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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-124-14**

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

and

Pacific Northern Gas (N.E.) Ltd.
Application for Approval of 2014 Revenue Requirements
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

BEFORE: D.A. Cote, Panel Chair/Commissioner
C.A. Brown, Commissioner August 29, 2014
C. van Wermeskerken, Commissioner

O R D E R

WHEREAS:

- A. On November 29, 2013, Pacific Northern Gas (N.E.) Ltd. [PNG (N.E.)] Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions filed their 2014 Revenue Requirements Application with the British Columbia Utilities Commission (Commission) pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA) seeking, among other things, Commission approval to increase delivery rates. PNG (N.E.) also sought interim relief, pursuant to sections 58 to 61, 89 and 90 of the UCA, to allow PNG (N.E.) to amend their rates on an interim and refundable basis, effective January 1, 2014, pending the hearing of the Application and orders subsequent to that hearing (Application);
- B. Commission Order G-209-13 dated December 5, 2013, approved the delivery rates and the Rate Stabilization Adjustment Mechanism (RSAM) rider set forth in the Application on an interim and refundable basis, effective January 1, 2014, and established a Preliminary Regulatory Timetable for the review of the Application;
- C. The British Columbia Old Age Pensioners' Organization (BCOAPO) registered as an Intervener and actively participated in the proceeding;
- D. By Order G-32-14 dated March 12, 2014, the Commission established that the Application would be heard through a Negotiated Settlement Process (NSP) and subsequently issued an Amended Regulatory Timetable on May 20, 2014 through Letter L-20-14;

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- E. On June 3, 2014, the Commission issued a Summary of Issues for the NSP. Issue 4.0 of the TR Division Summary of Issues outlined PNG (N.E.)'s request for recovery of costs in the 2013/2014 Quintette Security of Supply Agreement (SSA) Deferral Account;
- F. The NSP discussions for PNG (N.E.) were held on June 10, 2014 and the Final Negotiated Settlement Agreement (NSA) was circulated to the participants on June 24, 2014. As part of the Final NSA, participants agreed that the recovery of costs in the 2013/2014 Quintette SSA Deferral Account should be severed from the NSP and dealt with as a stand-alone item;
- G. By Order G-88-14 dated July 9, 2014, the Commission approved the NSA for the PNG (N.E.) Application. Pursuant to Directive 2 of Order G-88-14, the Commission directed that PNG (N.E.)'s request for recovery of the 2013/2014 Quintette SSA Deferral Account be severed from the 2014 NSP, as agreed by the NSP participants. The Commission further directed that this issue would be reviewed by way of a Written Hearing Process;
- H. On July 16, 2014, PNG (N.E.) filed its Final Submission with the Commission;
- I. BCOAPO filed its Final Submission on July 23, 2014, but then subsequently filed a Request for Withdrawal, stating that its submission contained errors. BCOAPO requested the opportunity to file a revised Final Submission. The Commission granted BCOAPO's request and BCOAPO filed a revised Final Submission on July 28, 2014;
- J. PNG (N.E.) filed its Reply Submission on July 31, 2014; and
- K. The Commission has considered the Application, the evidence and the written arguments as set forth by the parties.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, for the Reasons set out in Appendix A to this Order, the Commission denies PNG (N.E.)'s request to recover the costs in the 2013/2014 Quintette Security of Supply Agreement Deferral Account from ratepayers.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of August 2014.

BY ORDER

Original signed by:

D.A. Cote
Panel Chair/Commissioner

Attachments

Pacific Northern Gas (N.E.) Ltd.
Application for Approval of 2014 Revenue Requirements
for the PNG (N.E.) Service Area

REASONS FOR DECISION

INTRODUCTION

On October 7, 2013, Pacific Northern Gas (N.E.) Ltd. [PNG (N.E.)] filed an application with the British Columbia Utilities Commission (Commission) under section 39 of the *Utilities Commission Act* (UCA) to enter into the Quintette Mine Winter 2013/2014 Security of Supply Agreement (SSA) with Teck Coal Limited (Teck) for a three month period over the winter of 2013/2014. As part of this application, PNG (N.E.) sought approval to place the related incremental costs and revenues of administering the SSA into a deferral account. Pursuant to Order G-179-13, the Commission approved PNG (N.E.)'s requests. The Commission directed PNG (N.E.) to apply for recovery of the deferral account as part of its 2014 Revenue Requirements Application. The Commission also stated that it made no determination on the cost recovery, the amortization period, or the appropriate carrying cost of the deferred costs at the time of issuing Order G-179-13.

On November 29, 2013, PNG (N.E.) Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions filed their 2014 Revenue Requirements Application with the Commission pursuant to section 58 to 61 of the UCA seeking, among other things, Commission approval to increase delivery rates (Application). As part of the TR Division Application, PNG (N.E.) sought approval to recover the costs deferred under the 2013/2014 Quintette SSA from Tumbler Ridge ratepayers over a period of five years commencing January 2015 and to earn interest on the 2013/2014 Quintette SSA Deferral Account based on PNG (N.E.)'s Weighted Average Cost of Debt (WACD). (Exhibit B-1, TR Application, p. 39)

By Order G-209-13 dated December 5, 2013, the Commission approved the delivery rates set forth in the Application on an interim and refundable basis, effective January 1, 2014, and established a Preliminary Regulatory Timetable for the review of the Application.

By Order G-32-14 the Commission established that the Application would be heard through a Negotiated Settlement Process (NSP) and subsequently issued an Amended Regulatory Timetable on May 20, 2014 through Letter L-20-14.

On June 3, 2014, the Commission issued a Summary of Issues for the NSP. Issue 4.0 of the Summary of Issues for PNG (N.E.) TR Division outlined PNG (N.E.)'s request for recovery of costs in the 2013/2014 Quintette SSA Deferral Account. (Exhibit A-12, pp. 7-9)

The NSP discussions for PNG (N.E.) were held on June 10, 2014, and the Final Negotiated Settlement Agreement (NSA) was circulated to the participants on June 24, 2014. As part of the Final NSA, participants agreed that the recovery of costs in the 2013/2014 Quintette SSA Deferral Account should be severed from the NSP and dealt with as a stand-alone item.

On July 9, 2014, the Commission issued Order G-88-14 approving the NSA for the PNG (N.E.) Revenue Requirements Application. Pursuant to Directive 2 of Order G-88-14, the Commission directed that PNG (N.E.)'s request for recovery of the 2013/2014 Quintette SSA Deferral Account be severed from the 2014 NSP as agreed

by the NSP participants. The Commission further directed that this issue would be reviewed by way of a Written Hearing Process.

On July 16, 2014, PNG (N.E.) filed its Final Submission regarding the recovery of costs in the 2013/2014 Quintette SSA Deferral Account.

The British Columbia Old Age Pensioners' Organization (BCOAPO) filed its Final Submission on July 23, 2014 but then subsequently filed a Request for Withdrawal of its Final Submission. BCOAPO stated that its submission contained errors and it requested the opportunity to file a revised Final Submission. The Commission granted BCOAPO's request and BCOAPO filed a revised Final Submission on July 28, 2014.

PNG (N.E.) filed its Reply Submission on July 31, 2014.

BACKGROUND

PNG (N.E.) has a single source of gas supply in the Tumbler Ridge area. Its gas supply contract with this sole supplier, CNRL, restricts PNG (N.E.) to offering a maximum of 20,000 GJ per year of firm, uninterruptible service to any of its customers. In order to provide Teck's Quintette Mine with its forecast 40,000 GJ of firm natural gas service, PNG (N.E.) entered into a temporary supply solution for the 2013/2014 winter season – the Quintette Security of Supply Agreement (SSA). As previously stated, the Commission approved PNG (N.E.)'s request to place the incremental costs and revenues related to the 2013/2014 Quintette SSA into a non-rate base deferral account and directed PNG (N.E.) to apply for recovery of the deferred costs as part of its 2014 Revenue Requirements Application.

A similar arrangement was established between Teck and PNG (N.E.) for the 2012/2013 winter season, and a similar deferral account was established for those costs, titled the 2012/2013 Quintette SSA Deferral Account. However, PNG (N.E.) was denied approval to recover the costs in the 2012/2013 Quintette SSA Deferral Account from ratepayers as part of the Compressed Natural Gas (CNG) Virtual Pipeline Decision (Directive 8 of Order C-4-14).

2013/2014 QUINTETTE SSA DEFERRAL ACCOUNT

PNG (N.E.) forecasts a total ending balance in the 2013/2014 Quintette SSA Deferral Account of \$121,325. PNG (N.E.) stated that this balance was comprised of \$78,000 of costs incurred or accrued in 2013 plus projected costs of \$43,000 for 2014. (Exhibit B-12, BCUC IR 2.27.5, 2.27.5.1) PNG (N.E.) subsequently updated the deferral account balance in its Final Submission to \$120,618 [PNG (N.E.) Final Submission, p. 3].

PNG (N.E.) submitted that there are no material differences in the nature of the costs between the 2012/2013 Quintette SSA Deferral Account and the 2013/2014 Quintette SSA Deferral Account. (Exhibit B-12, BCUC IR 2.27.1.1)

No deliveries of CNG were made using the temporary CNG supply solution during the 2013/2014 winter season due to the fact that deliveries to CNRL were significantly reduced and thus, there was no need to curtail deliveries to other customers. (Exhibit B-12, BCUC IR 2.27.4)

PNG (N.E.) stated that it does not expect that there would be a material impact to the utility if the Commission denied the recovery of the deferred costs because under the terms of the SSA, PNG (N.E.) has the right to

recover the costs from Teck in the event that the Commission does not approve recovery of the costs from ratepayers. (Exhibit B-12, BCUC IR 2.72.2) However, PNG (N.E.) submitted that it is appropriate to recover these costs from ratepayers because “very substantial benefits” have accrued to Tumbler Ridge customers as a result of being able to retain Teck as a customer (Exhibit B-12, BCUC IR 2.27.1).

PNG (N.E.) further submitted that if it had not enacted the temporary CNG supply solution it would not have been able to guarantee firm supply to Quintette Mine, which would have led to Teck leaving the system. PNG (N.E.) estimated that without the load from Teck, the 2014 revenue deficiency would be \$116,000 higher. This is more than double the existing forecast revenue deficiency of \$112,000. (Exhibit B-12, BCUC IR 2.27.4)

In its Final Submission dated July 23, 2014, BCOAPO supported PNG (N.E.)’s request to recover the deferred costs in the 2013/2014 Quintette SSA Deferral Account from Tumbler Ridge ratepayers as proposed by PNG (N.E.). However, the day after filing its Final Submission, BCOAPO submitted a letter to the Commission requesting the opportunity to withdraw its Final Submission due to errors and to file a Revised Final Submission. The Commission granted the request and BCOAPO filed a Revised Final Submission on July 28, 2014.

In the Revised Final Submission, BCOAPO states: “For the same reasons set out in Order C-4-14 relating to the 2012/2013 Quintette SSA deferral account, the 2013/2014 Deferral Account should not be recovered from PNG (N.E.) ratepayers, and should instead be recovered from Teck.” (BCOAPO Final Submission, p. 5)

BCOAPO also submits that there is no material difference in the costs related to the 2012/2013 Quintette SSA Deferral Account, which were denied recovery from ratepayers, and the costs in the 2013/2014 Quintette SSA Deferral Account. BCOAPO states that while ratepayers did receive benefits from the Quintette SSA, PNG (N.E.)’s shareholders and Teck also received benefits. (BCOAPO Final Submission, p. 5)

PNG (N.E.) asserts that “the complete retraction of their [BCOAPO’s] original submission and replacement of a substantively different submission is highly unusual and raises questions regarding integrity, transparency and robustness of the process.” (PNG (N.E.) Reply, p. 2)

PNG (N.E.) states that it objects to the BCOAPO’s submission that its shareholders benefited from the Quintette SSA because no incremental earnings accrued to PNG (N.E.)’s shareholders as a result of the temporary supply arrangement. (PNG (N.E.) Reply, p. 2)

In its Reply Submission PNG (N.E.) also states that even though the Commission in the CNG Virtual Pipeline CPCN Decision did not approve the recovery of the 2012/2013 Quintette SSA Deferral Account from ratepayers, the supplemental supply arrangements made in both the 2012/2013 and the 2013/2014 winter seasons were necessary to provide security of service to Teck’s operations and to retain it as a customer on the system. This may be considered to have benefited all ratepayers through the avoidance of adverse rate impacts if Teck had left the system. (PNG (N.E.) Reply, p. 2)

COMMISSION DETERMINATION

The Commission Panel agrees with the Commission’s findings in Order C-4-14 that “while maintaining Quintette Mine as a customer provides some benefit to Tumbler Ridge ratepayers, the primary beneficiary of the temporary security of supply arrangement is Quintette Mine [Teck] itself.” (Order C-4-14, Appendix A, p. 45) **Accordingly, the Panel denies PNG (N.E.)’s request to recover the 2013/2014 Quintette SSA Deferral Account costs from Tumbler Ridge ratepayers.**

After reviewing the evidence and submissions put forth by PNG (N.E.), the Panel does not consider there to be any new or compelling reasoning which would lead the Panel to vary the determination on the recovery of the 2013/2014 Quintette SSA Deferral Account from the determination made by the Commission on the 2012/2013 Quintette SSA Deferral Account in the CNG Virtual Pipeline CPCN Decision. The Panel also notes PNG (N.E.)'s submission that there are no material differences in the nature of the costs between the 2012/2013 Quintette SSA Deferral Account and the 2013/2014 Quintette SSA Deferral Account. Thus, the two circumstances are similar.

The Commission Panel recognizes the somewhat unusual circumstances surrounding BCOAPO's request for withdrawal of its Final Submission and subsequent filing of a Revised Final Submission. However, the Panel does not consider the erroneous submission by BCOAPO to reflect any lack of integrity in the process. The Panel accepts BCOAPO's statement that the original Final Submission was made in error. Further, the Panel reiterates that the key factors in making its determination are: the previous Commission's decision in Order C-4-14 denying approval of the 2012/2013 Quintette SSA Deferral Account; and, the lack of new or compelling evidence that would justify the Panel making a different decision with regards to the 2013/2014 Quintette SSA Deferral Account under what appear to be very similar circumstances.

With respect to BCOAPO's submission that PNG (N.E.)'s shareholders benefitted from the Quintette SSA, the Panel agrees with PNG (N.E.) that there is no evidence to support this statement, as no incremental earnings accrued to PNG (N.E.)'s shareholders as a result of the temporary supply arrangement. However, the Panel's finding on this matter does not alter its determination on the recovery of the 2013/2014 Quintette SSA deferral account.