



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-209-11**

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

and

A Filing by Pacific Northern Gas Ltd.
for Approval of the 2011 Resource Plan for the PNG-West Pipeline System

BEFORE: L.F. Kelsey, Commissioner
N.E. MacMurchy, Commissioner
D. Morton, Commissioner
R.D. Revel, Commissioner
December 8, 2011

ORDER

WHEREAS:

- A. On July 6, 2011, Pacific Northern Gas Ltd. (PNG) filed its Resource Plan for the PNG-West Pipeline System (Resource Plan) with the British Columbia Utilities Commission (Commission) pursuant to Section 44.1 of the *Utilities Commission Act* and in accordance with Commission Order G-61-09;
- B. By letter dated August 11, 2011, the Commission established a regulatory timetable to review PNG's Resource Plan that included one round of information requests from the Commission and specified stakeholders, submission of stakeholders' comments and a reply by PNG. It also specified that the stakeholders would include those who registered as Interveners in PNG's 2011 Revenue Requirements application and those who were stakeholders in the 2009 Resource Plan;
- C. On September 21, 2011, PNG submitted its response to the information requests from the Commission and the British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO);
- D. On September 28, 2011, BCOAPO submitted a letter of comment on PNG's Resource Plan to which PNG replied on October 5, 2011; and
- E. The Commission has reviewed the Resource Plan and the material submitted through the review process.

NOW THEREFORE the Commission, for the Reasons for Decision accompanying this Order, determines as follows:

1. The Resource Plan for the PNG-West Pipeline System is accepted pursuant to section 44.1(6) of the *Utilities Commission Act*.
2. PNG is directed to submit to the Commission its next Resource Plan which is to include consideration of the appropriateness of demand side management, within two years of the date of this Order. In the event that the

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proponents of either of the LNG projects make a final investment decision prior to that time, the Commission directs PNG to file an updated Resource Plan within 180 days of the date of that investment decision to reflect the impact of assuming the additional gas delivery requirements accordingly.

3. When potential resource options are evaluated in future Resource Plans, PNG is directed to develop benchmarks or targets to provide a basis for evaluating the achievement of the Resource Plans objectives. PNG is also directed to specify the relative weights that will be attributed to each planning objective in order to rank the resource options.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of December 2011.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

Pacific Northern Gas Ltd.
2011 Resource Plan for the PNG-West Pipeline System

REASONS FOR DECISION

1.0 INTRODUCTION

On July 6, 2011, Pacific Northern Gas Ltd. (PNG) filed its Resource Plan with the British Columbia Utilities Commission (Commission) pursuant to section 44.1 of the *Utilities Commission Act* and in accordance with Commission Order G-61-09. PNG's Resource Plan was prepared in accordance with the Commission's *Resource Planning Guidelines*.

This Reasons for Decision records the Commission's findings and determinations with regards to PNG's filing of its Resource Plan for the PNG-West Pipeline System (Resource Plan).

An overview of PNG's Resource Plan is provided in Section 2.0, the review process is detailed in Section 3.0 and Section 4.0 presents the Commission determinations. For the reasons described below, the Commission accepts the Resource Plan for the PNG-West Pipeline System pursuant to section 44.1(6) of the *Utilities Commission Act*.

2.0 PNG'S RESOURCE PLAN

The Resource Plan contemplates three gas requirements scenarios over a 20-year forecast period: low, reference and high, and compares them with the PNG-West supply portfolio, which includes system capacity, gas supply resources and demand side management (DSM). The scenarios do not consider the potential gas requirements of two Liquefied Natural Gas (LNG) export projects proposed for the Kitimat area, as final investment decisions have yet to be made by their respective proponents. However, PNG notes that should the proponent of either of the LNG export projects make a final investment decision to proceed, PNG would file an updated Resource Plan to reflect the impact of assuming the additional gas delivery requirements accordingly.

Given that the capacity of the pipeline and the existing supply portfolio are sufficient to meet even the high forecast scenario over the entire planning period (in 2010-2020 PNG's high scenario forecasts annual use of about 28% of the available capacity) PNG anticipates no capital expenditures for providing additional pipeline capacity and concludes that no further actions relative to supply are required at this time regarding the PNG-West division. However, according to the Resource Plan, PNG considers that resource options available to it in the future to meet increased customer demand should be evaluated against each of the planning objectives identified in Table 1 of the Resource Plan (attached as Appendix B to this Order).

PNG proposes to dedicate limited resources to DSM at this time because, in part, PNG's marginal retail price is in excess of its marginal cost which effectively acts as DSM as evidenced by PNG's declining use per customer.

3.0 REVIEW PROCESS

By letter dated August 11, 2011, the Commission established a regulatory timetable to review PNG's Resource Plan that included one round of Information Requests (IR) from the Commission and specified stakeholders, submission of stakeholders' comments and a reply by PNG. The Stakeholders included those who registered as Interveners in PNG's 2011 Revenue Requirements application (British Columbia Old Age Pensioners' Organization et al. (BCOAPO) and Peace River Regional District) and those who were stakeholders in the 2009 Resource Plan (Rio Tinto Alcan, Shell Energy North America, Ministry of Energy, and Mr. Cavis). PNG was directed to send a copy of its Resource Plan to the Stakeholders upon receipt of the Commission letter.

The Commission submitted its IR to PNG on September 1, 2011 and, among the Stakeholders included in this review process, BCOAPO is the only one to have submitted an IR, on September 2, 2011. PNG responded to the IR from both the

Commission and BCOAPO on September 21, 2011. BCOAPO then submitted a letter of comment on September 28, 2011 to which PNG replied on October 5, 2011.

3.1 Stakeholder Submission of Comments

In its letter of comment, BCOAPO notes that PNG does not set specific targets or benchmarks to evaluate its Resource Plan objectives. BCOAPO submits that a benchmark or target for objectives to be measured against actual performance would give more meaning to those objectives. Thus, BCOAPO encourages PNG to incorporate benchmarks or targets in future Resource Plans to provide a basis for evaluating the achievement of the Resource Plan objectives. BCOAPO notes that it has reviewed PNG's forecast methodology and agrees with its conclusion that no additional actions relative to supply or DSM resources are required at this time as the PNG-West pipeline's existing capacity is underutilized, a condition which is forecast to continue for some time. However, should either of the LNG export projects proceed, BCOAPO supports the filing of an updated Resource Plan to reflect the impact of these projects.

3.2 PNG Reply Submission

In its reply letter to BCOAPO, PNG submits that the Resource Plan's objectives are not conducive to objective benchmarking and targets and that PNG considers that the attributes and measurement factors set forth in Table 1 of the Resource Plan (attached as Appendix B to this Order) provide a suitable basis for subjectively assessing how well PNG achieves these objectives. PNG notes that BCOAPO agrees with PNG's statement to file an updated Resource Plan to reflect the impact of assuming the additional gas delivery requirements should either of the proposed LNG export projects move forward.

4.0 COMMISSION DETERMINATIONS

The Commission has reviewed PNG's Resource Plan and the material submitted through the review process. The Commission notes that BCOAPO, the only stakeholder to file a submission, agrees with PNG that no further actions relative to supply and DSM resources are required at this time regarding the PNG-West division and supports the filing of an updated Resource Plan to reflect the impact of assuming the additional gas delivery requirements should either of the LNG export projects move forward.

Section 44.1(1)(2)(b) of the *Utilities Commission Act* requires a public utility to file a long-term resource plan including "a plan of how the public utility intends to reduce demand [for energy] by taking cost-effective demand-side measures." PNG does not offer DSM programs because, in their submission, their marginal retail price acts as DSM. As well, PNG's high forecast for the years 2010-2020 is at about 28% of the pipeline capacity.

The Commission determines as follows:

The Commission finds PNG's plan to take no further actions relative to DSM, pursuant to s. 44.1(1)(2)(b) of the *Act*, to be in the public interest because the potential detriment to ratepayers from reduced demand on the system that is already utilized under capacity outweighs the potential benefits from reduced demand.

The Resource Plan for the PNG-West Pipeline System is accepted pursuant to section 44.1(6) of the *Utilities Commission Act*.

PNG is directed to submit to the Commission its next Resource Plan which is to include consideration of the appropriateness of DSM, within two years of the date of this Order. In the event that the proponents of either of the LNG projects make a final investment decision prior to that time, the Commission directs PNG to file an updated Resource Plan within 180 days of the date of that investment decision to reflect the impact of assuming the additional gas delivery requirements accordingly.

PNG did not evaluate resource options to develop a resource portfolio for this Resource Plan given the existing excess capacity on the PNG-West Pipeline System to meet the forecast demand. When this excess capacity is reduced or eliminated in the future as a result of increasing customer demand, PNG has committed to evaluate potential resource options against its Resource Plan objectives.

PNG also states that “decisions must be measured against the ability to continue to provide high quality reliable service to existing and future customers in a manner that balances other resource planning objectives such as sustainability of the utility, rate stability, and provision of least-cost service.” (Resource Plan, p. 7) PNG then provides examples of trade-offs between planning objectives, as part of future Resource Plan filings.

Given the existence of trade-offs between planning objectives, when potential resource options are evaluated in future Resource Plans, PNG should elaborate on its screening criterion according to which “those resources included in a portfolio appropriate to PNG should rank highly in most or all of the objectives when evaluated using quantifiable and meaningful measures” (Resource Plan, p. 10). Furthermore, PNG should specify the relative weights that will be attributed to each of the planning objectives in order to rank the resource options. The Commission concurs with BCOAPO’s position that PNG should incorporate benchmarks or targets in future Resource Plans to provide a basis for evaluating the achievement of the Resource Plan objectives. To this end, PNG should elaborate on the measurement benchmarks for the objectives set forth in Table 1 of the Resource Plan. Examples of possible benchmarks include: the number of system outages, customer curtailments and rate changes per year, and an indication of what level of rate impact would be considered reasonable and acceptable by PNG.

Therefore, the Commission determines as follows:

When potential resource options are evaluated in future Resource Plan, PNG is directed to develop benchmarks or targets to provide a basis for evaluating the achievement of the Resource Plan objectives. PNG is also directed to specify the relative weights that will be attributed to each planning objective in order to rank the resource options.

Table 1: Resource Plan Objectives		
Summary of Resource Plan Objectives Measurement Criteria and Attributes		
Resource Plan Objective	Attributes	Measurement
1. Safe, Reliable Service	Consistently meet daily demand	System Outages; Customer Curtailments
2. Sustainability of Utility	Competitive rates; Customer retention	Earned return on equity; Frequency of rate changes
3. Least Cost Service	Efficient use of resources	Rate Impacts
4. Stability of Rates	Customer satisfaction; Effective forecasts	Rate Changes per year
5. Pipeline Efficiency	Lowest unit cost of service	Load factors; throughput
6. Environmental Impacts	Lowest emission standards Water pollution Minimal impact to wilderness habitat. Maintaining a favourable public image.	GHG, particulate and other air emissions. For projects: Water quality measurement, wildlife and fisheries disruption, and the level of First Nations and stakeholder support
7. Alignment with 2007 Energy Plan objectives	Reduction in energy consumption in all forms. Reduction in GHG emissions resulting from energy consumption.	Effectiveness of a DSM program in promoting natural gas as the appropriate fuel for heating, hot water and cooking.