



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-87-14**

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

and

Pacific Northern Gas Ltd.
Application for Approval of 2014 Revenue Requirements
for the PNG-West Service Area

BEFORE: D.A. Cote, Panel Chair/Commissioner
C.A. Brown, Commissioner July 9, 2014
C. van Wermeskerken, Commissioner

O R D E R

WHEREAS:

- A. On November 29, 2013, Pacific Northern Gas Ltd. (PNG) filed its 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 also sought interim relief, pursuant to sections 58 to 61, 89 and 90 of the UCA, to allow PNG to amend its 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-208-13 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 Pensioners' and Seniors' Organization *et al.* (BCPSO) registered as Intervener and actively participated in the proceeding;
- D. By Order G-31-14, dated March 12, 2014, the Commission established that the Application would be heard through a Negotiated Settlement Process (NSP);
- E. On March 14, 2014, PNG filed an updated Application which forecasted a revenue deficiency of approximately \$0.330 million, down from \$0.916 million in the original Application;

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- F. On May 12, 2014, the Commission issued a letter appointing a third party to act as the Facilitator of the NSP pursuant to section 28(1) of the *Administrative Tribunals Act*. The Commission also established that Commission staff would participate in separate roles: Active Participant, providing representation to ratepayer groups not actively participating in the review of the Application; and Advisor, providing technical information and factual support to the parties, as outlined in the NSP Policy, Procedures and Guidelines (NSP Guidelines) attached as Appendix A to Order G-11-12;
- G. By letter L-20-14, dated May 20, 2014, the Commission confirmed the date of the NSP and issued an Amended Regulatory Timetable;
- H. On June 3, 2014, the Commission issued a Summary of Issues for the NSP;
- I. The NSP discussions were held in Vancouver on June 9 and 10, 2014 and an agreement was reached on June 10, 2014. The Final Negotiated Settlement Agreement (NSA) was circulated to the participants on June 24, 2014;
- J. Letters of support for the NSA have been received from PNG, BCPSO and the Commission Staff Active Participant, all of whom participated in the NSP;
- K. On June 26, 2014, the NSP Facilitator filed the NSA and supporting documents with the Commission;
- L. The Commission has reviewed the NSA for PNG's 2014 Revenue Requirements, which will result in a revenue deficiency of approximately \$0.343 million, and considers that approval is warranted.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*, the Commission orders as follows:

1. The Negotiated Settlement Agreement for the Pacific Northern Gas Ltd. 2014 Revenue Requirements Application, as issued on June 26, 2014, is approved and attached as Appendix A to this Order.
2. Pacific Northern Gas Ltd. must resubmit its financial schedules in a Compliance Filing for Commission review incorporating all of the adjustments outlined in the Negotiated Settlement Agreement within 30 business days of the issuance of this Order. In addition, the financial schedules must be updated to incorporate any corrections acknowledged by Pacific Northern Gas Ltd. in response to Information Requests in this proceeding.
3. Pacific Northern Gas Ltd. must inform all customers of permanent rates by way of written notice included in their next customer invoice.

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4. Pacific Northern Gas Ltd. shall refund to customers the difference in revenue between the 2014 interim rates and permanent rates, including delivery rates and the Rate Stabilization Adjustment Mechanism rider, with interest at the average prime rate of Pacific Northern Gas Ltd.'s principal bank for its most recent year. Pacific Northern Gas Ltd. must include its proposed process for refunding customers at the time it submits its Compliance Filing for Commission review.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of July 2014.

BY ORDER

Original signed by:

D.A. Cote
Panel Chair/Commissioner

Attachment

JAMES W. FRASER
Consultant,
c/o BC Utilities Commission
900 Howe Street, Vancouver, BC
V6Z 2N3

VIA E-MAIL

June 26, 2014

B.C. Utilities Commission
6th Floor - 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Erica M. Hamilton
Commission Secretary

Dear Ms. Hamilton:

Re: Pacific Northern Gas Ltd. - West ("PNG")
Negotiated Settlement
2014 Revenue Requirements Application

Enclosed with this letter is the proposed Negotiated Settlement Agreement (Agreement) for PNG's 2014 Revenue Requirements Application. Also enclosed are Letters of Support received from the participants in the Negotiated Settlement Process (NSP).

On May 12, 2014, the Chair of the Commission appointed me as facilitator of the NSP. Participants in the NSP met on June 9 and 10, 2014 and reached an agreement on June 10. During the next two weeks the Agreement was drafted and refined. The final Agreement was circulated to the participants on June 24, 2014. That Agreement is now public and is being submitted to the Commission for review. There were no Interveners who did not participate in the NSP; consequently there is no need (as directed by the February 2012 NSP Guidelines) to circulate the proposed agreement to Interveners who did not participate in the settlement negotiations.

Yours truly,

James W. Fraser
Consultant/NSP Facilitator

Attachments

cc: Ms. Janet Kennedy
Vice President, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd

Email: jkennedy@png.ca

Sarah Khan, Barrister & Solicitor
BC Public Interest Advocacy Centre
Email: skhan@bcpiac.com

**Pacific Northern Gas Ltd.
(PNG-West Division)**

2014 Revenue Requirements Application

NEGOTIATED SETTLEMENT AGREEMENT

Introduction

BC Utilities Commission staff (Commission Staff), representatives of Pacific Northern Gas Ltd. (PNG), and the BC Public Interest Advocacy Centre [representing the British Columbia Pensioners' and Seniors' Organization, Active Support Against Poverty, BC Coalition of People with Disabilities, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre (BCPSO *et al.*)] met on June 9 and 10, 2014 for the purpose of negotiating a settlement of the PNG-West Division 2014 revenue requirements application (Application). The negotiated settlement process (NSP 2014) discussions were facilitated by a third party (Facilitator) appointed by the Commission. Commission Staff participated separately in the two roles of Active Participant, providing representation to ratepayer groups not actively participating in the review of the Application, and Advisor, providing technical and factual support to the discussions.

Issues for Negotiation

In anticipation of NSP 2014 discussions, Commission Staff acting in the role of Advisor circulated an Issues Summary on June 3, 2014 containing a list of issues to be addressed in the negotiations, including a summary of each issue and concerns noted. The Issues Summary, which was filed as Exhibit A-8, can be referenced for additional background on the issues, albeit with the caution that the document was prepared prior to the discussions and clarifications that occurred during NSP 2014.

Further, prior to commencement of discussions, the Facilitator presented the Commission Panel's Comments and Direction for NSP 2014 on the following matters:

- 1) Items of a Policy Nature Addressed in Previous Hearings
- 2) Productivity Improvements
- 3) The Hiring of the Two New Head Office Positions

During the course of negotiations, the question of the amortization period for a deferral account related to the 2013 rate impact arising from Stage 2 of the Generic Cost of Capital (GCOC) proceeding was tabled. In addition, the issue of the impact on 2015 rates of the expiry of large credit amortizations from several deferral accounts was noted. These two additional items have been included in the discussions as Issues 17 and 18.

The discussion that follows summarizes the issues negotiated as well as the resolutions achieved.

Summary of Settlement Agreement

Agreement was reached on June 10, 2014 among the parties that participated in the process. The result of NSP 2014 is to increase the applied for Test Year 2014 revenue deficiency by \$13 thousand, from approximately \$330 thousand to \$343 thousand.

As part of the negotiation, the parties agreed to a 1% increase in rates for 2014 to be achieved by not fully amortizing the credit deferral of the LNG Partners Option Fee deferral account in 2014. The parties agreed to reduce the amortization of this credit deferral account for 2014 by approximately half (from \$1,632,000 to \$831,000) and to reserve \$800,000 of the credit deferral for amortization in 2015 in order to mitigate the potential for large rate increases in 2015. As noted under the discussion of Issue 18, this resulted in a 1% increase in rates for 2014 rather than a 2% decrease that would have otherwise resulted.

The following table summarizes the adjustments to the cost of service presented in the Application to achieve this NSP:

Issue	PNG-West NSP 2014 Adjustments to the Revenue Requirement Application	Impact (\$000's)
1	Operating Expenses: Account 665 – Pipelines & Deferral Accounts – Investigative Digs	nil
2	Operating Expenses: Account 685 – Contract and Consulting	} (17)
3	Operating Expenses: Account 688 – Employee Expenses	
4	Operating Expenses: Account 688 – Contractors	
5	Operating Expenses: Account 718 – Customer Accounting Uncollectable Accounts	n/a amortize in 2015
6	Maintenance Expenses: Account 878 – Meters	nil
7	Administrative & General Expenses: Account 721 – Administration	nil
8	Administrative & General Expenses: Account 721 – AltaGas Inter-Affiliate Charge	(196)
9a	Administrative & General Expenses: Account 721 – Head Office Positions	(15)
9b	Administrative & General Expenses: Account 722 – Productivity Study	(33)
10	Administrative & General Expenses: Account 721 – Mid-Term Incentive Plan (MTIP)	(92)
11	Administrative & General Expenses: Account 725 – Employee Savings Plan	(26)
12	Administrative & General Expenses: Account 725 – Other Programs	nil
13	Approval of Denied 2013 Rio Tinto Alcan (RTA) Modernization Project Capital Expenditures	(174)
14	Approval of Denied 2012 Carryover Capital Expenditures	n/a
15	Other Working Capital: Transmission Line Pack Value	n/a
16	Approval for Continued Use of US Generally Accepted Accounting Principles (US GAAP)	n/a
17a	Amortization Period for GCOC Stage 2 Decision Impact on 2013 Rates	n/a amortize in 2015
17 b	Impact of GCOC Stage 2 Decision on 2014 Rates	(352)
18	Rate Impacts in 2014 and 2015 – Amortization of LNG Partners Option Fee deferral account	800
	Subtotal Change to Revenue Deficiency	(105)
	Impact on Shared Services Cost Recovery from PNG(NE)	118
	Total Change to Revenue Deficiency	13

1.0 Operating Expenses: Account 665 – Pipelines & Deferral Accounts – Investigative Digs

References:

PNG-West 2013 Revenue Requirements Application (RRA) Decision, pp. 49–50
Amended Final Regulatory Schedules under Commission Order G-114-13: pp. 3–4; Tab 1, p. 3
Exhibit B-5, BCUC IR 1.16.6, 1.16.12, pp. 36, 39
Exhibit B-8: BCUC IR 2.13 (all), p. 30; BCUC IR 2.48.1, pp. 113–114
Exhibit B-1-1, Updated Schedules: Tab 1, p. 3; Tab 2, pp. 13–14

Issue:

It was identified that there may be a discrepancy between what the Commission directed to be recorded for 2013 investigative digs expense in the PNG-West 2013 RRA Decision and what PNG is stating was approved for 2013 investigative digs expense as part of this proceeding. If such a discrepancy exists, there would be an impact on the 2013 addition to the Investigative Digs Variance deferral account and an impact on the amount of amortization expense recorded on deferral accounts for 2014.

Discussion:

Discussion focused on costs incurred for investigative dig activity, with PNG noting that costs were recorded in two accounts, Account 665 and Account 685. PNG confirmed that the 2013 Decision amount for investigative digs included \$352,000 in Account 665 and \$28,000 in Account 685, totaling \$380,000. PNG also confirmed that the deferral amount is based on variances between forecast and actual costs relating to Account 665 only. The 2013 Actual amount for Account 665 was \$432,000, therefore the amount to be deferred is correctly stated at \$80,000, representing the variance in Account 665. Account 685 amounts pertain to an allocation of automotive costs associated with investigative dig activity. Actual 2013 automotive costs are tracked on a consolidated basis and not allocated to specific operating activities, therefore variances cannot and have not been tracked for deferral purposes.

Settlement:

The parties accepted PNG's proposal to record the deferral amount of \$80,000. No change is required.

2.0 to 4.0 Operating Expenses: Account 685 – Contract and Consulting; Account 688 – Employee Expenses; Account 688 – Contractors

References:

Exhibit B-8: BCUC IR 2.10.1, p. 19; BCUC IR 2.17.1.1, p. 38; BCUC IR 2.18.2, p. 41
Exhibit B-1-1, Application Update, p. 32
Exhibit B-8: BCUC IR 2.19.1, 2.19.2, 2.19.3, pp. 42-43
Exhibit B-8, BCUC IR 2.10.1, p. 19
Exhibit B-8: BCUC IR 2.19.1, 2.19.6, 2.19.7, pp. 42, 44

Issue:

Account 685 – Contract and Consulting: Actual 2013 Contracting Fees were \$144,427. PNG is forecasting a 19 percent increase in 2014 to \$171,419. The question was asked, should PNG be entitled to recover the full forecast amount of \$171,419?

Account 688 – Employee Expenses: For each year since 2010, PNG has over forecast Employee Expenses by over 20 percent; therefore, it is possible that the 2014 forecast balance is also overstated. The question was asked, should PNG be entitled to recover the full forecast amount of \$115,027?

Account 688 – Contractors: The Actual Contractor balance over the past four years on average is \$111 thousand, while PNG is forecasting \$143 thousand for 2014. Given that the balance is 28 percent higher than the Actual four year average, concern was noted that the 2014 balance is over forecast.

Discussion:

The actual expenses in these Account line items over the past several years were reviewed, as were the total expenses for all items included in each Account. The factors contributing to the higher than average increase in 2014 were discussed, as was the need to make trade-offs and allocation adjustments between individual line item costs when actual activities varied from those originally forecast.

Settlement:

After discussion, the parties agreed to reduce the total budget for operating expenses by \$17,000 (in Account 685 or 688), exclusive of the resolution regarding Allowance for Doubtful Accounts discussed in Issue 5.0 that follows.

5.0 Operating Expenses: Account 718 – Customer Accounting Uncollectable Accounts

References:

Exhibit B-1, Original Application, p. 25
Exhibit B-5, BCUC IR 1.22 (all), pp. 54-56
Exhibit B-8, BCUC IR 2.10.1, p. 19
Exhibit B-8, BCUC IR 2.23 (all), pp. 49-54

Issue:

The Allowance for Doubtful Accounts (ADA) is collected from ratepayers through Account 718 Bad Debt Expense. It appears that the ADA balance is significantly larger than what is allowed under US Generally Accepted Accounting Principles (GAAP).

The question was asked, if the ADA is larger than necessary should the difference be returned to ratepayers as an equal and offsetting reduction in the revenue deficiency in the current year? Further, it was noted that given that the amounts collected from ratepayers as ADA have not been spent by the company should the balance accrue interest to the benefit of the ratepayer, and if so, at what rate?

Discussion:

The history of aged accounts, the amount of bad debt expense, and the accounts written off over the past several years were reviewed. Improvements in PNG's credit and collection procedures were discussed as was the improvement of economic conditions in PNG's service areas, both factors lowering PNG's risk of bad debts. Also discussed was that PNG could seek special consideration from the Commission in a situation where a significant uncollectible amount were to arise should a large customer fail.

Settlement:

The parties have agreed that the balance sheet provision proposed in PNG-West's Application of \$224,000 is greater than is necessary given the current economic conditions and review of bad debt accounts in recent years. On that basis, the parties agreed that the appropriate amount for the ADA in the current year's application is \$75,000, this amount being the average bad debt write-off in the prior 6 years. The parties have also agreed that the ADA balance, being funds previously recovered from customers but not yet required to cover bad debts, will bear interest at the Company's short-term debt rate.

The excess ADA, estimated at \$149,000 for December 31, 2014, will be amortized (and thereby refunded to customers) in 2015.

6.0 Maintenance Expenses: Account 878 – Meters

References:

Exhibit B-1-1, Application Update, p. 33
Exhibit B-1-1, Updated Schedules, Tab 1, p. 4
Exhibit B-8, BCUC IR 2.25 (all), pp. 57–58
Exhibit B-5, BCUC IR 1.24.1, 1.24.2, p. 58
PNG-West 2011 RRA, Exhibit B-1-3, Tab 1, p. 4
PNG-West 2012 RRA, Exhibit B-3, Tab 1, p. 4
PNG-West 2013 RRA, Exhibit B-1-1, Tab 1, p. 4

Issue:

Is PNG's 2014 forecast of \$279,000 for Account 878 — Meters maintenance reasonable?

Discussion:

The actual expenses in this account over the last few years were reviewed. Discussion of the underlying reasons for the budgeted increase was discussed, including new legislative requirements for increased meter testing and verification effective January 1, 2014.

Settlement:

The parties accepted PNG's explanation and have agreed to accept the PNG forecast of \$279,000 based on the new regulations for increased meter sampling and an associated increase in repair costs.

7.0 Administrative & General Expenses: Account 721 – Administration

References:

Exhibit B-1, Original Application, Section 2.5.1, pp. 28–33
Exhibit B-1-1, Updated Schedules: Tab 1, pp. 6, 9
Exhibit B-1-1, Application Update: Section 3.3, pp. 9–10; Section 6.1.3, pp. 34–35
Exhibit B-8, BCUC IR 2.27 (all), pp. 60–69

Issue:

Whether or not PNG's 2014 forecast for Account 721 — Administrative expenses is reasonable and should be approved as filed.

Discussion:

Discussion ensued on the various expenses included in this account including the head office salaries, MTIP, and the AltaGas Inter-Affiliate Charge.

Settlement:

The parties accepted PNG's explanation of the expenses and agreed that the expenses in this general category would be accepted, with the exception of those specific items identified and discussed elsewhere in this document (Head Office Positions (Issue 9a), Mid-Term Incentive Plan (Issue 10), and AltaGas Inter-Affiliate Charge (Issue 8)).

8.0 Administrative & General Expenses: Account 721 – AltaGas Inter-Affiliate Charge

References:

Exhibit B-1, Original Application, pp. 29–31 & Appendix B
Exhibit B-1-1, Section 3.3.1, pp. 9–10
Exhibit B-5: BCUC IR 1.27, 1.28, 1.29, pp. 63–70
Exhibit B-6: BCPSO IR 1.7.1, 1.7.2, 1.8.1, pp. 10–11
Exhibit B-8: BCUC IR 2.28, 2.29, 2.30, 2.31, pp. 70–76
Exhibit B-9: BCPSO IR 1.3.1, 1.3.2, 1.4.1, 1.4.2, 1.4.3, pp. 4–6
PNG-West 2013 RRA Decision, pp. 26–30

Issue:

PNG has been allocated an inter-affiliate charge from its parent company AltaGas totalling \$1.586 million for Test Year 2014. Of this total charge, PNG is requesting to recover \$911,000 from ratepayers. Is this amount reasonable?

Discussion:

PNG noted that in the 2013 RRA Decision, the Commission did not take into account inflation when it determined the Inter-Affiliate charge to be recovered in customer rates. Discussion ensued that conceptually the Inter-Affiliate charge should be re-based to incorporate inflation from 2009 through to 2014, resulting in a higher base amount for 2014. Secondly, PNG indicated that there had been a miscalculation in the 2013 filing, and while parties were not prepared to give credit for past errors, they agreed it should be corrected going forward and used as a proxy for 2014. Correction of these factors would, on their own, lead to a substantial percentage increase in the amount of the Inter-Affiliate charge included in customer rates.

PNG also reiterated its proposal to share equally between PNG and its customers any synergies that have been achieved as result of its ownership by AltaGas, such as reduced insurance and interest expenses. PNG calculated that 50% of the synergies (savings) achieved was approximately \$185,000. (Source: Exhibit B-8, BCUC IR 2.29.1). Given that several significant credit deferrals were scheduled to end in 2014 and that there exists the potential for significant rate increases in 2015, parties could not come to agreement on the sharing of synergies at this time.

Settlement:

The parties have agreed to an inter-affiliate charge of \$715,000 for 2014, an increase of 15 percent over the amount approved for recovery in 2014. This was a negotiated amount involving several considerations as noted in the preceding Discussion. The parties also acknowledge that there is no recognition of PNG's proposed mechanism to share equally any synergies that have been achieved as a result of PNG's affiliation with its Parent Company, AltaGas Ltd., in this agreed-upon inter-affiliate charge for 2014. It was agreed that PNG could re-apply to share in achieved synergies in future rate applications.

9.0 a) **Administrative & General Expenses: Account 721 – Head Office Positions**

References:

Exhibit B-1, Original Application, pp. 31–32
Exhibit B-5, BCUC IR 1.31 (all), pp. 72–76
Exhibit B-8: BCUC IR 2.32 (all), 2.33 (all), 2.35–2.38 (all), pp. 77–81, 83–92
PNG-West 2013 RRA Decision, pp. 20–21
Commission Panel Comments and Direction, Item 3

Issue:

In its 2013 RRA, PNG requested to recover the costs from ratepayers of the planned addition of two new head office positions which equalled an increase to Administrative and General Expenses of \$180,000. PNG was denied recovery of these costs in the PNG-West 2013 RRA Decision. PNG is once again requesting recovery of these costs in the 2014 RRA. This represents an increase to Administrative and General Expenses of \$180,000 for the 2014 Test Year.

On page 20 of the PNG-West 2013 RRA Decision, the Commission describes three concerns with respect to PNG's request to include the cost of two new head office additions in its 2013 cost of service, which led the Commission to deny the request:

- (i) In the 2012 test period, two new positions were added to the Finance and Business Development Department. When including the two additional new head office positions requested for 2013, this represented an increase to the head office headcount of 66 percent over 2011.
- (ii) There did not appear to be a corresponding offset in consulting fees to accommodate the two new positions.
- (iii) The Commission did not consider there to be sufficient evidence to justify the two new positions nor a fulsome explanation as to why the staff complement needed to be increased by 66 percent since 2011.

The issues to consider are as follows:

- (i) Has PNG adequately addressed the Commission's concerns raised in the PNG-West 2013 RRA Decision (as described above) which led to the denial of recovery of these costs in the 2013 RRA?
- (ii) Is it reasonable to expect that PNG will be able to fill the second head office position (Senior Financial Analyst) in the 2014 Test Year?

Discussion:

PNG pointed out and clarified that 2 new positions were not added to the Finance and Business Development Department in the 2012 test period as noted in the Commission Determination of the 2013 RRA Decision (page 20). Following the AltaGas acquisition, PNG underwent a reorganization in its head office and combined the Finance and Business Development group under one executive but did not increase its headcount in 2012. PNG did request two new positions to be added in head office in 2013 but this was denied in the 2013 RRA Decision.

PNG reiterated the need for the two new positions and noted that one position (Manager of Commercial Development and Financial Planning) had been filled for the full year in 2013 and the second position had been temporarily addressed by the hiring of a contractor during 2013 and 2014. PNG also noted that even with the new employee and the hiring of a contractor, some PNG employees have had to work inordinate overtime hours in recent years to meet increasing work requirements. PNG also clarified where the incremental costs for the contractors and consultants had been recorded in previous years and identified where the offset is noted in the 2014 RRA schedules. PNG also pointed out that the Manager of Commercial Development and Financial Planning recently left the Company and PNG is in the process of hiring his replacement.

Settlement:

The parties reviewed the Commission's previous decision and are satisfied that the concerns outlined in that decision have been addressed for the following reasons:

- Clarification of the 2013 RRA Decision misconception of the incremental headcount in head office in 2012 which did not take place; and
- Acknowledgement of increasing workload requirements faced by PNG and the increasing use of contractors and consultants in recent years.

The parties agreed to PNG's request for the addition of two new head office positions in its 2014 RRA to be recovered as follows:

Head Office Position #1: Manager of Commercial Development and Financial Planning

The parties have agreed to accept the budget for this position, with a \$15,000 reduction in 2014 to account for the vacancy in this position for part of the year. Thereby, Account 721 will be reduced by \$15,000.

Head Office Position #2: Senior Financial Analyst

The parties have agreed to accept \$40,000 on the assumption of an \$80,000 per year salary for this position and accept an increase to the Account 721 – Contractor expense for 2014 of \$40,000 to reflect a portion of the contractor costs being incurred to fulfill the duties of this position.

9.0 b) **Administrative & General Expenses: Account 722 – Productivity Study**

References:

Exhibit B-8: BCUC IR 2.80.2
Commission Panel Comments and Direction, Item 2

Issue:

What is management doing to ferret out efficiencies? Is undertaking to hire a consultant at significant cost appropriate at this time?

Discussion:

PNG was advised that it was not the Commission's intent to have PNG engage a productivity consultant if PNG did not expect net benefits to accrue to ratepayers from undertaking such a study. PNG noted that it did not have any expectations that a productivity consultant would provide such benefits. PNG believes that its lean organization is already strongly incented to ferret out productivity improvements, though not in any formalized way, in order to manage increasing workloads.

In particular, PNG noted that it has implemented a computerized maintenance management system (CMMS). The CMMS allows PNG to track and coordinate scheduled maintenance activities allowing it perform these requirements in the most efficient manner possible. PNG has also studied the adoption of automated meter reading (AMR), however, it has concluded that broad adoption of the technology would not result in savings to its customers.

PNG is also participating in an AltaGas project to implement an enterprise resource planning (ERP) system. This system will result in the adoption and utilization of best practices for a number of functions including, accounts payable, timesheets, payroll and other human resource management activities, procurement, inventory management and project management. A number of processes which PNG now does manually, will become automated and are expected to result in productivity gains. The procurement function, allowing PNG to participate in larger volume buying, is also expected to result in significant savings to its customers.

Settlement:

The parties have agreed that the \$50,000 for the consolidated Productivity Study for PNG-West and PNG(NE) is to be excluded from the 2014 RRAs. The share of the productivity study costs applicable to PNG-West leads to a reduction of \$33,100 in Account 722 in the 2014 RRA.

10.0 Administrative & General Expenses: Account 721 – Mid-Term Incentive Plan (MTIP)

References:

Exhibit B-1, Original Application, pp. 32–33
Exhibit B-1-1, Application Update, p. 9
Exhibit B-8, BCUC IR 2.34 (all), 2.35 (all), pp. 82–85
Exhibit B-5, BCUC IR 1.33 (all), pp. 78–81
PNG-West 2013 RRA Decision, p. 21

Issue:

In its 2013 RRA, PNG requested approval to recover the costs from ratepayers of the planned addition of a new incentive compensation program called the Mid-Term Incentive Plan (MTIP). This program is administered by PNG's parent company, AltaGas Ltd., and was introduced to PNG's non-bargaining unit employees starting in 2013. PNG was denied recovery of these costs in the PNG-West 2013 RRA Decision. PNG is once again requesting recovery of these costs in the 2014 RRA. This represents an increase to Administrative and General Expenses of \$92,000 for the 2014 test year. Should the MTIP costs be included in the cost of service and recovered from ratepayers?

Discussion:

It was noted that PNG considers the MTIP program an essential component of the compensation package offered to employees to assist in hiring new employees and retain key employees given the demand for employees in the Northern BC region and considers it is appropriate to recover this cost. PNG noted that the variable pay component provided by this plan should result in lower base salaries, thereby providing benefits to its customers. On the other hand, it was noted that the program's design did not provide any explicit focus on customer benefits.

Settlement:

The parties have agreed that the requested \$92,000 for the MTIP will be excluded from the 2014 RRA and will be noted as a disallowance in the 2014 RRA schedules.

11.0 Administrative & General Expenses: Account 725 – Employee Savings Plan

References:

Exhibit B-1, Original Application, p. 37
Exhibit B-5, BCUC IR 1.41.1, p. 95
PNG-West 2013 RRA Decision, pp. 23–24

Issue:

In the PNG-West 2013 RRA Decision the Commission disallowed a 1 percent company-match to the Employee Savings Plan (\$24,000 adjustment). In 2014 PNG has included the 1 percent company match to the Employee Savings Plan of \$26,000 in the Cost of Service. Should PNG be entitled to recover the \$26,000 1 percent company-match in 2014?

Discussion:

It is noted that PNG stated it considered that it is appropriate to recover all the costs associated with employee benefits. A brief discussion ensued.

Settlement:

The parties have agreed that the \$26,000 amount for the additional 1% increase in the company-match in the employee savings plan for non-bargaining unit employees will be excluded from the 2014 RRA and will be noted as a disallowance in the 2014 RRA schedules.

12.0 Administrative & General Expenses: Account 725 – Other Programs

References:

Exhibit B-8, BCUC IR 2.43.1, 2.43.2, pp. 99–100

Issue:

BCUC 725 – Other Programs – Other – Other is forecast to increase from \$24,109 Approved in 2013 to \$40,770 in Test Year 2014. Is this increase of \$16,661 for the 2014 Test Year reasonable?

Discussion:

PNG explained that the increase was mainly for a new Employee Wellness program and a brief discussion ensued.

Settlement:

The parties have agreed to accept the BCUC 725 – Other Programs – Other – Other amount of \$40,770 in the 2014 RRA.

13.0 Approval of Denied 2013 Rio Tinto Alcan (RTA) Modernization Project Capital Expenditures

References:

Exhibit B-1-1, Application Update: Section 2, p. 5; Section 5, pp. 25–27; Section 6.2.1, Table 26, p. 39

Exhibit B-5, BCUC IR 1.45.2, 1.45.4, 1.45.4.1, 1.45.5, 1.45.6, 1.45.8, pp. 101-107

Exhibit B-5, BCUC IR 1.81 (all), pp. 185–187

Exhibit B-8, BCUC IR 2.60 (all), 2.62 (all), 2.63 (all), pp. 138–143, 148–153

PNG-West 2013 RRA Decision, p. 40

Issue:

PNG seeks approval for capital costs totalling \$737,000 (before allocation of overheads) to be incurred for the Rio Tinto Modernization Project. Including capitalized overhead, the total forecast 2014 capital addition is **\$980,000**.

The issues are as follows:

- (i) Should PNG be approved to recover the \$456,000 of capital expenditures incurred in 2013, which are currently being held in a non-rate base, non-interest bearing deferral account (this amount is before capitalized overhead and does not include the \$11,000 AFUDC)?
- (ii) Should PNG be approved to recover the \$11,000 Allowance for Funds Used During Construction (AFUDC) it accrued on the 2013 capital expenditures given that the Commission directed PNG in the 2013 RRA Decision to record the 2013 capital expenditures in a non-rate base, non-interest bearing deferral account?
- (iii) Should PNG be approved to include an additional \$270,000 forecast capital expenditures for 2014 (excluding capitalized overhead) in its forecast for capital expenditures?

Discussion:

PNG acknowledged that it should have provided further clarification of this project during the 2013 RRA and provided it to participants in the NSP 2014. PNG noted that during the summer of 2012, it had received notice from its largest industrial customer, Rio Tinto Alcan (RTA), requesting additional transportation capacity to an alternate location for its Kitimat Modernization Project of its aluminum smelter. RTA indicated that this additional capacity would be required by September 2013. The mains extensions test indicated that the project would not require any contributions in aid of construction as the revenue generated by the expected additional contracted capacity

in one year would offset the capital costs of the project. PNG included the RTA project as a capital expenditure and a capital addition to PP&E in its 2013 RRA.

During May 2013, PNG received a formal Letter of Intent (Agreement in Principle) from RTA noting the need for the additional capacity to be required for a minimum of three years and that the parties would work on the formal amendment to the RTA contract by October 2013 as RTA needed time to determine the volume of firm capacity to be contracted. In its 2013 RRA Decision, the Commission denied the inclusion of the RTA project and directed PNG to place the costs incurred in 2013 in a non-rate base, non-interest bearing deferral account and apply for approval of the RTA project in its 2014 RRA. PNG proceeded with the RTA project in 2013 but experienced delays with the project as RTA was unable to provide PNG with the ultimate location for the new facilities. Therefore, the project was not completed in 2013 and was included as a carryover project to 2014.

In 2014, PNG expects to incur an additional \$270,000 to complete the project and has applied for inclusion of the RTA capital project in its 2014 RRA. PNG has also included \$11,000 of AFUDC for the project, calculated consistently with PNG's normal course of practice on carryover projects with a value in excess of \$100,000. The formal amendment to the RTA contract, with the additional firm capacity of 3,416 GJ/day commencing on November 1, 2014, was signed at the end of March 2014 (after the filing of the 2014 RRA Update). PNG will reflect the additional volumes and incremental impact on margin of \$174,000 in the final regulatory schedules for the 2014 RRA.

Settlement:

The parties agreed to accept PNG's application for recovery of the total forecast capital addition of \$980,000 related to the Rio Tinto Alcan Modernization Project. The total amount comprises the following amounts:

- i) 2013 capital expenditures of \$456,000;
- ii) 2013 overhead allocation of \$141,000;
- iii) AFUDC on 2013 capital expenditures of \$11,000;
- iv) 2014 forecast capital expenditures of \$270,000; and
- v) 2014 forecast overhead allocation.

The parties accepted PNG's request to recover \$11,000 of AFUDC as a result of PNG's clarification that much of the work had been undertaken after execution of an Agreement in Principle between PNG and RTA.

PNG will also reflect the incremental margin of \$174,000 from the additional firm capacity commitment from RTA in its final regulatory schedules for the 2014 RRA.

14.0 Approval of Denied 2012 Carryover Capital Expenditures

References:

Exhibit B-1-1, Application Update: Section 2, p. 5; Section 6.2, p. 41

Issue:

PNG seeks approval to include its 2012 carryover capital projects of \$231,000 as 2013 capital additions to Property, Plant and Equipment (PP&E).

Discussion:

PNG noted that an error was made in one of the responses to the 2013 Information Requests by inadvertently not including a listing of the 2012 carryover capital projects in one of the capital schedules provided. PNG provided a description of the three 2012 carryover capital projects (of which two were fully recovered from contributions in aid of construction) and a brief discussion ensued.

Settlement:

The parties agreed that the balance of \$231,000 related to 2012 carryover capital projects, including capitalized overhead, was reasonable and should be included as 2013 capital additions to PP&E.

15.0 Other Working Capital: Transmission Line Pack Value

References:

Exhibit B-1, Original Application, Tab 2, p. 22
Exhibit B-1-1, Updated Schedules, Tab 2, p. 22
Exhibit B-5, BCUC IR 1.13.1, 1.13.1.1, p. 22
Exhibit B-8, BCUC IR 2.9.2, p. 17

Issue:

Obtain confirmation that PNG will update the 2014 Transmission Line Pack Value to reflect the corrected value of the average balance of \$372,000 as described in response to BCUC IR 2.9.2.

Discussion:

PNG confirmed that the Transmission Line Pack average balance should be \$372,000 rather than the \$482,000 shown in the updated application, and agreed that the company will correct this in the Final Regulatory schedules to be filed.

Settlement:

The parties accepted PNG's confirmation on this matter.

16.0 Approval for Continued Use of US Generally Accepted Accounting Principles (US GAAP)

References:

Exhibit B-1-1, Application Update, p. 4

Issue:

PNG is requesting approval to continue the use of US GAAP for the calculation of its cost of service, revenue requirements, rate base, and the preparation of regulatory schedules and filings for such time as PNG's parent company AltaGas has securities regulators' approval to utilize US GAAP for reporting purposes.

Discussion:

PNG noted that AltaGas has received approval to utilize US GAAP until 2019. A brief discussion on issue ensued.

Settlement:

The parties accepted that it will be more cost-effective for PNG to continue to use US GAAP for the calculation of its cost of service, revenue requirements, rate base, and the preparation of regulatory schedules and filings and they agreed to PNG's request to do so.

17.0 a) Amortization Period for GCOC Stage 2 Decision Impact on 2013 Rates

References:

Commission Order G-47-14 on the Generic Cost of Capital Proceeding Stage 2
May 4, 2014 PNG-West Compliance Filing on Stage 2 GCOC

Issue:

In its Stage 2 GCOC Compliance Filing, PNG proposed that the 2013 interim rates filed on September 19, 2013 in compliance with Order G-114-13 and acknowledged by the Commission in Letter L-56-13 be made permanent and the net impact effect arising from the Stage 2 GCOC Decision be recorded in an interest bearing deferral account, with the amortization period to be determined during the 2014 RRA NSP.

Discussion:

It was noted that an Order with regards to the Stage 2 GCOC compliance filing had not yet been issued. A brief discussion ensued on the appropriate amortization period for this deferral account. PNG noted that there were various large credit deferral accounts that are fully amortized in 2014 and not available in 2015 and onwards, such as the LNG Partner Option Fees and the PTP Sale Amendment.

Settlement:

The parties have agreed to defer the full amortization of the Stage 2 GCOC impact on 2013 rates deferral account and to reflect this credit amortization in 2015 rates. It should be noted that following the NSP, the Commission issued an order on PNG's Stage 2 GCOC compliance filing on June 12, 2014 which states that a short term debt interest bearing deferral account be set up for the Stage 2 GCOC impact on 2013 rates and the amortization period be determined during the 2014 RRA NSP.

17.0 b) GCOC Stage 2 Decision Impact on 2014 Rates

References:

Commission Order G-47-14 on the Generic Cost of Capital Proceeding Stage 2
May 4, 2014 PNG-West Compliance Filing on Stage 2 GCOC

Issue:

In its Stage 2 GCOC Compliance Filing, PNG proposed that the Final 2014 Regulatory Schedules reflect Commission Order G-47-14 on the Generic Cost of Capital Proceeding Stage 2.

Discussion:

PNG confirmed that the final Regulatory Schedules for 2014 would reflect a reduction in the revenue requirement of \$352,000 for the net impact of the lower Return of Equity of 9.50% compared to 10.15% filed in the Application and the higher common equity component of 46.5% compared to 45.0% filed in the 2014 RRA Update. It was noted that an Order with regards to the Stage 2 GCOC compliance filing had not yet been issued during the NSP discussions. It should be noted that following the NSP, the Commission issued an order on PNG's Stage 2 GCOC compliance filing on June 12, 2014.

Settlement:

No issue.

18.0 Rate Impacts in 2014 and 2015

References:

Exhibit B-1-1, Application Update, p. 17

Issue:

Effective 2014, the amortizations of several credit deferral accounts are scheduled to expire, the largest being the LNG Partners Option Fee of \$1,632,000 and the PTP Sale Amendment amount of \$500,000. The loss of these credit deferrals has potential for significant adverse rate impacts in 2015.

Discussion:

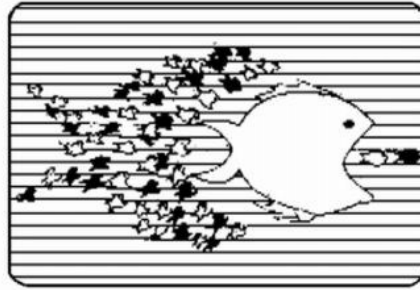
PNG noted that various credit deferral accounts would be fully amortized by the end of 2014. A brief discussion ensued on this matter. PNG also noted that the preliminary settlement agreed upon by the parties indicated that there would be a revenue sufficiency of \$456,000 in 2014 if the LNG Partners Option Fee credit deferral was fully amortized during 2014. This would result in a decrease in customer rates of approximately 2%. The parties concurred that a rate decrease in 2014 followed by a potentially significant rate increase in 2015 (due the loss of the credit deferral amortizations) would not be a desirable outcome. The parties discussed the possibility of reducing the credit amortization of the LNG Partners Option Fee deferral account for 2014 and reserve this for 2015.

Settlement:

To mitigate a potential large rate increase in 2015, the parties agreed to a 1% increase in rates in 2014. In order to achieve this 1% increase, the parties agreed that PNG would adjust and reduce the amount of the credit amortization of the LNG Partners Option Fee deferral account for 2014 by \$800,000 (from \$1,632,000 to \$831,000) and reserve the balance for amortization in 2015.

**British Columbia
Public Interest
Advocacy Centre**

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Barristers & Solicitors

June 26, 2014

Our File: 7558

VIA E-MAIL

Jim Fraser, Facilitator
Consultant to BCUC
BC Utilities Commission
Sixth Floor - 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Fraser:

**Re: Pacific Northern Gas Ltd. West Division
2014 Revenue Requirements Application
Negotiated Settlement Agreement - Project No. 3698697**

The British Columbia Pensioners' and Seniors' Organization *et. al.* (BCPSO *et al.*) confirms its acceptance of the terms of the Negotiated Settlement Agreement dated June 24, 2014 for the PNG-West Division 2014 revenue requirements application.

Please let me know if you have any questions.

Yours truly,

BC PUBLIC INTEREST ADVOCACY CENTRE

Sarah Khan
Barrister & Solicitor

c: Janet Kennedy – PNG
Kristine Bienert – BCUC
Philip Nakoneshny – BCUC
Sarah Walsh – BCUC



Pacific Northern Gas Ltd.
Suite 950
1185 West Georgia Street
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Janet P. Kennedy
Vice President, Regulatory Affairs & Gas Supply

Via E-Mail

June 25, 2014

B.C. Utilities Commission
6th Floor - 900 Howe Street
Vancouver, BC
V6Z 2N3

File No.: 4.2.7(2014)

Attention: Jim Fraser, Facilitator
Consultant to BCUC

Dear Mr. Fraser:

**Re: Pacific Northern Gas Ltd.
PNG-West 2014 Revenue Requirements Application
Negotiated Settlement Agreement
Project No. 3698697**

Pacific Northern Gas Ltd. hereby confirms its acceptance of the terms set forth in the Negotiated Settlement Agreement for the PNG-West Division 2014 revenue requirements application accompanying your e-mail to the parties to the NSP dated June 24, 2014.

Please direct any questions regarding this letter to my attention.

Yours truly,

A handwritten signature in black ink that reads 'Janet P. Kennedy' in a cursive script.

J.P. Kennedy

cc. Sarah Khan (BCPIAC) – BCPSO
Kristine Bienert – BCUC
Philip Nakoneshny – BCUC
Sarah Walsh – BCUC



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Log No. 45954

VIA EMAIL

June 26, 2014

British Columbia Utilities Commission
6th Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Mr. Fraser, Facilitator
Consultant to the Commission

Re: Pacific Northern Gas Ltd.
Project No. 3698764 / Order G-208-13
Application for Approval of 2014 Revenue Requirements
for the PNG West Service Area

I have acted as an Active Participant to the Negotiated Settlement Proceeding (NSP) of this Utility in accordance with Exhibit A-6 to the proceeding. The role of an Active Participant is clarified in Exhibit A-6 and is consistent with definition contained in the British Columbian Utilities Commission (Commission) NSP Guidelines.

I am providing this letter to confirm my consent to the NSP settlement agreement accompanying your email to the parties to the NSP, dated June 24, 2014, as it accurately captures, to the best of my knowledge, the consensus reached by the parties to the NSP reached in this proceeding.

Accordingly, I ask that the Commission Panel to incorporate it into a consent Order for the resolution of the Application.

Kind regards,

A handwritten signature in black ink, appearing to read "Kristine Bienert".

Kristine Bienert
BCUC staff member - Active Participant

KB/dg

cc: Parties of the NSP