory Center, known collectively as BCOAPO et al. (BCOAPO), Residential Consumer Intervener Association (RCIA), and the District of Tumbler Ridge registered as interveners in the proceeding, with BCOAPO and RCIA actively participating.

PNG(NE) applied for several adjustments during the proceeding to its 2022 delivery rates requested in the Application, which are summarized in PNG(NE)'s final argument.<sup>3</sup>

There are several factors that contribute to increases to PNG(NE)'s 2022 costs that were identified in the proceeding, including increases in administrative and general expenses related to increases in TSU Shared Corporate Services Costs, regulatory costs and insurance costs. Subject to an adjustment in respect of director's fees and expenses, the Panel found PNG(NE)'s forecasts of costs to be reasonable. **The Panel approves the 2022 delivery rates and RSAM rate rider on a permanent basis and effective January 1, 2022, as filed by PNG(NE) in the Application and subject to the adjustments summarized in PNG(NE)'s final argument, along with the directives and determinations in this decision.**

<sup>1</sup> Exhibit B-5, FSJ/DC Division, Section 1.1, p. 2, Exhibit B-5, TR Division, Section 1.1, p. 2.

<sup>2</sup> Exhibit B-5, FSJ/DC Division, Section 1.3, pp. 8–9, Section 1.4, pp. 10–11, Exhibit B-5, TR Division, Section 1.3, pp. 7–8, Section 1.4, pp. 9–10.

<sup>3</sup> PNG(NE) Final Argument, Section 4. pp. 9–10.

The Panel also approves PNG(NE)'s request to establish each of the following new deferral accounts:

- **Incremental CCA deferral account, to record the capital cost allowance (CCA) on unplanned capital expenditures, including those incurred in 2021, attracting interest at PNG(NE)'s short-term interest rate. A one-year amortization period is approved, with the December 31, 2021 balance to be fully amortized in 2022. This deferral account is approved on an ongoing basis until 2027;**
- **CIS<sup>4</sup> Project Recoveries deferral account, to record net SAP<sup>5</sup> CIS Project recoveries realized in 2020 and 2021, attracting interest at PNG(NE)'s short-term interest rate. The balance is to be fully amortized in 2022, followed by the subsequent dissolution of the account; and**
- **Shared Corporate Services Costs Variance deferral account to record its portion of the variances in actual TSU Shared Corporate Services Costs from forecast amounts, including those realized in 2020 and 2021, attracting interest at PNG(NE)'s short term interest rate. A one-year amortization period is approved, with the amount accumulated in 2020 and 2021 to be fully amortized in 2022.**

The Panel observed that all three of these new deferral accounts raise the issue of retroactive ratemaking because adjustments to 2022 rates are sought on account of amounts relating to previous test periods for which permanent rates have already been set. However, based on the Panel's assessment of the particular circumstances and factors related to these deferral account requests, and for the reasons outlined in the decision, each of these requests warranted an exception to the rule against retroactive ratemaking.

In addition, the Panel makes various directives and approvals on specific issues which are set out in the decision.

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<sup>4</sup> Customer Information System.

<sup>5</sup> Systems Applications and Products.

## 1.0 Introduction

### 1.1 Nature of the Application

This proceeding reviews the 2022 revenue requirements application (RRA) that Pacific Northern Gas (N.E.) Ltd. [PNG(NE)] filed on behalf of its Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions, for approval by the British Columbia Utilities Commission (BCUC) pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA). PNG(NE) maintains separate rate schedules for both the FSJ/DC and the TR Divisions.<sup>6</sup> This decision discusses the approvals sought and issues raised by the 2022 RRA.

In a separate but related proceeding, the BCUC reviewed the RRA brought by PNG(NE)'s parent, Pacific Northern Gas Ltd. (PNG), on behalf of its western division "PNG-West" for the same test period. The BCUC issued its final Order G-281-22 and accompanying decision on the PNG-West 2022 RRA on October 11, 2022 (PNG-West Decision).

For purposes of clarity, the term "PNG" will be used when referring to general corporate direction while the terms "PNG(NE)" and "PNG-West" will be used with reference to requests for approval made during the separate but related proceedings and any operational and non-corporate issues.

### 1.2 Background

PNG(NE) owns and operates a natural gas processing plant (TR Processing Plant) and natural gas distribution systems in northeastern British Columbia providing service to approximately 21,500 natural gas customers in Fort St John, Dawson Creek, and Tumbler Ridge. It is a wholly owned subsidiary of PNG, which in turn is a wholly owned subsidiary of TriSummit Utilities Inc. (TSU). PNG owns and operates a natural gas transmission and distribution system located in the west central part of British Columbia commencing just north of Prince George at Summit Lake and extending west to Kitimat and Prince Rupert. This is referred to as PNG's western division, or PNG-West. Along this corridor, PNG-West serves approximately 20,500 natural gas customers with an additional 130 propane customers being served in the community of Granisle, BC.<sup>7</sup>

The PNG(NE) and PNG-West natural gas pipeline systems are illustrated in Figure 1.<sup>8</sup>

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<sup>6</sup> Exhibit B-5, FSJ/DC Division, Section 1.1, p. 2, Exhibit B-5, TR Division, Section 1.1, p. 2.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid., p. 3.

**Figure 1: PNG(NE) and PNG-West Natural Gas Pipeline Systems**



On November 30, 2021, PNG(NE) filed its 2022 RRA (Original Application) with the BCUC for the FSJ/DC and TR Divisions seeking, among other things, approval to amend its delivery rates and Revenue Stabilization Adjustment Mechanism (RSAM) rate rider on an interim and refundable/recoverable basis, effective January 1, 2022. PNG(NE)’s fiscal year 2022 is referred to as the “Test Period” or “Test Year”.

By Order G-379-21, the Panel approved, amongst other things, the following, effective January 1, 2022:

- for the FSJ/DC Division, interim delivery rates of \$5.893/gigajoule (GJ) for FSJ residential service, \$5.695/GJ for DC residential service; \$4.455/GJ for FSJ small commercial service; and \$3.918/GJ for DC small commercial service. The Panel also approved a reduction to the RSAM rate rider applicable to residential and small commercial customers from a debit rider of \$0.054/GJ to a credit rider of \$0.235/GJ.
- for the TR Division, interim delivery rates of \$11.638/GJ for TR residential service; and \$9.132/GJ for TR small commercial service. The Panel also approved an increase in the RSAM rate rider applicable to residential and small commercial customers from a credit rider of \$0.309/GJ to a credit rider of \$0.306/GJ.

On March 7, 2022, PNG(NE) filed an amended application to support its request for approval of rates on a permanent basis. The amended application generally includes all of the Original Application, with revisions such as amended demand forecasts which take into consideration the effects of 2021 actual deliveries, updated customer count and cost forecasts, as well as the impact of 2021 actual operating results on rate-base items.<sup>9</sup> From this point forward, the “Application” refers to PNG(NE)’s amended 2022 RRA.

### **1.3 Regulatory Process**

By Order G-379-21,<sup>10</sup> the BCUC established a regulatory timetable and a written public hearing process for the review of the Application. The timetable included intervener registration, filing an amended application, two

<sup>9</sup> Exhibit B-5, FSJ/DC Division, Section 1, p. 1, Exhibit B-5, TR Division, Section 1, p. 1.

<sup>10</sup> Directive 5 of Order G-379-21 was varied by Order G-5-22.

rounds of BCUC and intervener information requests (IRs), responses to IRs, written final argument and reply argument. The regulatory timetable was subsequently amended by Order G-56-22.

Three parties, British Columbia Old Age Pensioner's Organization, Active Support Against Poverty, Council of Senior Citizen's Organizations of BC, Disability Alliance BC, and Tenants Resource and Advisory Center, known collectively as BCOAPO et al. (BCOAPO), Residential Consumer Intervener Association (RCIA), and the District of Tumbler Ridge registered as interveners in the proceeding, with BCOAPO and RCIA actively participating. In addition, the BCUC received fifteen letters of comment, including a petition signed by many of the residents, businesses and organizations in Tumbler Ridge,<sup>11</sup> as discussed further in Section 7.2 below.

## **1.4 Approvals Sought**

PNG(NE) included its approvals sought in the Application<sup>12</sup> and subsequently identified several adjustments to its 2022 revenue requirements and resulting delivery rates during this proceeding, which are summarized in PNG(NE)'s final argument.<sup>13</sup> PNG(NE) summarizes the final approvals sought in its final argument as follows:

### FSJ/DC Division:<sup>14</sup>

1. Approval on a permanent basis, effective January 1, 2022, for the recovery of the applied for revenue deficiency and the resultant delivery rate changes, subject to adjustments identified during this proceeding, for the following rate classes, among other rate classes:<sup>15</sup>
  - a) A 7.4 percent increase from \$5.465/GJ to \$5.870/GJ for FSJ Residential service and a 7.7 percent increase from \$5.267/GJ to \$5.672/GJ for DC Residential service;
  - b) A 6.6 percent increase from \$4.166/GJ to \$4.440/GJ for FSJ Small Commercial service and a 7.5 percent increase from \$3.629/GJ to \$3.903/GJ for DC Small Commercial service; and
- PNG(NE) is also seeking approval for a decrease in the RSAM rate rider on a permanent basis for the FSJ/DC Division applicable to Residential and Small Commercial customers from a debit rider of \$0.054/GJ to a credit rider of \$0.284/GJ.
2. Approval of 2021 unplanned, necessary system reinforcement related capital expenditures undertaken to provide reinforcement to gas supply for the Tomslake and Pouce Coupe areas.
3. Approval of the changes and additions to PNG(NE)'s existing deferral accounts and amortization expenses for 2022, including approval to amortize the full amount of the COVID-19 deferral account accumulated to the end of 2021 in 2022.

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<sup>11</sup> Exhibit D-3-1 and Exhibits E-1 to E-14. The petition is included in Exhibit E-14.

<sup>12</sup> Exhibit B-5, FSJ/DC Division, Section 1.4, pp. 10–11, Exhibit B-5, TR Division, Section 1.4, pp. 9–10.

<sup>13</sup> PNG(NE) Final Argument, Section 4. pp. 9–10.

<sup>14</sup> PNG(NE) Final Argument, Section 2.1, pp. 3–4.

<sup>15</sup> Exhibit B-5, FSJ/DC Division, Section 1.3, pp. 8–9; The adjustments identified during this proceeding are summarized in section 4 of PNG(NE)'s Final Argument.



4. Approval to create a new short-term interest bearing<sup>16</sup> credit deferral account (Incremental CCA deferral account) to record the accelerated capital cost allowance (CCA) on unplanned capital expenditures in 2021, with the 2021 amount to be fully amortized in 2022.
5. Approval to create a new short-term interest bearing<sup>17</sup> credit deferral account (CIS<sup>18</sup> Project Recoveries deferral account) to record net SAP<sup>19</sup> CIS Project recoveries realized in 2020 and 2021, with the balance to be fully amortized in 2022 and subsequent dissolution of the account.
6. Approval to create a new short-term interest bearing<sup>20</sup> credit deferral account (Shared Corporate Services Costs Variance deferral account) to record variances in actual TSU Shared Corporate Services Costs from forecast amounts realized in 2020 and 2021, with the balance to be fully amortized in 2022 and subsequent dissolution of the account.
7. Approval to recover shared services charged by PNG to PNG(NE) for 2022. The shared services costs allocated to PNG(NE) includes the TSU Shared Corporate Services Costs allocated to PNG from its parent.
8. Approval to continue the unaccounted for gas (UAF) Volume deferral account on the basis that the UAF volume forecasts for 2022 are set at 1.0 percent of deliveries with PNG(NE) recording the variance between 1.0 percent and a loss of up to 1.5 percent without having to seek further BCUC approval.

TR Division:<sup>21</sup>

1. Approval on a permanent basis, effective January 1, 2022, for the recovery of the applied for revenue deficiency and the resultant delivery rate changes, subject to adjustments identified during this proceeding, for the following rate classes, among other rate classes:<sup>22</sup>
  - a) A 10.9 percent increase from \$10.499/GJ to \$11.638/GJ for TR Residential service;
  - b) A 10.1 percent increase from \$8.295/GJ to \$9.135/GJ for TR Small Commercial service; and

PNG(NE) is also seeking approval for a decrease in the RSAM rate rider on a permanent basis for the TR Division applicable to Residential and Small Commercial customers from a credit rider of \$0.309/GJ to a credit rider of \$0.366/GJ.
2. Approval of the changes and additions to PNG(NE)'s existing deferral accounts and amortization expenses for 2022, including approval to amortize the full amount of the COVID-19 deferral account accumulated to the end of 2021 in 2022.

<sup>16</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, Table 22, p. 47 and p. 51.

<sup>17</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, Table 22, p. 47.

<sup>18</sup> Customer Information System.

<sup>19</sup> Systems Applications and Products.

<sup>20</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, p. 52.

<sup>21</sup> PNG(NE) Final Argument, Section 2.2 pp. 4–6.

<sup>22</sup> Exhibit B-5, TR Division, Section 1.3, pp. 7–8; The adjustments identified during this proceeding are summarized in Section 4 of PNG(NE)'s Final Argument.

3. Approval to create a new short-term interest bearing<sup>23</sup> credit deferral account (CIS Project Recoveries deferral account) to record net SAP CIS Project recoveries realized in 2020 and 2021, with the balance to be fully amortized in 2022 and subsequent dissolution of the account.
4. Approval to create a new short-term interest bearing<sup>24</sup> credit deferral account (Shared Corporate Services Costs Variance deferral account) to record variances in actual TSU Shared Corporate Services Costs from forecast amounts realized in 2020 and 2021, with the balance to be fully amortized in 2022 and subsequent dissolution of the account.
5. Approval to recover shared services charged by PNG to PNG(NE) for 2022. The shared services costs allocated to PNG(NE) includes the TSU Shared Corporate Services Costs allocated to PNG from its parent.
6. Approval to continue the UAF Volume deferral account on the basis that the UAF volume forecasts for 2022 are set at zero with PNG(NE) recording the variance between zero percent and a loss up to 1.0 percent without having to seek further BCUC approval.

## 1.5 Decision Framework

In this decision, the Panel specifically addresses the following issues arising from the RRA:

- Section 2.0 focuses on issues related to the cost of service including those associated with operating, maintenance, administrative and general expenses. Specifically, this section will address issues related to increases in TSU Shared Corporate Services Costs;
- Section 3.0 addresses issues related to PNG(NE)'s proposed capital expenditures including PNG(NE)'s request for BCUC approval of unplanned capital costs incurred in 2021 for the FSJ/DC Division;
- Section 4.0 deals with issues related to PNG(NE)'s requests for BCUC approval of changes to existing deferral accounts, as well as the proposed establishment of three new deferral accounts;
- Section 5.0 outlines the overall Panel determination on the PNG(NE) 2022 delivery rates and RSAM rate rider.
- Section 6.0 examines PNG(NE)'s request for the FSJ/DC Division to continue the UAF Volume deferral account on the basis that the UAF volume forecasts for 2022 are set at 1.0 percent of deliveries, and for the TR Division to continue the UAF Volume deferral account on the basis that the UAF volume forecasts for 2022 are set at zero percent of deliveries; and
- Section 7.0 addresses other matters, including the rate design and amalgamation considerations for both commodity costs and delivery rates among the PNG divisions, future rate impact mitigation and other issues raised during the proceeding.

There are several issues arising from the FSJ/DC and TR Application which are similar to those in the PNG-West 2022 RRA, such as the increases in TSU Shared Corporate Services Costs and the establishment of new deferral accounts. These issues are addressed individually below for PNG(NE).

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<sup>23</sup> Exhibit B-5, TR Division, Section 2.10, Table 22, p. 44.

<sup>24</sup> Ibid., p. 48.

## 2.0 Cost of Service

To establish 2022 delivery rates, the Panel considers PNG(NE)'s total Revenue Requirement or its "cost of service" for the FSJ/DC Division and the TR Division, respectively. PNG(NE)'s Revenue Requirement for each division reflects the total amount of revenue that must be collected in rates to recover its forecast costs of service and to provide PNG(NE) an opportunity to earn a reasonable return. For Test Year 2022, PNG(NE)'s forecast cost of service for the FSJ/DC Division that underlies the forecast revenue deficiencies and proposed delivery rates is \$21.340 million, excluding Company Use gas cost of \$0.311 million, which is a \$1.795 million increase over the Decision 2021 amount.<sup>25</sup> The operating, maintenance, and administrative and general expenses (OMA&G), net of Company use gas costs and transfers to capital, make up \$10.958 million of the 2022 forecast cost of service for the FSJ/DC Division and are discussed in the next section.<sup>26</sup>

For Test Year 2022, PNG(NE)'s forecast cost of service for the TR division that underlies the forecast revenue deficiencies and proposed delivery rates is \$2.233 million, excluding Company Use gas cost of \$.069 million, which is a \$0.257 million increase over the Decision 2021 amount. The OMA&G expenses, net of Company use gas costs and transfers to capital, make up \$1.304 million of the 2022 forecast cost of service for the TR division and are discussed in the next section.<sup>27</sup>

### 2.1 Operating, Maintenance, and Administrative & General Expenses

PNG(NE) is requesting recovery of the following OMA&G expenses for the 2022 Test Period, subject to the adjustments identified during this proceeding, as summarized in PNG(NE)'s final argument:<sup>28</sup>

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<sup>25</sup> "Decision 2021 amount" refers to the 2021 BCUC-approved amount in the PNG(NE) 2020–2021 RRA Decision and accompanying Order G-263-20.

<sup>26</sup> Exhibit B-5, FSJ/DC Division, Section 2, Table 6, p. 18.

<sup>27</sup> Exhibit B-5, TR Division, Section 2, Table 6, p. 17.

<sup>28</sup> PNG(NE) Final Argument, Section 4. pp. 9–10.

**Table 1: PNG(NE) FSJ/DC OMA&G<sup>29</sup>**

	\$000's	
	Decision 2021	Test Year 2022
Net Operating (including shared service cost allocation, net of company use cost of gas and transfers to capital)	<b>6,500</b>	<b>6,681</b>
Maintenance	<b>519</b>	<b>589</b>
Net Administrative and General (including shared service cost allocation, net of company use cost of gas and transfers to capital)	<b>2,972</b>	<b>3,688</b>
<b>Total</b>	<b>9,991</b>	<b>10,958</b>

**Table 2: PNG(NE) TR OMA&G<sup>30</sup>**

	\$000's	
	Decision 2021	Test Year 2022
Net Operating (including shared service cost allocation, net of company use cost of gas and transfers to capital)	<b>847</b>	<b>809</b>
Maintenance	<b>131</b>	<b>145</b>
Net Administrative and General (including shared service cost allocation, net of company use cost of gas and transfers to capital)	<b>273</b>	<b>350</b>
<b>Total</b>	<b>1,251</b>	<b>1,304</b>

PNG(NE)'s net OMA&G expenses for the FSJ/DC Division for the 2022 Test Period are forecast to be \$10.958 million which is \$0.967 million or 9.7 percent greater as compared to the Decision 2021 amount of \$9.991 million for the FSJ/DC Division. The overall increase is due to increased general and administrative costs related to TSU Shared Corporate Services Costs, financial reporting and customer billing information systems, insurance expense, pension expense, plus general inflationary pressures.<sup>31</sup>

PNG(NE)'s net OMA&G expenses for the TR Division for the 2022 Test Period are forecast to be \$1.304 million which is \$0.053 million or 4.2 percent greater as compared to the Decision 2021 amount of \$1.251 million for the TR division. The overall increase is primarily due to increased general and administrative costs related to TSU Shared Corporate Services Costs, financial reporting and customer billing information systems, insurance expense, pension expense, plus general inflationary impacts.<sup>32</sup>

<sup>29</sup> Exhibit B-5, FSJ/DC Division, Section 2.3, p. 26, Section 2.4, p. 31, Section 2.5, p. 33.

<sup>30</sup> Exhibit B-5, TR Division, Section 2.3, p. 24, Section 2.4, p. 28, Section 2.5, p. 30.

<sup>31</sup> PNG(NE) Final Argument, p. 6.

<sup>32</sup> Ibid., p. 8.

### Adjustments

During this proceeding and as summarized in PNG(NE)'s final argument, PNG(NE) identified certain adjustments and corrections to the Test Year 2022 forecast that it has proposed to reflect in the final regulatory schedules, including the following:<sup>33</sup>

- FSJ/DC: PNG(NE) identified that certain maintenance costs were overstated by \$130,000 and has proposed reducing this cost of service item to correct for the error;<sup>34</sup>
- TR: PNG(NE) identified a typographical error in the forecast for utilities costs that resulted in an overstatement by \$10,000 and has proposed reducing this cost of service item to correct for the error;<sup>35</sup>
- TR: PNG(NE) identified that costs of \$80,000 for close interval survey/direct current voltage gradient (DCVG) activities were budgeted in error and has proposed reducing this cost of service item to correct for the error;<sup>36</sup> and
- TR: With the delay in hiring the Gas Plant Operator, PNG(NE) has proposed a reduction to Test Year 2022 labour costs by \$26,500.<sup>37</sup>

### *Positions of the Parties*

BCOAPO and RCIA do not raise issues in their submissions regarding PNG(NE)'s forecast 2022 operating and maintenance expenses. As discussed in Section 2.1.1 below, BCOAPO makes recommendations regarding administrative & general expenses.

### *Overall Panel Determination on OMA&G Expenditures*

The Panel has reviewed the evidence and argument on record in the proceeding and PNG(NE)'s stated rationale for the increase in OMA&G expenses in the Test Period and finds the OMA&G expenses requested for recovery in 2022 to be reasonable.

**The Panel finds the forecast 2022 OMA&G expenses to be reasonable, subject to the adjustments summarized in PNG(NE)'s final argument and the determinations in the subsection below.**

#### **2.1.1 Administrative & General Expenses**

FSJ/DC administrative and general expenses for 2022 (including shared service cost allocation, net of company use cost of gas and transfers to capital), are forecast to be \$3.688 million which is \$716,000 or 24.1 percent greater as compared to the Decision 2021 amount of \$2.972 million.<sup>38</sup> Administrative and general expenses is comprised of administration, special services, insurance, employee benefits and general expense plus shared service cost allocations.<sup>39</sup>

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<sup>33</sup> Exhibit B-6, Cover Letter, pp. 1–2; PNG(NE) Final Argument, Section 4, pp. 9–10; Exhibit B-6, BCUC IR 14.1.1; Exhibit B-8, BCUC IR 2.2, 3.1, 11.1.

<sup>34</sup> Exhibit B-6, BCUC IR 14.1.1.

<sup>35</sup> Exhibit B-8, BCUC IR 2.2.

<sup>36</sup> Ibid., BCUC IR 3.1.

<sup>37</sup> Ibid., BCUC IR 11.1.

<sup>38</sup> PNG(NE) Final Argument, p. 14.

<sup>39</sup> Exhibit B-5, FSJ/DC Division, Section 2.5, Table 15, p. 33, Exhibit B-5, TR Division, Section 2.5, Table 15, p. 30.

TR administrative and general expenses for 2022 (including shared service cost allocation, net of company use cost of gas and transfers to capital), are forecast to be \$350,000 which is \$77,000 or 28.2 percent greater as compared to the Decision 2021 amount of \$273,000.<sup>40</sup>

Key contributors to the cost increase for both FSJ/DC and TR Divisions are increased provision for regulatory costs pertaining to the review of the Application and the PNG Low Carbon Energy Cost Recovery Mechanism and Biomethane Agreement application, insurance costs, and increase in the provision for BCUC annual fees.<sup>41</sup>

### *Positions of the Parties*

BCOAPO submits that it is “unable to conclude that PNG has actively managed its costs related to FSJ/DC for the 2022 Test Year”<sup>42</sup> and requests that the increase in FSJ/DC Administrative and General expenses (net of transfers to capital) be capped for rate-setting purposes in 2022 at between 5 percent and 10 percent over the Decision 2021 amount.<sup>43</sup> BCOAPO further submits that “[c]oincidentally, it is noted that this adjustment would bring the overall increase for FSJ/DC into a similar range – as the overall increase for TR at 4.1%.”<sup>44</sup>

In reply to BCOAPO, PNG(NE) “objects to the proposed blanket reduction to its cost of service noting that the BCUC has a statutory obligation to establish rates that permit PNG(NE) the opportunity to recover all of its costs of providing service and earn a fair return” and that “adjustments should be explicit and supported with valid reasoning.”<sup>45</sup> Further, PNG(NE) submits that “BCOAPO has disregarded the broad body of evidence on record providing justification for costs making up the 2022 cost of service as necessary to continue to provide safe and reliable service to its customers” and “the inflationary trend playing out as 2022 advances.”<sup>46</sup> Additionally, PNG(NE) observes that the elements BCOAPO references, including PNG(NE) failing to implement productivity adjustments, stretch targets and downward adjustments to certain costs to provide customers with some measure of benefit from cost pressures, are more representative of a performance or incentive based regulatory framework rather than the cost of service regulatory framework under which PNG(NE) operates.<sup>47</sup>

### *Panel Determination*

The Panel recognizes BCOAPO’s concern with respect to the increase in the forecast 2022 Administrative and General expenses. However, the Panel determines that applying a blanket reduction of the forecast costs of service for all Administrative and General expenses without evidence to justify the blanket reduction is without merit, considering the detailed submission by PNG(NE) to support its 2022 forecasts.

**The Panel finds that the forecast 2022 Administrative and General expenses are reasonable, subject to the adjustments summarized in PNG(NE)’s final argument and the determinations related to the TSU Shared Corporate Services Costs as addressed in the subsection below.**

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<sup>40</sup> PNG(NE) Final Argument, pp. 14–15.

<sup>41</sup> PNG(NE) Final Argument, pp. 14–15.

<sup>42</sup> BCOAPO Final Argument, p. 14.

<sup>43</sup> Ibid., p. 5.

<sup>44</sup> Ibid., p. 15.

<sup>45</sup> PNG(NE) Reply Argument, p. 7.

<sup>46</sup> Ibid., p. 6.

<sup>47</sup> Ibid., p. 6.

## TSU Shared Corporate Services Costs

PNG(NE) seeks approval to recover in customer rates its portion of the TSU Shared Corporate Services Costs allocated to PNG by its parent, TSU. As mentioned above, PNG(NE) is a wholly owned subsidiary of PNG, which in turn is a wholly-owned subsidiary of TSU.<sup>48</sup> TSU provides corporate services on behalf of PNG and allocates a portion of its costs to PNG (referred to as TSU Shared Corporate Services Costs) and its other subsidiaries using the Modified Massachusetts Formula. This methodology is consistent with standard industry practice and does not differ from the allocation methodology used in prior years.<sup>49</sup> PNG in turn allocates costs, including the TSU Shared Corporate Services Costs, to PNG(NE) using the cost allocation methodology approved by Order G-114-13.<sup>50</sup>

The consolidated cost allocation from TSU to PNG is \$2.039 million in 2022, compared to \$1.872 million in 2021. Of this \$167,000 increase, \$151,000 has been allocated to PNG-West, \$14,000 has been allocated to PNG(NE) FSJ/DC Division, and \$1,000 has been allocated to PNG(NE) TR Division.<sup>51</sup> The cost allocation breakdown between PNG-West and the PNG(NE) divisions for 2020 to 2022 is illustrated in the table below:

**Table 3: Cost Allocation between PNG-West and PNG(NE)<sup>52</sup>**

Cost Component	\$000's		
	Decision 2020	Decision 2021	Test Year 2022
PNG-West	1,160	1,207	1,358
PNG(NE) – FSJ/DC	634	624	638
PNG(NE) – TR	41	42	43
<b>Consolidated</b>	<b>1,835</b>	<b>1,872</b>	<b>2,039</b>

PNG(NE) submits that the TSU corporate structure enables PNG and its divisions (PNG-West, PNG(NE) FSJ/DC, and PNG(NE) TR) to share the costs associated with corporate services without incurring the full standalone costs of those services on their own.<sup>53</sup> It adds that the TSU Shared Corporate Services Costs and the allocated share of costs from PNG's parent are fair, reasonable, and should be accepted as filed.<sup>54</sup>

PNG(NE) states that the increase in the full TSU Shared Corporate Services Costs allocated to PNG is primarily attributed to additional resources to address cybersecurity, Environmental, Social and Governance (ESG) reporting and a potential transition of the TSU group of companies to reporting under International Financial Reporting Standards (IFRS) from the US Generally Accepted Accounting Principles (US GAAP) current reporting standard.<sup>55</sup> The BCUC evaluated the evidence on the TSU Shared Corporate Services Costs on a consolidated basis, including the reasonableness of the increase in costs in the PNG-West Decision. A summary of the BCUC's review and determinations of these costs in the PNG-West Decision is provided in the following subsection.

<sup>48</sup> Exhibit B-5, FSJ/DC Division, Section 2.5.8, p. 38, Exhibit B-5, TR Division, Section 2.5.8, p. 36.

<sup>49</sup> PNG-West 2020–2021 RRA Decision and accompanying Order G-255-20, Section 2.1.5, p. 13; Exhibit B-6, BCUC IR 27.2.

<sup>50</sup> Exhibit B-5, FSJ/DC Division, Section 2.6, p. 40, Exhibit B-5, TR Division, Section 2.6, p. 37; Exhibit B-6, BCUC IR 19.1.

<sup>51</sup> Exhibit B-5, FSJ/DC Division, Section 2.5.8, p. 38, Exhibit B-5, TR Division, Section 2.5.8, p. 36.

<sup>52</sup> Ibid.; PNG(NE) 2020–2021 RRA Decision and accompanying Order G-263-20, Section 2.1.5.1, Table 1, p. 15; PNG-West 2022 RRA Proceeding, Exhibit B-4, Section 2.5.1, pp. 53–54.

<sup>53</sup> Exhibit B-5, FSJ/DC Division, Section 2.5.8, p. 38, Exhibit B-5, TR Division, Section 2.5.8, p. 36.

<sup>54</sup> PNG(NE) Final Argument, Section 9, para 44, p. 15.

<sup>55</sup> Exhibit B-5, FSJ/DC Division, Section 2.5.8, p. 38, Exhibit B-5, TR Division, Section 2.5.8, p. 36.

### PNG-West Decision

In the PNG-West Decision, the BCUC approved the full recovery of the forecast TSU Shared Corporate Services Costs allocated in 2022 to PNG by its parent, TSU, with exceptions as noted below. In making its determinations in that proceeding, the BCUC considered the reasonableness of the costs in relation to the benefits they provide to PNG's ratepayers. The BCUC also reviewed the evidence related to the incremental increase in costs for the provision of these services and the expected value to PNG-West and PNG(NE) and their respective ratepayers in order to assess the reasonableness of the costs TSU allocated to PNG.<sup>56</sup>

In the PNG-West Decision, the BCUC made the following findings and directives with respect to the recovery of the full TSU Shared Corporate Services Costs allocated to PNG:<sup>57</sup>

- Allocation of TSU Shared Corporate Services Costs from PNG's parent, TSU, to PNG is appropriate, considering the services provided by TSU and the benefits achieved by PNG as a result of those services.
- The allocable amount of TSU Shared Corporate Services Costs to PNG was reasonable apart from the compensation costs related to the advance hiring of a new independent director in contemplation of the planned retirement of the chair of the Audit Committee. The BCUC denied recovery of those forecast compensation costs expected to be incurred prior to the planned retirement date of the departing chair.
- The BCUC directed PNG to include clear delineation of the TSU employee costs that are attributed to opportunities unrelated to the existing regulated business as part of PNG's next RRA.

### *Positions of the Parties*

BCOAP0 and RCIA have no submissions specific to the TSU Shared Corporate Services Costs.

### *Panel Determination*

**PNG(NE) is approved to record its allocation of the TSU Shared Corporate Services Costs in the 2022 revenue requirements, subject to the BCUC directed adjustments to these costs as identified in the PNG-West Decision.**

In making its determination, the Panel has considered the reasonableness of these costs in relation to the benefits they provide to PNG(NE)'s ratepayers. PNG(NE) has put forward evidence regarding the corporate services provided by TSU, on behalf of PNG and the other subsidiaries, including governance, business oversight, financing, administration, legal, accounting and regulatory services. These services are necessary for both PNG-West and PNG(NE) to access capital and borrowing to maintain its capital structure. These services are critical for any utility and without TSU, PNG would need to acquire these services on its own. The Panel acknowledges that the services provided by TSU give both direct and indirect benefits to PNG-West and PNG(NE) and their respective ratepayers, including achieving economies of scale, expanding access to capital, and sharing in corporate services costs without incurring the full standalone costs on its own.

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<sup>56</sup> PNG-West Decision, Section 2.1.2, pp. 15–16.

<sup>57</sup> Ibid.



The Panel also refers to the PNG-West Decision, wherein the BCUC found that the allocation of TSU Shared Corporate Services Costs from PNG’s parent, TSU, to PNG is appropriate, considering the services provided by TSU and the benefits achieved by PNG as a result of those services.

In consideration of the services provided by TSU and the resulting benefits realized by both PNG-West and PNG(NE), the Panel finds that the portion of the TSU Shared Corporate Services Costs allocated to each of the PNG(NE) divisions is appropriate, subject to the BCUC-directed adjustments in the PNG-West Decision. The Panel agrees with the PNG-West Decision in which the BCUC approved the allocation of the consolidated TSU Shared Corporate Services Costs between PNG-West and the PNG(NE) divisions using the allocation methodology previously approved by BCUC Order G-114-13.

**3.0 Capital Expenditures**

The subsections below address specific forecast 2022 capital expenditures for the FSJ/DC Division and the TR Division, respectively, as well as PNG(NE)’s request for BCUC approval of 2021 unplanned capital expenditures in the FSJ/DC Division.

**3.1 Fort St. John / Dawson Creek Capital Expenditures**

For the 2022 Test Period, PNG(NE) forecasts capital expenditures before overhead of approximately \$4.741 million for the FSJ/DC Division, as follows:<sup>58</sup>

**Table 4: FSJ/DC 2022 Capital Expenditures<sup>59</sup>**

<sup>58</sup> Exhibit B-5, FSJ/DC Division, Section 2.13.1.2, p. 57.

<sup>59</sup> Exhibit B-5, FSJ/DC Division, Section 2.13.1.2, p. 57.

2022 Major Capital Projects (> \$50,000)	Project Type *	Plant in Service Account Number	Budgeted Cost Excluding Overhead
<b>Planned - Recurring</b>			
New Services	NB	473	780,283
Mobile/Heavy Equipment	GP	484/485	779,390
Distribution Main Improvement - Mechanical Couplings	SB	475	552,346
Meter and Regulator Purchases	NB	474/478	551,717
Distribution Main Improvement - Other	SB	475	520,915
Distribution Main Improvement - PE2306 Replacement	SB	475	295,964
Distribution Mains	NB	475	204,677
New/Replacement Tools and Equipment	GP	486	141,172
New/Replacements Meters	NB	474	62,392
			3,888,856
Other Minor Projects <\$50,000	Various	Various	18,461
<b>Subtotal</b>			<b>3,907,317</b>
<b>Planned - Non-recurring</b>			
Steel Main Replacement - DC	SB	465	321,640
Line Heater Replacements	SB	467	255,000
Block Valve Installation	SB	465	204,000
Station Modifications	SB	467	53,414
			834,054
No Minor Projects <\$50,000	Various	Various	-
<b>Subtotal</b>			<b>834,054</b>
<b>Total Capital Expenditures without Overhead</b>			<b>\$ 4,741,371</b>

\* SB = System Betterment; NB = New Business; GP = General Plant; GP-I = General Plant - Intangibles

With respect to Mobile/Heavy Equipment, PNG(NE) states that the budgeted cost noted in Table 4 above includes \$173,000 for the purchase of a compact excavator. In response to IRs, PNG(NE) clarified that it is no longer planning on purchasing a compact excavator and that it will continue to rent this piece of equipment on an as required basis. PNG(NE) proposes to reflect this change in its final regulatory schedules.<sup>60</sup>

### *Positions of the Parties*

RCIA supports PNG(NE)'s proposed 2022 capital expenditures.<sup>61</sup> RCIA notes that PNG(NE) should continue to apply its Asset Risk Management Program to properly prioritize capital expenditures, such as those included as part of the Steel Main Replacement program.<sup>62</sup>

In reply, PNG(NE) submits that the scope of its Steel Main Replacement program is well within industry standard practice and that it has been scaled down "based on steel main condition, leak rate, and in consciousness of the balance between asset risk and overly risk adverse spending."<sup>63</sup>

BCOAPD takes no specific position regarding the 2022 forecast capital expenditures for the FSJ/DC Division.

### *Panel Determination*

<sup>60</sup> Exhibit B-10, RCIA IR 17.3.

<sup>61</sup> RCIA Final Argument, Section 2.6, pp. 13–18.

<sup>62</sup> RCIA Final Argument, Section 2.6.5, p. 17.

<sup>63</sup> PNG(NE) Reply Argument, Section 3.3.2, p. 13.

The Panel finds that PNG(NE)'s 2022 forecast capital expenditures for the FSJ/DC Division are reasonable, subject to the removal of the compact excavator costs from the line item Mobile/Heavy Equipment. The Panel directs PNG(NE) to update the 2022 forecast capital expenditures for the FSJ/DC Division in its final regulatory schedules to reflect the proposed adjustment to the Mobile/Heavy Equipment line item.

### **3.2 Tumbler Ridge Capital Expenditures**

For the 2022 Test Period, PNG(NE) forecasts capital expenditures before overhead of approximately \$0.615 million for the TR Division, as follows:<sup>64</sup>

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<sup>64</sup> Exhibit B-5, TR Division, Section 2.13.1.2, p. 53. The adjustments identified during this proceeding are summarized in Section 4 of PNG(NE)'s Final Argument.

**Table 5: TR 2022 Capital Expenditures<sup>65</sup>**

2022 Major Capital Projects (> \$50,000)	Project Type *	Plant in Service Account Number	Budgeted Cost Excluding Overhead
<b>Planned - Recurring</b>			
Mobile/Heavy Equipment	GP	484/485	159,120
Other Minor Projects <\$50,000	Various	Various	159,120 10,200
<b>Subtotal</b>			169,320
<b>Planned - Non-recurring</b>			
TR Transmission ML modifications - Phase 3 of 4	SB	465	215,300
Processing Plant Improvements	SB	418	181,147
Other Minor Projects <\$50,000	Various	Various	396,447 49,000
<b>Subtotal</b>			445,447
<b>Total Capital Expenditures without Overhead</b>			<b>\$ 614,767</b>

\* SB = System Betterment; NB = New Business; GP = General Plant; GP-I = General Plant - Intangibles

The TR Transmission ML modifications project noted above involves the modification of the transmission system from the TR Processing Plant to the TR Division gate station, and is being completed in four phases. These modifications are needed to facilitate the use of in-line inspection (ILI) tools and in-line cleaning tools. Phase one expenditures in 2020 included feasibility and front-end engineering and design activities. Phase two expenditures in 2021 are related to detailed engineering, permitting and execution planning to arrive at a Class 3 cost estimate. Phase three is planned for Test Year 2022 and it will include the transmission system barrel installation and commissioning activities for two barrels at a cost of \$0.215 million. The planned installation of the remaining barrels and finalization of the project will occur in phase four.<sup>66</sup>

The processing plant improvements project relates to the purchase of a generator for the TR Processing Plant and for vessel inspections. PNG(NE) submits that the “AC generator will mitigate issues the plant may experience from interrupted operation and the resulting loss of production chemicals. Vessel inspections are part of PNG(NE)’s integrity management plan and are required to ensure a safe and reliable gas supply.”<sup>67</sup> By way of background, the TR Processing Plant serves as a natural gas processing plant for the TR Division, to provide service to PNG(NE)’s residential, commercial customers and its industrial customer, CNRL. Gas supply for PNG(NE) is provided solely by CNRL. The processing plant receives raw gas from CNRL’s natural gas wells. The natural gas processing plant removes impurities and then delivers sales quality natural gas to the District of Tumbler Ridge as well as back to CNRL at CNRL’s facilities in Murray River.<sup>68</sup>

### *Positions of the Parties*

RCIA supports the proposed transmission mainline modifications as ILI is a proven methodology to detect defects in pipelines so that repairs can be prioritized which will reduce the risk of failure.<sup>69</sup> RCIA does not comment on the TR Processing Plant improvements or other 2022 forecast capital expenditures for the TR division.

<sup>65</sup> Exhibit B-5, TR Division, Section 2.13.1.2, p. 53.

<sup>66</sup> Ibid., p. 54.

<sup>67</sup> Exhibit B-5, TR Division, p. 54.

<sup>68</sup> Exhibit B-5, TR Division, Appendix F, p. 8.

<sup>69</sup> RCIA Final Argument, Section 2.6.1, p. 14.

BCOAPo takes no specific position regarding the 2022 forecast capital expenditures for the TR Division.

### *Panel Determination*

**The Panel finds that PNG(NE)'s 2022 forecast capital expenditures for the TR Division are reasonable.** The Panel also commends PNG(NE) for modifying the transmission system to allow for better maintenance and inspection of the line through the use of ILI tools. The Panel reviewed all other forecast 2022 capital expenditures for the TR division, including those related to the TR Processing Plant improvements, and considers them to be reasonable and necessary for PNG(NE) to provide safe and reliable service.

### **3.3 Integrity-Related Capital Work**

PNG(NE) provides an update regarding the BCOGC's Aged Pipeline Condition Assessment initiative. PNG(NE) states that Phase 1 of the initiative has been focusing on larger diameter pipe (greater than 8"), and that a PNG(NE) driven Phase 2 will be initiated in the coming years and that it will be focused on smaller diameter pipe.<sup>70</sup>

PNG(NE) states that the BCOGC has no immediate plans to conduct further assessments, such as a phase 2, on any other aged pipeline assets or to extend a similar review into PNG(NE) facilities.<sup>71</sup>

PNG(NE) is in the early stages of developing a multi-year scope to retrofit priority pipelines for ILI. This work will be informed by evolving BCOGC compliance requirements and pending updates to CSA codes in 2023.<sup>72</sup>

### *Positions of the Parties*

RCIA supports the steps that PNG(NE) has taken to improve its integrity management plan in response to the findings of the BCOGC,<sup>73</sup> as well as PNG(NE)'s asset management processes which utilize risk-based approaches to identifying capital expenditures.<sup>74</sup> However, RCIA recommends that PNG(NE) apply greater diligence in reducing capital expenditures.<sup>75</sup>

BCOAPo submits that PNG(NE) is not utilizing asset management processes and tools to their full advantage to prioritize non-Certificate of Public Convenience and Necessity (CPCN) capital expenditures during a period of significant rate pressures.<sup>76</sup>

In reply, PNG(NE) submits that capital projects forecast for 2022 were extracts from five- and ten-year capital outlooks and that it maintains a register of capital projects as well as a plan for execution, which are updated on an ongoing basis. Regarding prioritization of non-CPCN expenditures, PNG(NE) submits that it has a highly qualified team that focuses on PNG(NE)'s capital program and executes projects with financial restraint and prudence. Further, PNG(NE) submits that its forecast process included a rigorous review of 2022 capital

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<sup>70</sup> Exhibit B-5-1, FSJ/DC Division, Appendix D, Update on BCOGC Aged Pipeline Condition Assessment, p. 10.

<sup>71</sup> Exhibit B-13, Confidential BCUC IR 4.1.

<sup>72</sup> Exhibit B-13, Confidential BCUC IR 4.4 and 4.4.1.

<sup>73</sup> RCIA Final Argument, p. 19.

<sup>74</sup> Ibid., p. 23.

<sup>75</sup> Ibid., p. 24.

<sup>76</sup> BCOAPo Final Argument, p. 7.

expenditures and used an assignment of risk severity to identify those capital expenditures that were most in need of betterment or replacement.<sup>77</sup>

### *Panel Discussion*

**The Panel accepts PNG(NE)'s submission regarding its expenditure plans for integrity related capital work going forward.** Given the size of the organization, the age of its infrastructure and the order issued by the BCOGC, the Panel considers that PNG(NE) appears to be taking a reasonable approach to carrying out the necessary integrity related capital work. As is expected of all utilities, PNG(NE) is developing a multi-year plan to retrofit priority pipelines for ILI and for examining how it may translate this to apply to the inspection and maintenance of the smaller pipeline dimension part of their network.

## **3.4 2021 Unplanned Capital Expenditures**

PNG(NE) is seeking approval of unplanned capital costs of \$2.192 million for the FSJ/DC Division that were incurred in 2021 for unexpected and necessary system reinforcement work related to gas supply for the Pouce Coupe – Tomslake area (Reinforcement Project).<sup>78</sup>

Prior to the Reinforcement Project, the community of Tomslake and the southeast portion of the community of Pouce Coupe were supplied exclusively by a single natural gas source provided by Ovintiv.<sup>79</sup> In October 2019, Ovintiv notified PNG(NE) that it intended to terminate its gas supply agreement to Tomslake since trace amounts of H<sub>2</sub>S gas had been detected in the supply and therefore these were an insufficient supply of pipeline quality gas.<sup>80</sup> As a condition of continued interim supply, Ovintiv required that PNG(NE) install an H<sub>2</sub>S gas analyzer and an automatic shut-in valve. PNG(NE) installed the gas analyzer and automatic shut-in valve, as well as compressed natural gas (CNG) backup, on June 11, 2021.<sup>81</sup> Shortly after this date, PNG(NE) states it began to experience reliability issues, as the automatic shut-in valve closed due to high H<sub>2</sub>S detection. PNG(NE) was concerned regarding potential reliability issues over the winter months, and therefore proceeded to advance for the construction of a main extension of approximately 10 kilometres that would connect and integrate supply from Dawson Creek to the Tomslake/Pouce Coupe area.<sup>82</sup> Work on the Reinforcement Project began in September 2021 and was completed in November 2021.<sup>83</sup>

PNG(NE) states that during a prolonged period of the gas supply exceeding maximum H<sub>2</sub>S thresholds in October 2021, it was found that logistics and supply of CNG were not adequate to meet the demands of customers.<sup>84</sup> As a result, PNG(NE) replaced the CNG supply with liquified natural gas (LNG) supply which enabled longer duration of supply and improved logistics. PNG(NE) completed a 'high-level order of magnitude cost evaluation' comparing the costs of continued CNG/LNG supply and the costs of the Reinforcement Project. PNG(NE) assessed that the annual costs of CNG/LNG supply to be \$0.732 million.<sup>85</sup>

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<sup>77</sup> PNG(NE) Reply Argument, Section 2.4, pp. 7–8.

<sup>78</sup> Exhibit B-5, FSJ/DC Division, Section 1.2.2, p. 4.

<sup>79</sup> Exhibit B-5, FSJ/DC Division, Appendix C, p. 1.

<sup>80</sup> Exhibit B-6, BCUC IR 40.2.

<sup>81</sup> Ibid.

<sup>82</sup> Exhibit B-5, FSJ/DC Division, Section 1.2.2, p. 5.

<sup>83</sup> Exhibit B-5, FSJ/DC Division, Appendix C, p. 4.

<sup>84</sup> Exhibit B-6, BCUC IR 40.7.1.

<sup>85</sup> Ibid., BCUC IR 40.10.

## *Positions of the Parties*

RCIA supports the expenditures made to reinforce the gas supply to Tomslake and Pouce Coupe and recommends that these expenditures be approved by the BCUC.<sup>86</sup>

BCOAPD does not take a position regarding PNG(NE)'s unplanned 2021 capital expenditures.

## *Panel Determination*

**The Panel approves PNG(NE)'s unplanned capital expenditures in the FSJ/DC Division of \$2.192 million incurred in 2021 related to the Reinforcement Project.** The Panel considers that the need to replace the gas supply to this area due to the deterioration of the availability of pipeline quality gas in time for the winter season necessitated this expenditure.

The Panel finds PNG(NE)'s approach to dealing with changes to capital expenditures that are unanticipated to be acceptable. The Panel acknowledges PNG(NE)'s efforts to notify the BCUC of the 2021 unplanned capital expenditures. The Panel also reminds PNG(NE) to continue similar reporting of unanticipated capital expenditures, as directed by Order G-263-20.

## **4.0 Deferral Accounts**

This section addresses PNG(NE)'s requests for BCUC approval of changes to the existing COVID-19 deferral account, including the proposed amortization in Test Year 2022, as well as the proposed creation of three new deferral accounts. These deferral account requests are discussed individually below.

### **4.1 COVID-19 Deferral Account**

In 2020, the BCUC approved the establishment of a COVID-19 deferral account for PNG(NE), to record any incremental unplanned expenses and cost savings related to the COVID-19 pandemic.<sup>87</sup> To ensure transparency of the deferral account balances, PNG(NE) reported to the BCUC on the COVID-19 deferral account balances on a monthly basis for the period from April 17, 2020 to December 31, 2021.<sup>88</sup> On February 1, 2022, the BCUC approved PNG(NE)'s request to cease monthly reporting on these balances at the end of 2021.<sup>89</sup>

In the Application, PNG(NE) proposes to amortize the credit balances of \$747,000 and \$38,000 in the deferral account at December 31, 2021 for the FSJ/DC and TR Divisions, respectively, in Test Year 2022. PNG(NE) proposes to maintain the deferral account for the Test Year.<sup>90</sup>

PNG(NE) considers that amortization of the full deferral account credit balance in Test Year 2022 will return the balance to the benefit of ratepayers and avoid intergenerational inequity issues. PNG(NE) adds that the amortization of the COVID-19 deferral account in 2022 would also help moderate the forecast rate increase for 2022. Under a scenario where the December 31, 2021 balance is not amortized in Test Year 2022, PNG(NE)

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<sup>86</sup> RCIA Final Argument, Section 2.6.2, p. 15.

<sup>87</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, p. 52, Exhibit B-5, TR Division, Section 2.10, pp. 48-49; Order G-146-20 and G-147-20.

<sup>88</sup> Exhibit B-6, BCUC IR 28.4.

<sup>89</sup> Order G-21-22.

<sup>90</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, p. 52, Exhibit B-5, TR Division, Section 2.10, p. 49.

states that the deferral account credit balance would help to mitigate rate pressures when amortized in a future test period. However, PNG(NE) notes that there are additional mechanisms to mitigate future rate volatility.<sup>91</sup> These mechanisms include smoothing rates over multiple years to reduce volatility, continuing to investigate potential growth opportunities, undertaking initiatives to regain existing customers, and reviewing its current rate structures.<sup>92</sup>

The Test Year 2022 cost of service incorporates the forecast impact of the ongoing COVID-19 pandemic.<sup>93</sup> Specifically, PNG(NE) has reduced forecast 2022 travel and training costs, resulting in a budget for Test Year 2022 that is significantly lower than that presented in PNG(NE)'s 2020–2021 RRA Decision (Decision 2020–2021).<sup>94</sup> PNG(NE) considers, however, that as travel and other COVID-19 restrictions and safety measures ease, cost savings previously realized in these areas will dissipate.<sup>95</sup> The cost of service for Test Year 2022 does not include provision for any incremental costs related to the COVID-19 pandemic because PNG(NE) considers the pandemic situation to be improving and does not expect to incur additional costs.<sup>96</sup>

Notwithstanding that Test Year 2022 cost of service reflects the expected impact of the COVID-19 pandemic, PNG(NE) considers that in light of the ongoing uncertainty around the pandemic, it is prudent to keep the deferral account in place in the immediate term to capture any COVID-19 related expenditures and/or cost savings that may arise. PNG(NE) states that this would provide both administrative and regulatory efficiency should a need arise to make use of the account in the future. Accordingly, it requests that rather than directing PNG(NE) to close the deferral account, the BCUC authorize PNG(NE) to continue to capture any COVID-19 costs and savings in the deferral account on a go-forward basis. It proposes that the disposition of the COVID-19 deferral account be addressed in its next RRA.<sup>97</sup>

### *Positions of the Parties*

RCIA supports the continued use of the COVID-19 deferral account and the amortization as proposed by PNG(NE).<sup>98</sup> BCOAPO does not comment on PNG(NE)'s COVID-19 deferral account proposals.

### *Panel Determination*

**The Panel approves PNG(NE)'s proposal to amortize the COVID-19 deferral account balance of \$747,000 and \$38,000 for the FSJ/DC and TR Divisions, respectively, as at December 31, 2021 in the 2022 Test Year.** The Panel agrees with PNG(NE) that the credit balance in the deferral account which resulted from cost savings due to the pandemic should be returned to the benefit of current ratepayers of the respective divisions, who have borne the brunt of the pandemic, to avoid inter-generational inequity issues and help to mitigate the impact of the delivery rate increase for Test Year 2022.

**The Panel also approves the continuance of the COVID-19 deferral account to capture costs and savings due to the pandemic on an ongoing basis, and that it be maintained for the Test Year 2022 and beyond.** While the pandemic appears to have abated somewhat in 2022, uncertainty still remains with respect to its potential re-

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<sup>91</sup> Exhibit B-6, BCUC IR 28.2.

<sup>92</sup> Ibid., BCUC IR 54.2.

<sup>93</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, p. 52, Exhibit B-5, TR Division, Section 2.10, p. 49.

<sup>94</sup> PNG(NE) 2020–2021 RRA Decision and accompanying Order G-263-20 dated October 21, 2020 (Decision 2020–2021).

<sup>95</sup> Exhibit B-6, BCUC IR 28.1.

<sup>96</sup> Exhibit B-6, BCUC IR 28.1 and 28.3.

<sup>97</sup> Exhibit B-6, BCUC IR 28.7; Exhibit B-11, BCUC IR 66.1.

<sup>98</sup> RCIA Final Argument, Section 2.4.4, p. 12, Section 3, p. 25.



emergence and impacts. In the meantime, the Panel considers it prudent for the deferral account to remain in place for PNG(NE) to capture pandemic related costs and savings during 2022 and beyond. **However, in the event that the pandemic ceases to be of concern after 2022, the Panel directs PNG(NE) to address, as part of its next RRA, the disposition of the balance in the COVID-19 deferral account and the potential closure of the account after 2022 if warranted.**

## 4.2 Proposed New Deferral Accounts

PNG(NE) requests approval to establish three new deferral accounts to record credit amounts which have been accrued but not dealt with in prior test years. PNG(NE) suggests that these credit amounts should be amortized in Test Year 2022's cost of service as this would be the most appropriate, most efficient and most practical mechanism to return the benefits to customers, both from an administrative and a regulatory review and approval perspective.<sup>99</sup> PNG(NE) states that had the credit variances been debit variances, it would not have sought to recover the incremental costs from customers.<sup>100</sup>

Since PNG(NE)'s requests relate to the establishment of new deferral accounts to capture prior test period variances and recoveries, they raise the issue of retroactive ratemaking. However, the factual circumstances and nature of these deferral accounts differ. Accordingly, the Panel reviews the particulars of these deferral account requests and makes its determinations on each separately in the subsections below.

### 4.2.1 Incremental CCA Deferral Account

In 2021, PNG(NE) FSJ/DC Division incurred significant capital expenditures beyond those approved in Decision 2020–2021. This is primarily related to the unplanned system reinforcement work related to gas supply for the Pouce Coupe and Tomslake areas.<sup>101</sup>

As a result of the unplanned increase in capital expenditures, there is also an increase in capital cost allowance (CCA) deductions available for tax purposes. Given the emergent nature of the need for the unplanned repairs in late 2021, PNG(NE) states that the related tax benefit was not reasonably foreseeable in advance of the submission of PNG(NE)'s 2022 RRA.<sup>102</sup>

PNG(NE) has utilized the Government of Canada's Accelerated Investment Incentive to accelerate CCA deductions for 2021 and has recorded the related CCA provision of \$53,000 in a short-term interest deferral account and proposes to fully amortize the balance in Test Year 2022.<sup>103</sup> Without the proposed deferral account, PNG(NE) states that the benefit of the CCA tax benefit recorded by PNG(NE) in the 2021 taxation year would not flow to ratepayers. PNG(NE) states that BCUC approval of the proposed deferral account will allow for the tax benefit to be returned to PNG(NE) ratepayers in 2022 via the credit amortization of this deferral, which would

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<sup>99</sup> Exhibit B-6, BCUC IR 23.5.

<sup>100</sup> Exhibit B-6, BCUC IR 23.8; PNG(NE) Reply Argument, Section 3.2.2, p. 12.

<sup>101</sup> PNG(NE) Final Argument, p. 18.

<sup>102</sup> Exhibit B-6, BCUC IR 23.1 and 23.4.

<sup>103</sup> PNG(NE) Final Argument, p. 18; Exhibit B-5, FSJ/DC Division, Section 2.10, p. 51.

result in an average delivery rate decrease of 0.37 percent in 2022.<sup>104</sup> In PNG(NE)'s view, the deferral account should remain in place through test periods to 2027 when the Accelerated Investment Incentive ends.<sup>105</sup>

PNG(NE) first utilized the Accelerated Investment Incentive in 2019 and was approved in Decision 2020–2021 to record the related 2019 CCA provision in a short-term interest deferral account, amortize the balance in 2020, and close the account in 2021.<sup>106</sup> PNG(NE) states that its request for the Incremental CCA deferral account in the current (2022) RRA is essentially the same as what was approved in Decision 2020–2021.<sup>107</sup>

### *Positions of the Parties*

RCIA supports the creation of the Incremental CCA deferral account and the amortization of the tax benefits to the benefit of ratepayers in 2022. RCIA considers that it is reasonable for this deferral account to continue past 2022 as the Accelerated Investment Incentive continues past 2022.<sup>108</sup>

BCOAPD does not comment on the issue of potential retroactive ratemaking arising from PNG(NE)'s proposal or the creation of this deferral account.

### *Panel Determination*

As PNG(NE) notes, in Decision 2020–2021, the BCUC approved PNG(NE) capturing the amount of the 2019 CCA tax benefit resulting from its utilization of the Accelerated Investment Incentive in a short-term interest deferral account, amortizing the balance in 2020 and closing the account in 2021. As part of the current Application, PNG(NE) advises that it proposes the establishment of a new Incremental CCA deferral account to capture the CCA tax benefit recorded by PNG(NE) in the 2021 taxation year and to fully amortize the balance in Test Year 2022. The Panel notes, however, that in Decision 2020–2021, the BCUC approved, among other things, PNG(NE)'s delivery rates on a permanent basis for a two-year test period, which did not include the establishment of a deferral account to capture CCA tax benefits arising in 2021 or subsequent taxation years. Accordingly, the Panel considers that PNG(NE)'s request to establish a new deferral account to capture CCA benefits accrued in the previous test period (2020 to 2021) amounts to retroactive ratemaking.

The prohibition against retroactive ratemaking is well established. The Supreme Court of Canada stated in ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board) (ATCO Decision):<sup>109</sup>

...The Board was seeking to rectify what it perceived as a historic overcompensation to the utility by ratepayers. There is no power granted in the various statutes for the Board to execute such a refund in respect of an erroneous perception of past over-compensation. It is well established throughout the various provinces that utilities boards do not have the authority to retroactively change rates...

Consistent with this reasoning in the ATCO Decision, the BCUC typically sets rates on a prospective basis only and the BCUC does not allow recovery or refunds on a retroactive basis, that is, once rates have been made

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<sup>104</sup> Exhibit B-6, BCUC IR 23.7 and 24.1.

<sup>105</sup> Exhibit B-11, BCUC IR 64.1.

<sup>106</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, p. 51.

<sup>107</sup> Exhibit B-6, BCUC IR 24.4.

<sup>108</sup> RCIA Final Argument, Section 2.5.1, pp. 8–10.

<sup>109</sup> ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board), 2006 SCC 4 (CanLII), [2006] 1 SCT 140, para. 71.

permanent. Well-established exceptions to retroactive ratemaking include, in part, setting of interim rates which are subject to later adjustment, and recognition of amounts in deferral accounts to be carried forward to be disposed of in future years.<sup>110</sup>

In the case of the CCA tax benefit accrued in 2021 by PNG(NE), the Panel notes that this benefit should have been captured and reflected in PNG(NE)'s 2021 rates and not in 2022. Instead, PNG(NE) is proposing to reduce the rate impact on customers in 2022 by amortizing the amount of the CCA benefit accrued in 2021 (\$53,000) in a new deferral account after permanent 2021 rates have already been approved by the BCUC. The Panel considers that doing so would amount to retroactive ratemaking because the CCA tax benefits were realized in 2021 and were associated with unplanned capital expenditures in 2021, a test year for which BCUC has already approved permanent rates. PNG(NE)'s proposal to capture the prior test period's recoveries of CCA benefits in a new deferral account in 2022 is only a convenient mechanism for retroactively returning that benefit to ratepayers, and not necessarily a justification for retroactive ratemaking. Nonetheless, the Panel acknowledges that the BCUC has in previous decisions allowed exceptions to the general rule in limited circumstances where warranted.

One such example is the BCUC's decision in the PNG-West 2018-2019 RRA, which approved PNG-West's request to retroactively record, in an existing deferral account, a 2016 goods and services tax (GST) remittance of \$0.321 million to the Canada Revenue Agency relating to a 2016 option fee forfeiture. In so doing, the BCUC considered several factors including "the size of the adjustment, the timeliness of the request, whether PNG-West acted responsibly and the foreseeability of the problem." In particular, the BCUC noted the following:<sup>111</sup>

- The "option fee forfeited amounts to \$6.75 million, all of which is to the benefit of ratepayers. The resultant GST remittance amount is a direct consequence of the option fee and should be matched against it."
- The amount of the GST remittance was substantial and would have a material effect on PNG-West's ability to earn its fair rate of return.
- The option fee forfeiture occurred during PNG-West's previous RRA proceeding and could not be predicted prior to its occurrence.
- Given that the GST remittance would be recorded to an existing deferral account, parties were aware that future rates were subject to change with no direct impact on the rates previously established.

Depending on the nature and circumstances of the specific request, the Panel considers some, if not all, of the following factors may be helpful in assessing the reasonableness of a request for the BCUC to allow an exception to the rule against retroactive ratemaking:

- Whether the item can be reasonably forecast or known at the time of the previous revenue requirement decision;
- Whether approval of the request would better adhere to cost causation principles for specific groups of customers;

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<sup>110</sup> Creative Energy Vancouver Platforms Inc. 2019-2020 Revenue Requirements Application for the Core Steam System and Northeast False Creek Service Areas, Decision and Order G-227-20, p. 39.

<sup>111</sup> PNG-West 2018-2019 RRA Decision and Order G-151-18, Section 5.3, pp. 30–31.

- Whether the request has a material impact on customer rates in the test period;
- Whether there are any significant intergenerational inequity considerations; and
- Whether the approval or denial of the request would establish certain utility or ratepayer expectations in the future.

In the case of the CCA benefit, the Panel notes that PNG(NE) first utilized the Accelerated Investment Incentive in 2019 to trigger a related CCA benefit which, with the BCUC's approval, was captured in a new deferral account for amortization in the 2020 to 2021 test period. To the extent that PNG(NE) has been aware of the existence of this incentive since 2019, it should have contemplated and sought approval of the continuance of that deferral account to capture CCA benefits arising from unplanned capital expenditures beyond 2021. Had it done so, the issue of retroactive ratemaking would not have arisen since deferral account treatment is a well-established exception to the rule. At the same time, however, the Panel acknowledges that the amount of the increase in CCA deductions available to PNG(NE) in 2021 is at least due, in part, to the increase in unplanned capital expenditures in 2021. Given the emergent nature of the need for the unplanned repairs in late 2021, the Panel accepts that the CCA tax benefit related to these unplanned capital expenditures in late 2021 was not reasonably foreseeable prior to the submission of PNG(NE)'s 2022 RRA.<sup>112</sup>

**In light of these factors, the Panel approves PNG(NE)'s request to establish the Incremental CCA deferral account to record the CCA on unplanned capital expenditures in 2021, attracting interest at PNG(NE)'s short-term interest rate. The balance is to be fully amortized in 2022, as set forth in Section 2.10 of the Application. As the federal Accelerated Investment Incentive will continue until 2027, the Panel further approves the continuance of the Incremental CCA deferral account from 2022 to 2027 to capture any CCA on PNG(NE)'s unplanned capital expenditures during that period, with an amortization period of one year.**

#### **4.2.2 CIS Project Recoveries Deferral Account**

PNG(NE) jointly implemented the SAP CIS Project with the TSU corporate group during 2020 and 2021 and PNG(NE) was compensated for the time spent by employees dedicated to the project, the cost of which are included in shared services cost recoveries by PNG-West and allocated to PNG(NE). PNG(NE) states that the recoveries from the SAP CIS Project were intended to offset incremental support costs incurred by PNG for backfill resources and for project management assistance. PNG(NE) notes that final project recoveries were in excess of incremental costs incurred, creating a net positive cost recovery. PNG(NE) has recorded a positive net recovery of \$109,000 for the FSJ/DC Division and \$7,000 for the TR Division in 2020 and a further \$31,000 for FSJ/DC and \$2,000 for TR in 2021. PNG(NE) requests approval to create a new short-term interest bearing CIS Project Recoveries deferral account, to fully amortize the balance in Test Year 2022 to the benefit of ratepayers, and to close the deferral account after 2022.<sup>113</sup>

PNG(NE) first identified the CIS Project net recoveries in early 2021, but expected that the deferral account treatment could be more efficiently addressed in the next RRA.<sup>114</sup> PNG(NE) concedes that the approval of the

<sup>112</sup> Exhibit B-6, BCUC IR 23.1 and 23.4.

<sup>113</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, pp. 52–53 and Tab Schedules – Tab 2, pp. 10–12, Exhibit B-5, TR Division, Section 2.10, p. 49 and Tab Schedules – Tab 2, pp. 10–12.

<sup>114</sup> Exhibit B-6, BCUC IR 23.2.

proposed additions to this new deferral account may be viewed as retroactive ratemaking. PNG(NE) accepts that the BCUC had previously approved the SAP CIS Project and the related costs, and it was reasonably foreseeable that there might be variances from forecast amounts. However, PNG(NE) had not anticipated net cost recoveries at the end of the project. Cognizant of ongoing rate pressures, PNG(NE) captured these benefits in a deferral account so that they could be returned to PNG(NE) ratepayers.<sup>115</sup> In 2022, PNG(NE) states that the credit amortization of this deferral account would result in an average delivery rate decrease of 0.74 percent for the FSJ/DC Division and 0.27 percent for the TR Division. .<sup>116</sup>

### *Positions of the Parties*

RCIA recommends that the BCUC approve the CIS Project Recoveries deferral account and the amortization of the net recoveries from 2020 and 2021 to the benefit of ratepayers in 2022.<sup>117</sup>

RCIA agrees with PNG(NE) that the proposed deferral account is the simplest, most efficient, and timely manner to return the net CIS project recoveries to ratepayers.<sup>118</sup>

BCOAPO does not comment on the issue of retroactive ratemaking or to the establishment of this new deferral account.

### *Panel Determination*

The Panel notes that while the BCUC had previously approved the SAP CIS Project and its related costs and it was reasonably foreseeable that the actual costs might vary from the forecast amounts, PNG(NE) nonetheless did not anticipate that there would be net cost recoveries at the conclusion of the project within the previous test period. While PNG(NE) recorded a positive net recovery of \$109,000 for FSJ/DC Division and \$7,000 for TR Division in 2020 and a further \$31,000 for FSJ/DC and \$2,000 for TR in 2021, instead of returning those amounts to ratepayers during the previous test period, it determined that it would be more efficient to deal with the disposition of the net recovery as part of this RRA by establishing a new deferral account to capture that net recovery and amortize the balance to the benefit of ratepayers in Test Year 2022.

The Panel acknowledges that the BCUC does not typically require utilities to account for variances in forecast and actual costs that arise from project execution. To the extent that there are positive variances, they would normally accrue to the shareholder. To the extent that there are negative variances, the shareholder would have to absorb those costs once permanent rates have been set.

In assessing whether an exception should be made in this case, the Panel considers the following factors to be relevant:

- While the amount of the net recovery (\$140,000 for the FSJ/DC Division and \$9,000 for the TR Division) is not substantial, if amortized in Test Year 2022, it nonetheless would result in an average 2022 delivery rate decrease of 0.74 percent for FSJ/DC and 0.27 percent for TR, which benefits customers;

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<sup>115</sup> Exhibit B-6, BCUC IR 23.2 and 23.3.

<sup>116</sup> Exhibit B-6, BCUC IR 23.7.

<sup>117</sup> RCIA Final Argument, Section 2.5.2, p. 11.

<sup>118</sup> *Ibid.*, p. 10.

- PNG(NE) concedes that returning the benefit of this net recovery amounts to retroactive ratemaking, but nonetheless proposes to do so in order to mitigate the impact of the delivery rate increase on customers in 2022;
- No intervener opposes this request, and at least one intervener, RCIA, recommends that the BCUC approve this deferral account and the amortization of recoveries from 2020 and 2021 to the benefit of ratepayers in 2022; and
- If the Panel were to deny the request, the net recovery from the project would simply enrich PNG(NE)'s shareholder rather than benefit ratepayers.

In light of the above factors, **the Panel approves PNG(NE) to establish the CIS Project Recoveries deferral account to record net SAP CIS Project recoveries realized in 2020 and 2021, attracting interest at PNG(NE)'s short-term interest rate. The balance is to be fully amortized in 2022, as set forth in Section 2.10 of the Application, and the deferral account dissolved thereafter.** However, should variances on future projects occur or appear to be likely, the Panel advises PNG(NE) to notify the BCUC in advance and if required, apply for deferral account treatment promptly in order to avoid the issue of retroactive ratemaking. It would then be up to the BCUC, not PNG(NE), to determine if it would be more efficient from an administrative and regulatory perspective to defer the matter to a subsequent RRA, and to do so with full knowledge that this may raise the issue of retroactive ratemaking for the subsequent panel. PNG(NE) should not presume in advance that the BCUC would make the same determination as PNG(NE) did in this instance.

#### 4.2.3 Shared Corporate Services Costs Variance Deferral Account

As noted above, in the PNG-West 2020–2021 RRA Decision,<sup>119</sup> PNG was approved to recover the full amount of the annual TSU Shared Corporate Services Costs. TSU undertakes to true up the costs allocated amongst its corporate group based on actual costs incurred. Based on these true-ups, actual costs allocated are lower than the forecast by \$83,000 and \$114,000 in 2020 and 2021, respectively, for the FSJ/DC Division; and by \$5,000 and \$8,000 in 2020 and 2021, respectively for the TR Division.<sup>120</sup> PNG(NE) seeks approval to create a new Shared Corporate Services Costs Variance deferral account for Test Year 2022 attracting interest at PNG(NE)'s short-term interest rate to capture the credit amounts from 2020 and 2021, and approval to amortize the full credit balance in Test Year 2022 to the benefit of ratepayers. Following which, PNG(NE) proposes that the deferral account would be closed. However, PNG(NE) states it has no opposition should the BCUC determine that there remains value in continuing the use of the Shared Corporate Services Costs Variance deferral account.<sup>121</sup>

PNG(NE) concedes that the approval of the proposed additions to this new deferral account may be viewed as retroactive ratemaking since the BCUC had previously approved the TSU Shared Corporate Services Costs and it was reasonably foreseeable that there may be variances from forecast amounts.<sup>122</sup> However, PNG(NE) submits that the variance only came to light in early 2021, when the 2020 fiscal year end was being finalized, and after the conclusion of the 2020–2021 RRA proceeding.<sup>123</sup> It identified the following factors as contributing to the

<sup>119</sup> PNG-West 2020–2021 RRA Decision and accompanying Order G-255-20 (PNG-West 2020–2021 RRA Decision).

<sup>120</sup> Exhibit B-5, FSJ/DC Division, Section 2.10, p. 52, Exhibit B-5, TR Division, Section 2.10, p. 48.

<sup>121</sup> Exhibit B-11, BCUC IR 65.3.

<sup>122</sup> Exhibit B-6, BCUC IR 27.1.

<sup>123</sup> Exhibit B-6, BCUC IR 23.2. Pacific Northern Gas (N.E.) Ltd. 2020–2021 Revenue Requirements Application for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions (2020–2021 RRA proceeding).

difference between forecast and actual Shared Corporate Services Costs, and states that all identified factors are beyond the control of its management as well as PNG's and TSU's management:<sup>124</sup>

- Frictional vacancies, where there is a delay between an existing employee leaving their role and a new employee being hired for the role;
- Insurance market changes which drive changes in insurance premiums;
- COVID-19 restrictions and safety measures, which impact training and travel expenses; and
- Employee costs billed to growth opportunities unrelated to existing TSU businesses, therefore reducing the employee costs in the shared services cost pool.

PNG(NE) considers that recording the credit amounts in a deferral account and amortizing the balance in 2022 is the most appropriate, efficient and practical mechanism to return the benefits to customers.<sup>125</sup> It adds that if deferral account treatment for the proposed 2020 and 2021 credit variances was denied, the FSJ/DC and TR delivery rates would increase by approximately 1.07 percent and 0.71 percent, respectively.<sup>126</sup>

### *Positions of the Parties*

RCIA agrees that the proposed deferral account is the simplest, most efficient, and timely manner to return the Shared Corporate Services Costs credit variance to ratepayers. With respect to the proposed additions to the deferral account being considered retroactive ratemaking, RCIA views that it is reasonable to allow retroactive ratemaking to correct the error of not requesting the deferral account when the variances were first identified, such that the utility does not benefit from its own error. RCIA supports approval of the Shared Corporate Services Costs Variance deferral account and the amortization of the credit variances from 2020 and 2021 to the benefit of ratepayers in 2022.<sup>127</sup>

BCOAPD does not provide submissions on this matter.

### *Panel Determination*

As the Panel has already noted above in the discussion relating to the CIS Project Recoveries deferral account, the BCUC does not typically retroactively adjust for variances between forecast and actual costs in setting a utility's rates. However, in this particular instance, the Panel is persuaded on balance that despite PNG(NE)'s concession that this request amounts to retroactive ratemaking, the establishment of the new deferral account to capture variances between forecast and actual TSU Shared Corporate Services Costs in 2020 and 2021 is warranted. The Panel makes this finding based on the following:

- The proposed amortization of the total variance of \$197,000 for the FSJ/DC Division and \$13,000 for the TR Division reduces average delivery rates by approximately 1.07 percent and 0.71 percent, respectively, in 2022, which is not an insubstantial amount to PNG(NE)'s ratepayers;
- PNG(NE) only identified the variances in early 2021 when the 2020 fiscal year end was being finalized;

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<sup>124</sup> Exhibit B-6, BCUC IR 27.2 and 27.3.1.

<sup>125</sup> Exhibit B-6, BCUC IR 23.5.

<sup>126</sup> Exhibit B-6, BCUC IR 23.7.

<sup>127</sup> RCIA Final Argument, Section 2.5.3, p. 11.



- As noted above, the factors that lead to the variances were all external and beyond the control of both PNG and TSU's management; and
- No intervener opposes this request, and one intervener, RCIA, supports the approval of the request, noting that it is reasonable to allow retroactive ratemaking to correct PNG(NE)'s error of not requesting the deferral account when the variances were first identified, such that the utility does not benefit from its own error.

Accordingly, **the Panel approves PNG(NE) to establish the Shared Corporate Services Costs Variance deferral account to record its portion of the variances in actual TSU Shared Corporate Services Costs from forecast amounts, including those realized in 2020 and 2021, attracting interest at PNG(NE)'s short-term interest rate. The December 31, 2021 balance is to be fully amortized in 2022, as set forth in Section 2.10 of the Application.** The Panel notes that since variances between forecasts and actuals in the Shared Corporate Services Costs have occurred in 2020 and 2021, they can reasonably be expected to continue to occur in the future. Accordingly, **the Panel approves the continuance of the Shared Corporate Services Costs Variance deferral account beyond 2022 to capture annual variances in PNG(NE)'s actual TSU Shared Corporate Services Costs from forecast amounts, with an amortization period of one year.**

## 5.0 Overall Determination on Delivery Rates and Revenue Stabilization Adjustment Mechanism

Subject to the adjustments identified during this proceeding, as summarized in PNG(NE)'s final argument,<sup>128</sup> along with the directives and determinations on the components of the 2022 forecast revenue requirements for PNG(NE) as set out in this decision, the Panel finds the forecast revenue requirements reasonable for setting delivery rates for the 2022 Test Period.

**The Panel approves the 2022 delivery rates and RSAM rate rider as filed by PNG(NE) for the FSJ/DC Division and the TR Division, respectively, on a permanent basis, effective January 1, 2022, subject to the adjustments summarized in PNG(NE)'s final argument, along with the directives and determinations in this decision.**

## 6.0 Unaccounted for Gas Component of Company Use Gas

### FSJ/DC Division

PNG(NE) requests BCUC approval for the FSJ/DC Division to continue the unaccounted for gas (UAF) Volume deferral account on the basis that the UAF volume forecast for Test Year 2022 is set at 1.0 percent of deliveries. Any variances between 1.0 percent and a loss of up to 1.5 percent are recorded in the UAF Volume deferral account without having to seek further BCUC approval. BCUC approval is required to record any actual 2022 UAF losses above 1.5 percent in the UAF Volume deferral account.<sup>129</sup>

### TR Division

PNG(NE) requests BCUC approval for the TR Division to continue the UAF Volume deferral account on the basis that the UAF volume forecast for Test Year 2022 is set at zero percent of deliveries. Any variances between zero

<sup>128</sup> PNG(NE) Final Argument, Section 4, pp. 9–10.

<sup>129</sup> Exhibit B-5, FSJ/DC Division, Section 1.4, p. 11; PNG(NE) Final Argument, Section 2.2, p. 4.



percent and a loss of up to 1.0 percent are recoded in the UAF Volume deferral account without having to seek further BCUC approval. BCUC approval is required to record any actual 2022 UAF losses above 1.0 percent in the UAF Volume deferral account.<sup>130</sup>

### *Positions of the Parties*

RCIA supports PNG(NE)'s proposals regarding the UAF loss caps for the FSJ/DC and TR Divisions, noting that including the provision for UAF in rates has the advantage of reducing intergenerational inequity.<sup>131</sup>

BCOAPO does not take a position on PNG(NE)'s proposals regarding UAF.

### *Panel Determination*

PNG(NE) has not requested any change to the previously approved UAF loss caps for the FSJ/DC and TR Divisions, and none of the interveners has opposed the continuation of the current practice. **Accordingly, the Panel approves for PNG(NE) to continue the UAF Volume deferral account on the basis that the UAF volume forecast is set at 1.0 percent of deliveries for FSJ/DC and at zero for TR, and to record a UAF loss of up to 1.5 percent for FSJ/DC and 1.0 percent for TR in Test Year 2022 without having to seek further BCUC approval.**

## **7.0 Other Matters**

### **7.1 Rate Design and Amalgamation Considerations**

In Decision 2020–2021 and the PNG-West 2020–2021 RRA Decision, the BCUC expressed concern with rising costs, decreasing system throughput, and declining customer use per account.<sup>132</sup> The BCUC stated that it may be in the best interests of both the shareholder and ratepayers for PNG to examine the long-term plans of its utilities and the continued viability of their current rate design as part of PNG(NE)'s and PNG-West's next RRAs.<sup>133</sup> The BCUC urged PNG to focus on the consideration and development of a comprehensive business strategy to address the current challenges. The BCUC noted that such a strategy may necessitate consideration of rate design changes including postage stamp rates and/or amalgamation of its various entities to reduce costs on a consolidated basis or produce greater operational efficiencies for the mutual benefit of ratepayers and the shareholder.<sup>134</sup>

In this proceeding, PNG(NE) provides PNG's response with respect to its considerations on rate design and amalgamation opportunities for both commodity costs and delivery rates, which are discussed below.

PNG notes that there is some variability in the commodity rates among the divisions, with customers in the non-integrated parts of the system (Granisle and Tumbler Ridge) paying notably more for commodity. In an effort to provide greater rate certainty, PNG is evaluating new potential rate design alternatives that would harmonize the commodity costs across the various PNG service territories (PNG(NE) FSJ/DC, PNG(NE) TR, PNG-West and

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<sup>130</sup> Exhibit B-5, TR Division, Section 1.4, pp. 9–10; PNG(NE) Final Argument, Section 2.2, p. 6.

<sup>131</sup> RCIA Final Argument, pp. 18–19.

<sup>132</sup> PNG(NE) 2020–2021 RRA Decision and accompanying Order G-263-20; Section 2.4, pp. 26–27.

<sup>133</sup> *Ibid.*, p. 28.

<sup>134</sup> *Ibid.*, p. 28.

PNG-West – Granisle). PNG states that harmonizing commodity costs would bring PNG’s commodity rate design closer in alignment with the principle of postage stamp rates.<sup>135</sup>

PNG has also undertaken a preliminary analysis to better understand the potential opportunities to amalgamate two or more of PNG’s three divisions (PNG(NE) FSJ/DC, PNG(NE) TR and PNG-West) and to harmonize delivery rates.<sup>136</sup> PNG notes that there are significant differences between the service territories with the main one being that the Western Transmission System, which is unique to PNG-West and not comparable in size to the infrastructure in the northeast system. PNG adds that the delivery rate harmonization would require breaking out of the transmission related costs and implementing a unique transmission rate for each division on top of potentially harmonized delivery rates. However, PNG believes there may be administrative and regulatory efficiencies to be achieved from this approach but notes it is a more complicated initiative and will likely require third-party assistance.<sup>137</sup>

PNG acknowledges the letters of comment received in both the PNG(NE) 2022 RRA and PNG-West 2022 RRA proceedings, which raise significant concerns primarily in the communities of Tumbler Ridge and Granisle around rising rates.<sup>138</sup> PNG states that it is engaging with stakeholders on the potential consolidation of commodity costs and the harmonization of delivery rates.<sup>139</sup> In response to IRs, PNG noted that it has had preliminary discussions with the elected officials in Granisle and Tumbler Ridge to hear their concerns with respect to energy affordability.<sup>140</sup> Feedback received from letters of comment and elected officials has solidified PNG’s understanding of the hardships and affordability challenges that residents in those higher cost areas are facing and confirms its belief that options need to be thoroughly explored and evaluated in order to help mitigate some of the rate impacts.<sup>141</sup>

PNG states that it is not requesting any decisions related to the possible harmonization of its gas commodity costs nor harmonizing delivery rates in this Application.<sup>142</sup> It expects to file an application to consolidate commodity costs amongst the PNG divisions in Q3 or Q4 2022 and an amalgamated application to harmonize delivery rates in 2023. It adds that the timing of these applications will depend on the results of engagement activities and the incorporation of any feedback received from stakeholders, as well as resource availability at PNG given the other regulatory applications.<sup>143</sup> PNG considers these timelines to be reasonable given the magnitude of work to be undertaken, noting that the potential options need to be thoroughly explored, evaluated and engaged on prior to submission of any application, as any benefit to one group of ratepayers will put upward pressure on the rates for other groups of ratepayers.<sup>144</sup>

### *Positions of the Parties*

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<sup>135</sup> Exhibit B-5, FSJ/DC Division, Section 3.4.1.5.1, pp. 104–105, Exhibit B-5, TR Division, Section 3.4.1.5.1, pp. 92–93.

<sup>136</sup> Exhibit B-5, FSJ/DC Division, Section 3.4.1.5.2, pp. 106–107, Exhibit B-5, TR Division, Section 3.4.1.5.2, pp. 94–95.

<sup>137</sup> Exhibit B-6, BCUC IR 54.3.

<sup>138</sup> PNG(NE) Final Argument, Section 1, p. 1, Section 14.7, p. 28, Exhibit C1-1, Exhibit D-3-1, Exhibits E-1 to E-14; PNG-West 2022 RRA proceeding, PNG-West Final Argument, Section 1, p. 1, Exhibit E-1, Exhibit E-2.

<sup>139</sup> Exhibit B-5, FSJ/DC Division, Section 3.4.1.5.1, p. 105, Section 3.4.1.5.2, p. 107; Exhibit B-5, TR Division, Section 3.4.1.5.1, p. 93, Section 3.4.1.5.2, p. 95.

<sup>140</sup> Exhibit B-6, BCUC IR 55.3.

<sup>141</sup> Exhibit B-11, BCUC IR 72.3.

<sup>142</sup> Exhibit B-6, BCUC IR 54.1, 54.4, 54.5, 54.6, 54.7, 55.1, 55.5.1.

<sup>143</sup> Exhibit B-6, BCUC IR 55.2.

<sup>144</sup> Exhibit B-11, BCUC IR 72.5.

BCOAPO states that PNG did not directly address the development of a comprehensive business strategy to address the affordability challenges that residents in those higher cost areas are facing.<sup>145</sup> It adds that it appreciates that the PNG companies are operating in a uniquely challenging time but states that this does not absolve the utilities of their duty to make extraordinary efforts to proactively map the way into the future via a timely, comprehensive business strategy.<sup>146</sup> It acknowledges that PNG has mechanisms for managing rate pressures in the near to middle term. However, it notes that this does little to satisfy the need to address the issue of affordability that was raised by the BCUC in the PNG-West and PNG(NE) 2020–2021 RRA Decisions.<sup>147</sup> BCOAPO notes that PNG plans to engage with customer representatives and interveners as part of its engagement activities for the potential consolidation of commodity charges and harmonization of delivery rates. However, it adds that although the BCOAPO is ready to engage, this does not address its concerns with respect to the lack of action taken by PNG thus far.<sup>148</sup>

In reply, PNG concedes that it has not prepared specific strategy documents related to these challenges. It adds that in the intervening period it has made considerable effort in understanding and evaluating many elements related to the changes emerging in the energy market.<sup>149</sup> PNG submits that it has given extensive consideration to the issues identified by BCOAPO in its argument. However, the uncertainties identified were the drivers for PNG’s decision to file a one-year application for 2022 and have prevented the formulation and implementation of concrete, longer-term strategies.<sup>150</sup> It adds that while BCOAPO may not be satisfied with the summary of potential mechanisms presented by PNG for managing future rate pressures, PNG observes that the mechanisms available to achieve this objective are limited. PNG reiterates that while much has been made about the potential benefits to be derived from amalgamation, the primary benefits are expected to be modest administrative and regulatory efficiencies and not significant operating efficiencies. Further, PNG repeats that any benefit conferred to one group of customers will put upward pressure on the rates of other customer groups and as such amalgamation and rate design should not be considered a solution for future rate increases and rate uncertainty.<sup>151</sup>

RCIA supports PNG’s plan to update its cost-of-service allocation study as it is a useful tool to assist in setting rates and notes that it will be valuable in the consideration of any amalgamation between PNG service territories.<sup>152</sup>

### *Panel Discussion*

The Panel notes that the BCUC has reiterated in PNG’s two previous RRAs the importance of the utilities and their shareholder developing a comprehensive business strategy to deal with the challenges they are facing in their service territory. The ongoing pandemic, along with the increasing focus on decarbonization and electrification in this Province and their uncertain impact on the natural gas industry, has made that need more acute. The Panel applauds PNG’s efforts to consider possible amalgamation of its entities, rate harmonization and rate design changes. The Panel accepts that in doing so, PNG must carefully and thoughtfully balance the interests and needs of all stakeholders. In that regard, like RCIA, the Panel heartily supports PNG’s plan to file a

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<sup>145</sup> BCOAPO Final Argument, p. 6.

<sup>146</sup> *Ibid.*, pp. 6–7.

<sup>147</sup> *Ibid.*, p. 7.

<sup>148</sup> *Ibid.*, p. 8.

<sup>149</sup> PNG(NE) Reply Argument, para 8, p. 2.

<sup>150</sup> *Ibid.*, para 11, p. 3.

<sup>151</sup> *Ibid.*, para 12, p. 3.

<sup>152</sup> RCIA Final Argument, Section 2.10.1, p. 22.

cost-of-service allocation study for BCUC review. Prior to or concurrent with the filing of any application to effect a reorganization or rate harmonization proposal, the Panel would like PNG to provide an analysis of the pros and cons (for both the ratepayers and the utilities) of alternatives. The Panel expects that PNG will consult with all stakeholders and consider their concerns, modify their proposal(s) where appropriate and necessary, and re-evaluate their alternatives based on the consultation feedback. In any event, the Panel requests PNG to provide an update on the status and timing of any future applications in the next RRA which PNG expects to file by the end of November, 2022.

## 7.2 Rate Impact Mitigation

The proposed rate increases resulting from the projected revenue deficiencies for 2022, before and after the adjustments outlined in Section 4 of PNG(NE)'s final argument, are summarized in the table below for residential customers and small commercial customers in FSJ, DC and TR, respectively.<sup>153</sup>

**Table 6: Proposed Rate Increases for Residential and Small Commercial Customers in 2022**

Customer Class	FSJ		DC		TR	
	Rate Increase Before Adjustments	Rate Increase After Adjustments	Rate Increase Before Adjustments	Rate Increase After Adjustments	Rate Increase Before Adjustments	Rate Increase After Adjustments
Residential	7.4%	6.8%	7.7%	7.1%	10.9%	4.5%
Small Commercial	6.6%	6.1%	7.5%	7.0%	10.1%	4.2%

PNG(NE) states that it is very cognizant that the delivery rate increases for 2022 are significant for customers. As discussed above in Section 4.2, PNG(NE) identified certain unexpected cost savings in 2020 and 2021 and has proposed that the Incremental CCA, CIS Project Recoveries, and the Shared Corporate Services Costs Variance credit deferral accounts be established so that the benefits can be returned to ratepayers and mitigate rate pressures in Test Year 2022. Further, PNG(NE) states that it has placed significant effort into identifying mechanisms and strategies to manage future rate pressures, particularly with respect to increasing capital costs to maintain aging infrastructure, including:<sup>154</sup>

- Reducing rate volatility;
- Seeking load growth;
- Customer retention;
- Rate design opportunities;
- Improved budget processes; and
- Refinement of capital expenditure timing.

<sup>153</sup> PNG(NE) Final Argument, Section 15, p. 29.

<sup>154</sup> Exhibit B-6, BCUC IR Series 35.1 and 54.2.

In this proceeding, the District of Tumbler Ridge registered as an Intervener on behalf of Tumbler Ridge residents to “oppose the proposed increase in PNG delivery rates to Tumbler Ridge”,<sup>155</sup> as well as four individuals from Tumbler Ridge registered as interested parties.<sup>156</sup> In addition, fifteen letters of comment were received, including a petition signed by many of the residents, businesses and organizations in Tumbler Ridge, all raising concerns over the proposed increase in delivery rates,<sup>157</sup> albeit before the adjustments identified by PNG(NE) during this proceeding.

PNG(NE) explains the primary drivers for higher rates in TR compared to other northeastern communities in British Columbia are:<sup>158</sup>

- (i) TR’s very small customer and rate base that makes delivery rates very sensitive to relatively small increases in either operating or capital expenditures; and
- (ii) TR’s isolated system – TR receives unprocessed raw gas supplied by CNRL at a premium commodity charge and processes it at TR’s gas processing facility. The cost of owning and operating PNG(NE)’s processing and transmission facilities and the commodity premium by CNRL account for a significant portion of the higher costs borne by customers in Tumbler Ridge.

### *Positions of the Parties*

In its final argument, PNG(NE) acknowledge that several parties oppose the proposed delivery rate increases for Tumbler Ridge.<sup>159</sup>

BCOAPO recommends PNG(NE) to file in the next RRA a strategic plan that includes, among other things, a long-term scenario analysis, financial evaluation of uncertainties, and a multi-year plan for OMA&G expenses, non-CPCN capital expenditures, and deferral accounts.<sup>160</sup> In reply, PNG(NE) observes that stable strategic planning is typical of steady-state operators and utilities, but not for entities in a constant state of flux. It reiterates that significant uncertainties have prevented the implementation of concrete strategies and specific measures for rate mitigation. PNG(NE) observes that the BCOAPO’s request exceeds the scope of work undertaken by even very large utilities and would require additional resources, costs and time to implement.<sup>161</sup> Further, PNG(NE) will consider other deferral accounts as a mechanism to mitigate rate volatility and rate impacts,<sup>162</sup> but observes that the mechanisms available to manage future rate pressures are limited.<sup>163</sup>

### *Panel Discussion*

The Panel notes that the key drivers for PNG(NE)’s delivery rate increase in Test Year 2022 are similar to those for PNG-West. However, the impact of the increase is substantially higher for PNG(NE) than for PNG-West because of the following factors:

- PNG(NE) has a smaller customer base; and

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<sup>155</sup> Exhibit C-1-1.

<sup>156</sup> Exhibit D-1 to D-5.

<sup>157</sup> Exhibit D-3-1 and Exhibits E-1 to E-14. The petition is included in Exhibit E-14.

<sup>158</sup> Exhibit B-6, BCUC IR 35.2.

<sup>159</sup> PNG(NE) Final Argument, Section 14.7, p. 28.

<sup>160</sup> BCOAPO Final Argument, pp. 11–12 and 18.

<sup>161</sup> PNG(NE) Reply Argument, Section 2.2, pp. 4–5.

<sup>162</sup> Ibid., Section 2.5, p. 9.

<sup>163</sup> Ibid., Section 2.1, p. 3.

- TR is not connected to FSJ/DC and TR has its own set of circumstances as PNG(NE) has pointed out above.

As a result, capital expenditures, including the need for recent emergency repairs, have a disproportionately greater impact for PNG(NE)'s customers. Furthermore, as PNG(NE) notes, the mechanisms available to manage future rate pressures are limited because of the following differences between PNG(NE) and PNG-West:

- PNG(NE) does not have the prospect of revenues resulting from industrial volumes anticipated from the RECAP Project; and
- PNG(NE) does not have an LNG Partners Option Fee Payment deferral account or similar levers with which to reduce the amount of the delivery rate increase.

The Panel appreciates BCOAPO's suggestion for PNG(NE) to develop a multi-year strategic plan. However, as the Panel has already noted earlier in this decision, such an endeavour comes at the expense of time, costs and resources which are already stretched in the case of PNG(NE), and the Panel has accordingly declined to direct PNG(NE) to undertake such task. After reviewing the entirety of this Application, the Panel is reasonably satisfied that PNG(NE) is doing the best it can under trying circumstances and conditions, while examining, at the BCUC's urging, potential ways to address the issue through amalgamation, rate harmonization and rate design changes for its various divisions. The Panel encourages PNG(NE) to continue on this path.

### 7.3 Other Issues Raised

This section addresses the recommendations made by RCIA during the proceeding regarding the need for quantification of productivity improvements and other benefits in future RRAs.

#### *Positions of the Parties*

RCIA submits it recognizes that with productivity improvements, the exact cost savings are not always apparent.<sup>164</sup> Nonetheless, RCIA recommends that in future RRAs, PNG(NE) should provide some quantification of its productivity improvements to demonstrate to customers that it is actively engaged in reducing or limiting the growth in OMA&G expenses.<sup>165</sup> RCIA submits that with "the delivery rate pressures for 2022 and those experienced in prior years which are substantially above inflation," RCIA recommends that PNG(NE) apply greater diligence in reducing capital expenditures to OMA&G expenses, as savings realized with these expenses can offset unavoidable increases in other expenses and capital expenditures.<sup>166</sup> Further, RCIA submits that PNG(NE) "should strive to reduce the rate increase trajectory established over the past ten years and to achieve delivery rate increases no higher than the rate of inflation."<sup>167</sup>

In reply, PNG(NE) acknowledges that quantification of benefits provides value and an element of transparency.<sup>168</sup> However, PNG(NE) reiterates that benefits from the initiatives that it has undertaken are not

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<sup>164</sup> RCIA Final Argument, p. 6.

<sup>165</sup> Ibid.

<sup>166</sup> RCIA Final Argument, p. 24.

<sup>167</sup> Ibid., p. 24.

<sup>168</sup> PNG(NE) Reply Argument, p. 11.

easily quantifiable as they do not result in direct cost reductions, but rather improved efficiencies and cost avoidance.<sup>169</sup> PNG(NE) submits it will continue to attempt to quantify benefits, but reiterates that quantification of benefits from most initiatives will continue to be difficult as compliance and operational requirements continue to increase and mask savings and efficiencies derived from the initiatives.<sup>170</sup>

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<sup>169</sup> Ibid.

<sup>170</sup> Ibid.

### *Panel Discussion*

With regards to the proposals suggested by RCIA, the Panel encourages PNG(NE) to continue to quantify the benefits of productivity improvements, wherever possible, and to provide greater transparency associated with its increase in OMA&G expenses in future RRAs.

**DATED** at the City of Vancouver, in the Province of British Columbia, this        21<sup>st</sup>        day of October 2022.

*Original signed by:*

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A. K. Fung, KC  
Panel Chair / Commissioner

*Original signed by:*

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A. C. Dennier  
Commissioner

*Original signed by :*

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B. A. Magnan  
Commissioner





**ORDER NUMBER  
G-292-22**

IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas (N.E.) Ltd.  
2022 Revenue Requirements Application  
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

**BEFORE:**

A. K. Fung, KC, Panel Chair  
A. C. ~~Dennier~~, Commissioner  
B. A. Magnan, Commissioner

on October 21, 2022

**ORDER**

**WHEREAS:**

- A. On November 30, 2021, Pacific Northern Gas (N.E.) Ltd. [PNG(NE)] filed its 2022 Revenue Requirements Application (RRA) with the British Columbia Utilities Commission (BCUC) for the Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA) (Original Application);
- B. By Order G-379-21, the BCUC, among other things, approved PNG(NE)'s delivery rates and Revenue Stabilization Adjustment Mechanism (RSAM) rate rider on an interim and refundable/recoverable basis, effective January 1, 2022, and established a regulatory timetable for the proceeding, subsequently amended by Order G-56-22. The timetable included intervener registration, filing an amended application, BCUC and intervener information requests (IRs) No. 1 and 2, responses to IRs, written final argument and reply argument;
- C. British Columbia Old Age Pensioner's Organization, Active Support Against Poverty, Council of Senior Citizen's Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Center, known collectively as BCOAPO et al. (BCOAPO), Residential Consumer Intervener Association (RCIA), and the District of Tumbler Ridge registered as interveners in the proceeding;
- D. On March 7, 2022, PNG(NE) filed its amended application for approval of 2022 (Test Year) delivery rates on a permanent basis (Application);
- E. In its Application, PNG(NE) seeks approval to increase delivery rates on a permanent basis for the FSJ/DC Division to recover the forecast 2022 revenue deficiency for the following rate classes, among other rate classes:

1. A 7.4 percent increase from \$5.465/gigajoule (GJ) to \$5.870/GJ for FSJ Residential service and a 7.7 percent increase from \$5.267/GJ to \$5.672/GJ for DC Residential service;
2. A 6.6 percent increase from \$4.166/GJ to \$4.440/GJ for FSJ Small Commercial service and a 7.5 percent increase from \$3.629/GJ to \$3.903/GJ for DC Small Commercial service; and

PNG(NE) is also seeking approval for a decrease in the RSAM rate rider on a permanent basis for the FSJ/DC Division applicable to Residential and Small Commercial customers from a debit rider of \$0.054/GJ to a credit rider of \$0.284/GJ;

- F. In its Application, PNG(NE) seeks approval to increase delivery rates on a permanent basis for the TR Division to recover the forecast 2022 revenue deficiency for the following rate classes, among other rate classes:

1. A 10.9 percent increase from \$10.499/GJ to \$11.638/GJ for TR Residential service;
2. A 10.1 percent increase from \$8.295/GJ to \$9.135/GJ for TR Small Commercial service; and

PNG(NE) is also seeking approval for a decrease in the RSAM rate rider on a permanent basis for the TR Division applicable to Residential and Small Commercial customers from a credit rider of \$0.309/GJ to a credit rider of \$0.366/GJ; and

- G. The BCUC has considered the Application, evidence and submissions of the parties and makes the following determinations.

**NOW THEREFORE** pursuant to sections 58 to 61 of the UCA and for the reasons provided in the decision issued concurrently with this order, the BCUC orders as follows:

1. PNG(NE) is approved to recover the 2022 revenue requirement and the resultant delivery rate changes on a permanent basis, effective January 1, 2022, for the FSJ/DC and TR Divisions, as filed in the Application and subject to the following:
  - The adjustments identified by PNG(NE) during the proceeding, as summarized in Section 4 of its final argument; and
  - The directives and determinations outlined in this order and the decision issued concurrently.
2. PNG(NE) is approved to set the RSAM rate rider as set forth in the Application, on a permanent basis, effective January 1, 2022.
3. PNG(NE) is approved to record its allocation of the ~~TriSummit~~ Utilities Inc. (TSU) Shared Corporate Services Costs in the 2022 revenue requirements, subject to the BCUC directed adjustments to these costs as identified in the PNG-West 2022 RRA Decision and accompanying Order G-281-22.
4. PNG(NE) is directed to update the 2022 forecast capital expenditures for the FSJ/DC Division in its final regulatory schedules to reflect the proposed adjustment to the Mobile/Heavy Equipment line item.
5. PNG(NE) is approved to record unplanned capital expenditures of \$2.192 million incurred in 2021 related to the Reinforcement Project as capital additions in 2021 in PNG(NE)'s rate base for the FSJ/DC Division for the purposes of setting rates going forward.
6. PNG(NE) is approved to amortize the COVID-19 deferral account balance of \$747,000 and \$38,000 for the FSJ/DC and TR Divisions, respectively, as at December 31, 2021 in the 2022 Test Year. PNG(NE) is

also approved to maintain this deferral account for the Test Year 2022 and beyond and to continue to capture costs and savings due to the pandemic on an ongoing basis. In the event that the pandemic ceases to be of concern after 2022, PNG(NE) is directed to address, as part of its next RRA, the disposition of the balance in the COVID-19 deferral account and the potential closure of the account after 2022 if warranted.

7. PNG(NE) is approved to establish the Incremental CCA deferral account to record the capital cost allowance (CCA) on unplanned capital expenditures in 2021, attracting interest at PNG(NE)'s short-term interest rate. The balance is to be fully amortized in 2022. As the federal Accelerated Investment Incentive will continue until 2027, PNG(NE) is further approved to maintain the Incremental CCA deferral account from 2022 to 2027 to capture any CCA on PNG(NE)'s unplanned capital expenditures during that period, with an amortization period of one year.
8. PNG(NE) is approved to establish the CIS Project Recoveries deferral account to record net SAP CIS [Customer Information System] Project recoveries realized in 2020 and 2021, attracting interest at PNG(NE)'s short-term interest rate. The balance is to be fully amortized in 2022, and the deferral account to be dissolved thereafter.
9. PNG(NE) is approved to establish the Shared Corporate Services Costs Variance deferral account to record its portion of the variances in actual TSU Shared Corporate Services Costs from forecast amounts, including those realized in 2020 and 2021, attracting interest at PNG(NE)'s short-term interest rate. The December 31, 2021 balance is to be fully amortized in 2022. PNG(NE) is also approved to maintain the Shared Corporate Services Costs Variance deferral account beyond 2022 to capture annual variances in PNG(NE)'s actual TSU Shared Corporate Services Costs from forecast amounts, with an amortization period of one year.
10. PNG(NE) is approved to continue the unaccounted for gas (UAF) Volume deferral account on the basis that the UAF volume forecast is set at 1.0 percent of deliveries for the FSJ/DC Division and at zero for the TR Division, and to record a UAF loss of up to 1.5 percent for FSJ/DC and 1.0 percent for TR in Test Year 2022 without having to seek further BCUC approval.
11. PNG(NE) is directed to re-calculate the 2022 revenue requirements and delivery rate changes reflecting the adjustments summarized in final argument, along with the directives and determinations outlined in this order and further described in the decision issued concurrently. PNG(NE) is directed to file revised regulatory schedules with the BCUC for endorsement within 30 days of this order.
12. PNG(NE) is directed to collect from/refund to customers the difference between the 2022 interim delivery rates and the 2022 permanent delivery rates, together with the difference between the interim and permanent 2022 RSAM rate rider, at the average prime rate of PNG(NE)'s principal bank for its most recent year.
13. PNG(NE) must inform all customers of permanent 2022 delivery rates by way of written notice to be included with their next customer invoice after PNG(NE)'s compliance filing has been accepted by the BCUC.
14. PNG(NE) is directed to comply with all other directives contained in the decision issued concurrently with this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 21<sup>st</sup> day of October 2022.

BY ORDER

*Original signed by:*

A. K. Fung, KC  
Commissioner

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Pacific Northern Gas (NE) Ltd.  
2022 Revenue Requirements Application  
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

**Glossary and List of Acronyms**

<b>Acronym</b>	<b>Description</b>
Application	PNG(NE)'s Amended 2022 RRA dated March 7, 2022
BCOAPO	British Columbia Old Age Pensioner's Organization, Active Support Against Poverty, Council of Senior Citizen's Organizations of BC, Disability Alliance BC, and Tenants Resource and Advisory Center, known collectively as BCOAPO et al.
BCOGC	BC Oil and Gas Commission
BCUC	British Columbia Utilities Commission
CCA	Capital Cost Allowance
CIS	Customer Information System
CNG	Compressed natural gas
CNRL	Canadian Natural Resources Ltd.
CPCN	Certificate of Public Convenience and Necessity
CSA	Canadian Standards Association
DC	Dawson Creek
DCVG	Direct current voltage gradient
Decision 2020–2021	PNG(NE) 2020–2021 RRA Decision and accompanying Order G-263-20 dated October 21, 2020
Decision 2021 amount	The 2021 BCUC-approved amount in the PNG(NE) 2020–2021 RRA Decision and accompanying Order G-263-20
ESG	Environmental, Social and Governance
FSJ	Fort St. John
GJ	Gigajoule
GST	Goods and services tax
IFRS	International Financial Reporting Standards
ILI	In-line inspection
IR	Information request
LNG	Liquefied natural gas
OMA&G	Operating, maintenance and administrative & general
Original Application	PNG(NE)'s 2022 RRA dated November 30, 2021, seeking, among other things, approval to amend its delivery rates and Revenue Stabilization Adjustment Mechanism rate rider on an interim and

	refundable/recoverable basis, effective January 1, 2022 for the FSJ/DC and TR Divisions
PNG	Pacific Northern Gas Ltd.
PNG(NE)	Pacific Northern Gas (N.E.) Ltd.
PNG-West	PNG-West Division
PNG-West 2020–2021 RRA Decision	PNG-West 2020–2021 RRA Decision and accompanying Order G-255-20
Q3	Third quarter of the fiscal year
Reinforcement Project	The 2021 unplanned system reinforcement work related to gas supply for the Pouce Coupe and Tomslake areas
RCIA	Residential Consumer Intervener Association
RECAP	Reactivated Capacity Allocation Process
RRA	Revenue Requirements Application
RSAM	Revenue Stabilization Adjustment Mechanism
SAP	Systems Applications and Products
“Test Period” or “Test Year”	PNG(NE)’s fiscal year 2022
TR	Tumbler Ridge
TSU	TriSummit Utilities Inc. (PNG’s parent)
UAF	Unaccounted for gas
UCA	<i>Utilities Commission Act</i>
US GAAP	United States Generally Accepted Accounting Principles
WACD	Weighted average cost of debt

IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473  
and  
Pacific Northern Gas Ltd. (NE)  
2022 Revenue Requirements

**EXHIBIT LIST**

Exhibit No.	Description
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated December 8, 2021 – Appointment of the Panel for the review of the PNG NE 2022 Revenue Requirements
A-2	Letter dated December 16, 2021 – BCUC Order G-379-21 establishing a regulatory timetable
A-3	Letter dated January 10, 2022 – BCUC Order G-5-22 varying Order G-379-21
A-4	Letter dated February 28, 2022 – BCUC Order G-56-22 amending the regulatory timetable
A-5	Letter dated April 25, 2022 – BCUC Information Request No. 1 to PNG(NE) Fort St. John/Dawson Creek and Tumbler Ridge Divisions
A-6	Letter dated April 25, 2022 – BCUC Information Request No. 1 to PNG(NE) Tumbler Ridge Division
A-7	<b>CONFIDENTIAL</b> – Letter dated April 25, 2022 – BCUC Confidential Information Request No. 1 to PNG(NE) Fort St. John/Dawson Creek and Tumbler Ridge Divisions
A-8	Letter dated June 7, 2022 – BCUC Information Request No. 2 to PNG(NE) Fort St. John/Dawson Creek and Tumbler Ridge Divisions
A-9	Letter dated June 7, 2022 – BCUC Information Request No. 2 to PNG(NE) Tumbler Ridge Division
A-10	<b>CONFIDENTIAL</b> – Letter dated June 7, 2022 – BCUC Confidential Information Request No. 2 to PNG(NE) Fort St. John/Dawson Creek and Tumbler Ridge Divisions
A-11	Letter dated July 27, 2022 – BCUC response to PNG(NE) extension request to file written reply argument

Exhibit No.	Description
<b>COMMISSION STAFF DOCUMENTS</b>	
A2-1	Letter dated April 25, 2022 – BCUC Staff submitting PNG 2019 UAF Reports dated December 30, 2020
<b>APPLICANT DOCUMENTS</b>	
B-1	<b>PACIFIC NORTHERN GAS LTD. (NE) [PNG NE]</b> – 2022 Revenue Requirements dated November 30, 2021
B-1-1	<b>CONFIDENTIAL</b> – PNG NE 2022 Revenue Requirements Confidential Appendices dated November 30, 2021
B-1-2	Letter dated December 21, 2021 – PNG NE submitting errata to 2022 Revenue Requirements Application
B-2	Letter dated January 7, 2022 – PNG NE submitting will not be able to meet Order G-379-21 Directive 5 requirements
B-3	Letter dated February 7, 2022 – PNG NE submitting compliance with G-379-21 notifications
B-4	Letter dated February 25, 2022 – PNG NE submitting request for amendment to the regulatory timetable
B-5	Letter dated March 7, 2022 – PNG NE submitting Amended 2022 Revenue Requirements Application (RRA)
B-5-1	<b>CONFIDENTIAL</b> - Letter dated March 7, 2022 – PNG NE FSJ-DC submitting Confidential Appendix D to Amended 2022 RRA
B-5-2	<b>CONFIDENTIAL</b> - Letter dated March 7, 2022 – PNG NE FSJ-DC submitting Confidential Appendix E to Amended 2022 RRA
B-5-3	<b>CONFIDENTIAL</b> - Letter dated March 7, 2022 – PNG NE FSJ-DC submitting Confidential Appendix H to Amended 2022 RRA
B-5-4	<b>CONFIDENTIAL</b> - Letter dated March 7, 2022 – PNG NE TR submitting Confidential Appendix C to Amended 2022 RRA
B-5-5	<b>CONFIDENTIAL</b> - Letter dated March 7, 2022 – PNG NE TR submitting Confidential Appendix D to Amended 2022 RRA



Exhibit No.	Description
B-5-6	<b>CONFIDENTIAL</b> - Letter dated March 7, 2022 – PNG NE TR submitting Confidential Appendix G to Amended 2022 RRA
B-6	Letter dated May 16, 2022 – PNG NE submitting response to BCUC Information Request No. 1 to PNG NE Fort St. John/Dawson Creek and Tumbler Ridge Divisions
B-7	<b>CONFIDENTIAL</b> - Letter dated May 16, 2022 – PNG NE submitting confidential response to BCUC Confidential Information Request No. 1 to PNG NE Fort St. John/Dawson Creek and Tumbler Ridge Divisions
B-8	Letter dated May 16, 2022 – PNG NE submitting response to BCUC Information Request No. 1 to PNG NE Tumbler Ridge Divisions
B-9	Letter dated May 16, 2022 – PNG NE submitting response to BCOAPO Information Request No. 1
B-10	Letter dated May 16, 2022 – PNG NE submitting response to RCIA Information Request No. 1
B-11	Letter dated June 27, 2022– PNG NE submitting response to BCUC Information Request No. 2 to PNG NE Fort St. John/Dawson Creek and Tumbler Ridge Divisions
B-12	Letter dated June 27, 2022 – PNG NE submitting response to BCUC Information Request No. 2 to PNG NE Tumbler Ridge Divisions
B-13	<b>CONFIDENTIAL</b> - Letter dated June 27, 2022 – PNG NE submitting confidential response to BCUC Confidential Information Request No. 2 to PNG NE Fort St. John/Dawson Creek and Tumbler Ridge Divisions
B-14	Letter dated June 27, 2022 – PNG NE submitting response to BCOAPO Information Request No. 2
B-15	Letter dated June 27, 2022 – PNG NE submitting response to RCIA Information Request No. 2
B-16	Letter dated July 26, 2022 – PN NE submitting request for amendment to the regulatory timetable

Exhibit No.	Description
<i>INTERVENER DOCUMENTS</i>	
C1-1	<b>DISTRICT OF TUMBLER RIDGE (DTR)</b> – Request for Intervener Status dated January 17, 2022 submitted by Jane Butters
C2-1	<b>BC OLD AGE PENSIONERS’ ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, COUNCIL OF SENIOR CITIZENS’ ORGANIZATIONS OF BC, DISABILITY ALLIANCE BC, TENANTS RESOURCE AND ADVISORY CENTRE, AND TOGETHER AGAINST POVERTY SOCIETY, KNOWN COLLECTIVELY IN REGULATORY PROCESSES AS “BCOAPO ET AL.” (BCOAPO ET AL)</b> - Letter dated January 31, 2022 - Request for Intervener Status by Kristin Barham, Leigha Worth, Darren Rainkie and Kelly Derksen
C2-2	Letter dated May 2, 2022 – BCOAPO submitting Information Request No. 1 to PNGNE
C2-3	Letter dated June 8, 2022 – BCOAPO submitting Information Request No. 2 to PNGNE
C3-1	<b>RESIDENTIAL CONSUMER INTERVENER ASSOCIATION (RCIA)</b> - Letter dated January 31, 2022 - Request for Intervener Status by Samuel Mason
C3-2	Letter dated April 18, 2022 – RCIA submitting Confidentiality Declaration and Undertakings
C3-3	Letter dated May 2, 2022 – RCIA submitting Information Request No. 1 to PNGNE
C3-4	Letter dated June 8, 2022 – RCIA submitting Information Request No. 2 to PNGNE
<i>INTERESTED PARTY DOCUMENTS</i>	
D-1	<b>BRADLEY, T. (BRADLEY)</b> – Request for Interested Party Status dated January 8, 2022
D-2	<b>EDWARD, R. (EDWARD)</b> – Request for Interested Party Status dated January 8, 2022
D-3	<b>MACKIE, J. (MACKIE)</b> – Request for Interested Party Status dated January 8, 2022
D-3-1	<b>MACKIE</b> - Letter of Comment dated January 11, 2022
D-4	<b>FORTISBC ENERGY INC. (FEI)</b> - Submission dated January 13, 2022 request for Interested Party Status

Exhibit No.	Description
D-5	<b>VANBRABANT, M. (VANBRABANT)</b> – Request for Interested Party Status dated January 21, 2022

*LETTERS OF COMMENT*

E-1	Emond, K – Letter of Comment dated January 8, 2022
E-2	Ketellapper, J – Letter of Comment dated January 9, 2022
E-3	Katnich, B. - Letter of Comment dated January 9, 2022
E-4	Ho, W. - Letter of Comment dated January 10, 2022
E-5	Turner, J. - Letter of Comment dated January 21, 2022
E-6	Fleming, B. - Letter of Comment dated January 21, 2022
E-7	Moore, S. - Letter of Comment dated January 22, 2022
E-8	Richards, K. - Letter of Comment dated January 22, 2022
E-9	Siddique, M.A. - Letter of Comment dated January 21, 2022
E-10	Young, G. – Letter of Comment dated January 28, 2022
E-11	McGuire, R. – Letter of Comment dated January 29, 2022
E-12	Hadland, L. – Letter of Comment dated January 26, 2022
E-13	McLeod, R. – Letter of Comment dated March 1, 2022
E-14	vanBrabant, M. – Letter of Comment dated March 7, 2022