

SIXTH FLOOR, 900 HOWE STREET, BOX 250  
VANCOUVER, B.C. V6Z 2N3 CANADA  
web site: <http://www.b cuc.com>



BRITISH COLUMBIA  
UTILITIES COMMISSION

ORDER  
NUMBER G-87-99

TELEPHONE: (604) 660-4700  
BC TOLL FREE: 1-800-663-1385  
FACSIMILE: (604) 660-1102

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

and

An Application by Pacific Northern Gas Ltd.  
for Approval of a Compressor Overhaul Expense Deferral Account

**BEFORE:** P. Ostergaard, Chair )  
L.R. Barr, Deputy Chair ) August 26, 1999  
P.G. Bradley, Commissioner )  
B.L. Clemenhagen, Commissioner )

**O R D E R**

**WHEREAS:**

- A. On July 29, 1999 Pacific Northern Gas Ltd. ("PNG") applied for Commission approval of a deferral account to record the costs of an unplanned 1999 compressor overhaul ("the Application"). The Application proposes that the forecasted overhaul costs of approximately \$350,000 be deferred in 1999 and amortized in the 2000 test year revenue requirements; and
- B. On August 18, 1999 Methanex Corporation and the British Columbia Public Interest Advocacy Centre, who had participated in the settlement discussions on the PNG 1999 Revenue Requirements Application, filed submissions that opposed the Application; and
- C. The Commission has reviewed the Application and the submissions and considers that approval of the Application is in the public interest.

**NOW THEREFORE** the Commission orders as follows:

- 1. The Commission approves the PNG Application to record the actual costs of an unplanned 1999 compressor overhaul in a deferral account for amortization in the 2000 test year revenue requirements.
- 2. The Commission issues the attached Reasons for Decision concurrently with this Order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 26<sup>th</sup> day of August 1999.

BY ORDER

*Original signed by:*

Peter Ostergaard  
Chair

## REASONS FOR DECISION

On July 29, 1999 Pacific Northern Gas Ltd. ("PNG") applied for Commission approval of a deferral account to record the costs of an unplanned 1999 maintenance overhaul of the station R4 compressor. PNG has budgeted for one compressor overhaul in 1999, which is in progress, and recently discovered that the R4 compressor is experiencing excessive vibration and should be overhauled in 1999 to ensure reliable operation during the upcoming heating season. The Application forecasts that the overhaul will cost approximately \$350,000 and proposes that the actual costs be deferred in 1999 and amortized in the 2000 test year revenue requirements. The Application states that no scheduled compressor overhaul will be performed in 2000.

In the Application, the utility described its compressor overhaul program and the frequency of preventative maintenance practices. PNG operates four compressor stations with a fifth compressor serving as a spare. The manufacturer recommends an overhaul of the compressor engine every 30,000 hours but PNG has been extending the interval to about 45,000 operating hours between overhauls. The utility overhaul program involves overhauling one compressor each year resulting in each unit being overhauled once every five years.

On August 18, 1999 Methanex Corporation and the British Columbia Public Interest Advocacy Centre ("BCPIAC"), who had participated in the settlement discussions on the PNG 1999 Revenue Requirements Application, filed submissions that opposed the Application as the forecast risk of a forward test year. BCPIAC and Methanex do not consider the expenditure and its timing to be unforeseen and beyond the control of the company. Therefore, in their view, the expenditure should not be eligible for deferral account treatment. Methanex also included excerpts from PNG's 1996 to 1998 revenue requirements applications regarding forecasted and actual compressor overhaul expenses. Methanex considered that PNG realized cost savings in compressor maintenance in 1996 and deferred an approved 1997 compressor overhaul but did not apply for deferral account treatment of the cost savings.

The following table summarizes the PNG forecast and actual compressor expense from 1996 to 1998. The 1997 approved settlement agreement included a lump sum reduction of \$395,000 of which PNG allocated \$211,000 as a reduction to compressor maintenance expense. According to PNG's allocation, the 1997 Decision allowed for a total of \$142,000 in compressor maintenance (1998 Rev. Req. App. Tab 1, p.39) while the actual costs incurred were \$231,046. The actual 1998 compressor expense is shown as \$522,933 while the revenue requirements application forecasted a cost of \$386,000. A review of the 1996 and 1998 Decisions do not indicate a reduction in requested compressor maintenance expenses.

PNG Compressor Maintenance

	<u>Forecast</u>	<u>Actual</u>	<u>Difference</u>
1996 Compressor – Acct 866	372,000	224,007	147,993
1997 Compressor – Acct 866	142,000	231,046	(89,046)
1998 Compressor – Acct 866	386,000	522,933	<u>(136,933)</u>
Total Difference			(77,986)

The table indicates that from 1996 to 1998 PNG incurred about \$78,000 more for compressor maintenance than it recovered in rates. In 1997 PNG agreed to the lump sum adjustment and decided to delay a scheduled turbine overhaul by one year (about 8,700 hours) as a means of addressing the reduction in approved O&M. The delay in the overhaul did not appear to negatively impact system reliability in 1997.

**Commission Decision**

PNG has been following a compressor maintenance program that involves the overhaul of one of the five compressors each year. The customers have benefited by PNG performing the overhauls at approximately 45,000 hours rather than the manufacturer's recommended frequency of 30,000 hours without incurring reliability problems. The Commission concludes that the overhaul of the station R4 compressor is necessary to ensure system reliability as the compressor is intended to serve as a spare should one of the operating compressors require replacement. By advancing this compressor overhaul to 1999 and recording the actual costs in a deferral account for amortization in 2000, the customers will be no worse off than if the overhaul was performed in 2000 and included as a forecast expense in the 2000 revenue requirements. Although the Commission usually expects utilities to absorb variances in forecast costs for the forward test year, in the circumstances of this application, the Commission is prepared to approve PNG's request to establish a deferral account for unplanned 1999 compressor maintenance expenses. The deferral account will be amortized in the 2000 test year requirements for PNG.