



ORDER NUMBER

G-343-22

IN THE MATTER OF

the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.

Application for Approval of EMAT Tax Benefit Deferral Account
for the PNG-West Division

BEFORE:

B. A. Magnan, Panel Chair/Commissioner

on November 28, 2022

ORDER

WHEREAS:

- A. On November 8, 2022, Pacific Northern Gas Ltd. (PNG) applied to the British Columbia Utilities Commission (BCUC) pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA) for approval to establish an EMAT Tax Benefit deferral account for the West Division (PNG-West) to record unanticipated income tax benefits forecast to be realised in 2022 and arising from the advancement of electromagnetic acoustic transducer (EMAT) in-line inspection (ILI) tool runs in 2022 as part of PNG's integrity work (Application). PNG proposes that the deferral account attract interest at its short-term interest rate and that the balance be amortized over a one-year period;
- B. In response to the British Columbia Oil and Gas Commission (BCOGC) General Order 2021-0115-01 (BCOGC Order), PNG undertook the specific integrity digs and associated repairs on the Western Transmission Gas Line in 2021 to address identified anomalies and defects, and by BCUC Order G-281-22, the BCUC approved PNG to record the 2021 integrity-related capital expenditures as capital additions in 2021;
- C. On June 21, 2022, PNG provided the BCOGC with an update on the integrity work and findings related to the BCOGC Order, including reporting the findings of stress corrosion cracking (SCC) of a severity requiring immediate mitigation. Subsequently, on July 4, 2022, the BCOGC issued Amendment 1 to General Order 2021-0115-01 (Amendment 1 to the BCOGC Order) directing a further reduction in operating pressure on certain segments of the Western Transmission Gas Line;
- D. PNG states that based on the recent SCC findings and Amendment 1 to the BCOGC Order it intends to advance EMAT ILI activity that was originally anticipated in 2023 to 2022 in order to facilitate identification of instances of severe SCC such that these can be remediated, and the pressure restored on the Western Transmission Gas Line;

- E. The 2022 incremental EMAT ILI expenditures will give rise to an unanticipated income tax benefit in 2022 and PNG proposes to record it in a new EMAT Tax Benefit deferral account;
- F. PNG requests that the BCUC expedite its consideration and approval of its request in order for PNG to implement the deferral account in fiscal 2022. PNG also suggests that should the BCUC consider a more extensive review process is warranted, the EMAT Tax Benefit deferral account can be approved on an interim basis with further review to take place as part of the upcoming 2023-2024 Revenue Requirements Application for PNG-West; and
- G. The BCUC has reviewed the Application and makes the following determinations.

NOW THEREFORE pursuant to section 59 to 61 and 89 of the UCA and for the reasons set out in Appendix A to this order, the BCUC orders as follows:

1. PNG is approved to establish the EMAT Tax Benefit deferral account for PNG-West on an interim basis and accruing interest at PNG's short-term interest rate, to record the 2022 unanticipated income tax benefits arising from the advancement of EMAT ILI tool runs in 2022 with the amortization period to be set during the next Revenue Requirements Application.
2. PNG is directed to file an application for permanent approval of the EMAT Tax Benefit deferral account as part of its 2023-2024 Revenue Requirements Application for PNG-West or as an evidentiary update.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of November 2022.

BY ORDER

Original signed by:

B. A. Magnan
Commissioner

Attachment

Pacific Northern Gas Ltd.
Application for Approval of EMAT Tax Benefit Deferral Account
for the PNG-West Division

REASONS FOR DECISION

1.0 Introduction and Background

On November 8, 2022, Pacific Northern Gas Ltd. (PNG) applied to the British Columbia Utilities Commission (BCUC) pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA) for approval to establish an EMAT Tax Benefit deferral account for the West Division (PNG-West) to record unanticipated income tax benefits forecast to be realised in 2022 arising from the advancement of electromagnetic acoustic transducer (EMAT) in-line inspection (ILI) tool runs in 2022 as part of PNG's integrity work (Application). PNG proposes that the deferral account attract interest at PNG's short-term interest rate and that the balance be amortized over a one-year period.¹

On July 16, 2021, the British Columbia Oil and Gas Commission (BCOGC) issued General Order 2021-0115-01 (BCOGC Order) directing PNG to, among other things, reduce the operating pressure on certain segments of the Western Transmission Gas Line and submit an integrity dig plan to address identified anomalies and defects.² PNG undertook the necessary integrity digs and associated repairs in 2021 to satisfy the BCOGC Order, and by BCUC Order G-281-22, the BCUC approved PNG to record the 2021 unplanned integrity-related capital expenditures as capital additions in 2021 in PNG's rate base for the purposes of setting rates going forward.³

On June 21, 2022, PNG provided the BCOGC with an update on the integrity work and findings related to the BCOGC Order, including reporting the findings of stress corrosion cracking (SCC) of a severity requiring immediate mitigation. Subsequently, on July 4, 2022, the BCOGC issued Amendment 1 to General Order 2021-0115-01 (Amendment 1 to the BCOGC Order) directing a further reduction in operating pressure on certain segments of the Western Transmission Gas Line.⁴ PNG states that based on the recent SCC findings and Amendment 1 to the BCOGC Order it intends to accelerate its ILI program to facilitate identification of instances of severe SCC such that these may be remediated, and the pressure restored on the Western Transmission Gas Line. Specifically, PNG plans to complete incremental EMAT ILI runs in 2022 that were primarily planned in 2023, and which have an associated forecast cost of \$4.462 million.⁵

2.0 Deferral Account and Approach to Application

BCUC Orders G-131-16 and G-151-18, approved PNG to capitalize EMAT ILI tool runs in accordance with US Generally Accepted Accounting Principles and directed PNG to depreciate these EMAT ILI runs over a period of 10 years, respectively.⁶ However, PNG states that for income tax purposes the EMAT ILI activities are fully deductible in the year they are incurred. This difference in the treatment of the 2022 incremental EMAT ILI

¹ Exhibit B-1, p. 1.

² Exhibit B-1, p. 1.

³ Decision accompanying BCUC Order G-281-22, Section 3.1, pp. 17–18.

⁴ Exhibit B-1, p. 2.

⁵ Exhibit B-1, pp. 3 and 5.

⁶ BCUC Order G-131-16, Directive 10; BCUC Order G-151-18, Directive 13.

expenditures for accounting and income tax purposes is expected to give rise to an unanticipated income tax benefit in 2022 that will offset income taxes otherwise payable for 2022. Accordingly, PNG proposes to record the unanticipated income tax benefit in the EMAT Tax Benefit deferral account, such that the tax benefit can be returned to its ratepayers in 2023. PNG intends to close the deferral account after it has been fully amortized in 2023.⁷

PNG requests that the BCUC expedite its consideration and approval of its request such that the EMAT Tax Benefit deferral account can be implemented before the end of fiscal 2022. However, should the BCUC determine that a more extensive review process of the deferral account is warranted, PNG suggests that the EMAT Tax Benefit deferral account be approved on an interim basis, with further review to take place as part of the 2023-2024 Revenue Requirements Application for PNG-West.⁸

Panel Determination

The unanticipated income tax benefit that is expected to be realised and recorded in the proposed EMAT Tax Benefit deferral account arises from incremental EMAT ILI runs planned for completion in 2022. PNG is not seeking approval of these incremental capital expenditures as part of this Application. The Panel is reluctant to approve the EMAT Tax Benefit deferral account on a permanent basis without a thorough review of the incremental capital expenditures that give rise to the unanticipated income tax benefits. Accordingly, and with consideration of regulatory efficiency, the Panel considers that the deferral account should be reviewed as part of PNG's upcoming 2023-2024 Revenue Requirements Application for PNG-West. Therefore, **PNG is approved to establish the EMAT Tax Benefit deferral account for PNG-West on an interim basis and accruing interest at PNG's short-term interest rate, to record the 2022 unanticipated income tax benefits arising from the advancement of EMAT ILI tool runs in 2022 with the amortization period to be set during the next Revenue Requirements Application.**

PNG is directed to file an application for permanent approval of the EMAT Tax Benefit deferral account as part of its 2023-2024 Revenue Requirements Application for PNG-West or as an evidentiary update.

⁷ Exhibit B-1, p. 4.

⁸ Exhibit B-1, p. 6.