



**ORDER NUMBER
G-13-16**

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

and

Pacific Northern Gas Ltd.
2016-2017 Revenue Requirements Application
for the PNG - West Service Area

on February 4, 2016

BEFORE:

K. A. Keilty, Panel Chair/Commissioner
H. G. Harowitz, Commissioner
R. D. Revel, Commissioner

ORDER

WHEREAS:

- A. On August 1, 2013, the British Columbia Utilities Commission (Commission) issued Order G-114-13 concurrently with its decision on the Pacific Northern Gas Ltd. (PNG) 2013 Revenue Requirements Application (RRA) and directed PNG to, among other things, file its 2014 RRA for a period of two years. By Order G-168-13 dated October 10, 2013, the Commission varied Order G-114-13 to instead require PNG to file its RRA for a period of two years commencing in test years 2016 and 2017;
- B. On November 30, 2015, PNG filed its 2016-2017 RRA with the Commission pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA) seeking, among other things, approval to increase 2016 delivery rates as a result of a net increase in cost of service offset by increased deliveries (Application);
- C. With respect to the two year RRA, PNG submits in its Application that it will seek approval of permanent 2016 rates and interim 2017 rates in the Updated Application to be filed at the end of February 2016. PNG plans to file an application in the first quarter of 2017 to apply for permanent 2017 rates effective January 1, 2017;
- D. By Order G-207-15 dated December 18, 2015, the Commission approved the delivery rates and the Rate Stabilization Adjustment Mechanism rider set forth in the Application on an interim basis, effective January 1, 2016. The Commission also established a preliminary regulatory timetable, including a Procedural Conference on January 29, 2016;
- E. The British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO) and the International Brotherhood of Electrical Workers, Local 213 (IBEW 213) registered as interveners;
- F. By letter dated January 12, 2016, the Commission requested that participants address four items at the Procedural Conference and encouraged written submissions on or before January 26, 2016 (Procedural Conference Agenda);

- G. By letter dated January 26, 2016, the Commission filed Exhibit A-5 with a list prepared by Commission staff of specific items and/or supplemental information that should be included in the Updated Application, in order to address item 2 on the Procedural Conference Agenda;
- H. The Procedural Conference was held on January 29, 2016. PNG and BCOAPO made appearances. As an alternative to the proposal in its Application, PNG proposed that it seek permanent 2016 and 2017 rates in the Updated Application. PNG also indicated that it would provide all of the items and supplemental information found in Exhibit A-5 in its Updated Application;
- I. The Panel has considered the submissions received and finds that a written public hearing process is warranted.

NOW THEREFORE, and for the reasons set out in Appendix A to this order, the British Columbia Utilities Commission orders as follows:

- 1. A written public hearing process is established in accordance with the Regulatory Timetable attached as Appendix B to this order.
- 2. Pacific Northern Gas Ltd. is directed to file its Updated Application on or before February 29, 2016 seeking permanent 2016 and 2017 rates.
- 3. Pacific Northern Gas Ltd. must provide the specific items and supplemental information contained in Exhibit A-5 in its Updated Application to be filed on or before February 29, 2016.

DATED at the City of Vancouver, in the Province of British Columbia, this 4th day of February 2016.

BY ORDER

Original Signed By:

K. A. Keilty
Panel Chair/Commissioner

Attachment

Pacific Northern Gas Ltd.
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REASONS FOR DECISION

1.0 BACKGROUND

In accordance with British Columbia Utilities Commission (Commission) Order G-207-15 dated December 18, 2015, a Procedural Conference was held on January 29, 2016 to address various matters related to the Pacific Northern Gas Ltd. (PNG) 2016-2017 Revenue Requirements Application (RRA).

The items to be addressed by participants were listed in a Commission letter dated January 12, 2016 (Procedural Conference Agenda), as follows:

1. The scope of the review of the 2017 test year, specifically addressing the following questions:
 - i. Should the 2017 test year be included in the current regulatory process?
 - ii. Should interim or permanent rates be established for the 2017 test year as part of the current regulatory process?
2. Specific items and/or supplemental information that should be included in the Updated Application, to be filed by February 29, 2016, in an effort to improve the effectiveness of the first round of information requests. For this specific item to be addressed at the Procedural Conference, the Panel requested comments from Commission staff, in addition to participants.
3. The preferred regulatory process for the review of the PNG 2016-2017 RRA.
4. Any other relevant matters that the participants want to bring to the attention of the Panel.

The Commission encouraged written submissions on the above-noted items on or before January 26, 2016. By letter dated January 26, 2016, the Commission filed Exhibit A-5 with a list prepared by Commission staff of specific items and supplemental information that should be included in the Updated Application, in response to item 2 of the Procedural Conference Agenda.

2.0 SUBMISSIONS

The sections below summarize the submissions received by PNG, the British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO) and Commission staff at the Procedural Conference on January 29, 2016.

2.1 Two Year RRA

PNG proposed to include a request for permanent 2016 and 2017 rates in its Updated Application, with the exception of the cost of gas supply and the Revenue Stabilization Adjustment Mechanism (RSAM). In its Updated Application, PNG noted that it intends to back out reactivation costs included in the current Application related to the Douglas Channel LNG project, due to the uncertainty surrounding this project and the fact that there has not yet been a Final Investment Decision.¹ Further, PNG stated that it was still open to the "staged process" proposed in the original Application (i.e. seeking interim 2017 rates as part of the Updated Application) but that

¹ Procedural Conference, Transcript Volume 1, pp. 8–9.

requesting permanent rates for both 2016 and 2017 as part of the same regulatory process is a more “efficient alternative”.²

BCOAPO recommended that a request for approval of interim or permanent 2017 rates should not be included in the Updated Application, noting that they expect the regulatory costs for a two year test period to be “about twice what they would have been in setting rates for one test year”.³ Instead, BCOAPO proposed that permanent 2017 rates be considered in an updated application towards the end of 2016.⁴ BCOAPO expressed concern that there is no mechanism to deal with forecast uncertainty that arises in setting permanent 2017 as part of the current regulatory process.⁵

Commission staff submitted that permanent rates should be set for both 2016 and 2017 as part of the current regulatory process and that this will result in improved regulatory efficiency. Further, Commission staff noted with respect to forecast accuracy that the utility can either over or under recover during the test years. As recourse in the event that unusual circumstances arise, PNG may file for relief or another party may file a complaint.⁶

2.2 Contents of Updated Application

PNG agreed to address all of the specific items and supplemental information listed in Exhibit A-5 in its Updated Application to be filed on or before February 29, 2016.⁷ BCOAPO did not have any additional items and/or supplemental information to add.⁸

2.3 Regulatory Process

PNG put forward a draft regulatory timetable, filed as Exhibit B-3, and proposed either a Negotiated Settlement Process (NSP) or a written hearing process as the preferred regulatory process, both following two rounds of information requests (IRs).⁹

BCOAPO proposed a written hearing process if only test year 2016 is included in the current regulatory process. However, if both 2016 and 2017 are included in the current regulatory process, BCOAPO proposed an oral hearing as its preference, stating that the application will “...require more scrutiny if both years are being dealt with at the same time.”¹⁰ In either scenario, BCOAPO agreed with PNG that two rounds of IRs are required.¹¹

PNG did not support the option to hold an oral hearing, noting that they are “very expensive and quite onerous”. In addition, PNG noted that it expects that all of the issues can be dealt with in a written hearing process.¹²

² Procedural Conference, Transcript Volume 1, pp. 10–11.

³ Ibid., p. 16.

⁴ Ibid., p. 18.

⁵ Ibid., pp. 18, 20.

⁶ Ibid., p. 24.

⁷ Ibid., p. 11.

⁸ Ibid., p. 21.

⁹ Ibid., pp. 11–12.

¹⁰ Ibid., p. 22.

¹¹ Ibid., pp. 21–22.

¹² Ibid., p. 28.

3.0 COMMISSION DETERMINATION

3.1 Two Year RRA

The Panel agrees with PNG and Commission staff that seeking permanent rates for both 2016 and 2017 as part of the same regulatory process is likely to result in improved regulatory efficiency. The Panel highlights the following excerpt from the Commission's decision on the PNG 2013 RRA whereby PNG was directed to, among other things, file its 2014 RRA for a period of two years:

The cost of preparing and filing an application covering a two year period rather than a one year period is certainly higher given the greater span of time covered. However, there are economies of scale and cost efficiencies to be gained for both the utility and the ratepayer by handling an application covering a two year time span rather than a single year.

With respect to BCOAPO's concern regarding forecast uncertainty, the Panel points to Commission Order G-168-13 dated October 10, 2013, whereby the Commission varied Order G-114-13 to instead require PNG to file its RRA for a period of two years commencing in test years 2016 and 2017. In that order, the Commission states that "...most utilities are faced with economic uncertainty and businesses must learn to cope with uncertainty, making informed decisions about economic assumptions that impact budgets and planning." The Panel notes that several utilities file multi-year RRAs and that forecast uncertainty is an issue that must be managed as part of the process. In addition, any variances in actuals as compared to the approved forecast may result in variances that are either favourable or unfavourable for the utility.

For these reasons, **Pacific Northern Gas Ltd. is directed to file its Updated Application on or before February 29, 2016 seeking permanent 2016 and 2017 rates.**

3.2 Regulatory Process

The Panel is not persuaded that there are specific issues that would arise in reviewing both test years 2016 and 2017 that warrant an oral hearing process, as compared to reviewing only test year 2016. Specifically, the Panel is in agreement with PNG's submissions that oral hearings are costly for the utility, and ultimately the ratepayers, and that the issues can be dealt with effectively through a written hearing process with two rounds of IRs. For these reasons, **the Panel establishes a written public hearing process with two rounds of information requests, following the Regulatory Timetable attached as Appendix B.**

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REGULATORY TIMETABLE

ACTION	DATE (2016)
Participant Assistance/Cost Award Budget Deadline	Friday, February 19
PNG files Updated Application	Monday, February 29
Commission and Intervener Information Request (IR) No. 1	Wednesday, March 30
PNG Response to IRs No. 1	Wednesday, April 20
Commission and Intervener IRs No. 2	Friday, May 6
PNG Response to IRs No. 2	Friday, May 20
PNG Final Argument	Friday, June 3
Intervener Final Argument	Tuesday, June 14
PNG Reply Argument	Thursday, June 23