



ORDER NUMBER
G-104-17

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

and

Pacific Northern Gas Ltd.
Application for Approval of 2016 Unaccounted for Loss above 1.0 Percent

BEFORE:

B. A. Magnan, Commissioner
D. J. Enns, Commissioner
R. D. Revel, Commissioner

on June 27, 2017

ORDER

WHEREAS:

- A. On February 24, 2017, Pacific Northern Gas Ltd. (PNG) applied to the British Columbia Utilities Commission (Commission) for approval to record in the PNG-West service area unaccounted for gas (UAF) losses above 1.0 percent in the UAF deferral account (Application);
- B. In directive 6 of Order G-131-16 dated August 10, 2016 accompanying the Commission decision regarding the PNG-West 2016-2017 Revenue Requirements Application (PNG-West 2016-2017 RRA Decision) the Commission ordered as follows:

PNG is approved to continue the use of the unaccounted for gas (UAF) volume deferral account on the basis that the UAF volume forecast for Test Year 2016 and Test Year 2017 are set at zero with PNG recording the variance between zero percent and a loss of up to 1.0 percent without having to seek further Commission approval. PNG must file an application with the Commission to obtain approval to record UAF losses above 1.0 percent in the UAF volume deferral account;

- C. In the Application, PNG submits that the 2016 actual UAF losses were 5.2 percent or 226,552 GJ which has a value of \$436,566 before tax at the 2016 approved Company Use gas commodity cost of \$1.927 per gigajoule (GJ). The difference between the 1.0 percent UAF losses, for which PNG did not need further Commission approval, and the 5.2 percent actual 2016 UAF loss is 183,336 GJ with a value of \$353,288 before tax;
- D. The value of UAF gains and losses are recorded in the Gas Cost Variance Account (GCVA) deferral account and the amounts are recovered from or refunded to customers via the GCVA Company Use rate rider. The PNG-West GCVA Company Use rate rider was last changed as part of the commodity rate changes proposed by PNG in PNG's 2016 fourth quarter gas cost report and approved by the Commission via Order G-189-16

dated December 15, 2016. At that time the GCVA Company Use rate rider was increased from a debit rate rider of \$0.012/GJ to \$0.031/GJ, effective January 1, 2017;

- E. On May 5, 2017 PNG responded to Commission staff questions regarding the Application and confirmed that the portion of the 2016 UAF loss over 1.0 percent has been recorded in the UAF deferral account for recovery via the GCVA Company Use rate rider; and
- F. The Commission reviewed the Application and responses to the Commission staff questions and finds that the requested approval should be denied pending further review in the next PNG-West revenue requirements application.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act* and for the reasons set out in Appendix A, the British Columbia Utilities Commission (Commission) orders as follows:

1. Pacific Northern Gas Ltd.'s (PNG) request for Commission approval to record the PNG-West service area 2016 unaccounted for gas (UAF) losses above 1.0 percent in the UAF deferral account is denied at this time pending further review of the reasons for the increased 2016 UAF loss.
2. PNG is directed to establish a separate temporary deferral account to record the PNG-West 2016 UAF loss over 1.0 percent, with interest to be accrued at the short term cost of borrowing until such time as the disposition of this excess UAF is determined.
3. PNG is directed to include in the next revenue requirements application (RRA) for the PNG-West service area a report summarizing the results of its further examination of all data and calculations and investigation into the reasons for the increased 2016 UAF loss and a proposal for the recovery of the PNG-West 2016 UAF loss over 1.0 percent deferral account.
4. PNG is directed to file a status report for the PNG-West Gas Cost Variance Account (GCVA) by April 30th of each year showing the closing balance and the actual gigajoule amounts and costs/recoveries recorded in the GCVA for the previous calendar year with separate line entries for commodity purchases and sales, Company Use quantities, UAF losses and gains up to the percentage approved in the applicable RRA decision, and the UAF gains and losses over the percentage approved in the applicable RRA decision. The 2016 GCVA status report should be filed with the next PNG-West RRA.
5. PNG is directed to meet with Commission staff by August 11, 2017 to discuss the format and information regarding the UAF amounts recorded in the GCVA to be included in future quarterly gas cost reports.

DATED at the City of Vancouver, in the Province of British Columbia, this 10th day of July 2017.

BY ORDER

Original signed by:

B. A. Magnan
Commissioner

Pacific Northern Gas Ltd.
Application for Approval of 2016 Unaccounted for Loss above 1.0 Percent

REASONS FOR DECISION

On February 24, 2017, Pacific Northern Gas Ltd. (PNG) applied to the British Columbia Utilities Commission (Commission) for approval to record in the PNG-West service area unaccounted for gas (UAF) losses above 1.0 percent in the UAF deferral account (Application).

Background

The Commission approved the 2016-2017 Revenue Requirements Application for the PNG-West system by Order G-131-16 dated August 10, 2016. Pursuant to directive 6 of this Order the Commission approved PNG's continued use of the UAF volume deferral account on the basis that the UAF volume forecast for Test Year 2016 and Test Year 2017 be set at zero with PNG recording the variance between zero percent and a loss of up to 1.0 percent in the UAF volume deferral account, without having to seek further Commission approval of the deferral. PNG was also directed to file an application with the Commission to obtain approval to record UAF losses above 1.0 percent in the UAF volume deferral account.¹ These directives are consistent with those made by the Commission for PNG revenue requirement applications for at least the past five years.

UAF, which can either be a gain or a loss, is the difference between measured receipts onto the system from interconnecting pipelines and measured deliveries to customers after accounting for Company Use gas used for company operations. UAF includes measurement variance and line losses. Sources of UAF include, but are not limited to, system leakage, gas lost as a result of utility and third party activities, measurement inaccuracies and timing differences as a result of estimates used to record unbilled revenues.

The value of UAF gains and losses are recorded in the Gas Cost Variance Account (GCVA) deferral account and the amounts are recovered from or refunded to customers via the GCVA Company Use rate rider. The PNG-West GCVA Company Use rate rider was last changed as part of the commodity rate changes proposed by PNG in PNG's 2016 fourth quarter gas cost report and approved by the Commission via Order G-189-16 dated December 15, 2016. At that time the GCVA Company Use rate rider was increased from a debit rate rider of \$0.012/GJ to \$0.031/GJ effective January 1, 2017.

The last time that PNG filed an application seeking Commission approval to record PNG-West UAF losses above the Commission approved threshold in the UAF volume deferral account was in 2012 when PNG sought approval to record UAF losses of 2.26 percent for the 2011 year. The Commission approved this request via Order G-24-12 dated March 8, 2012.

Application

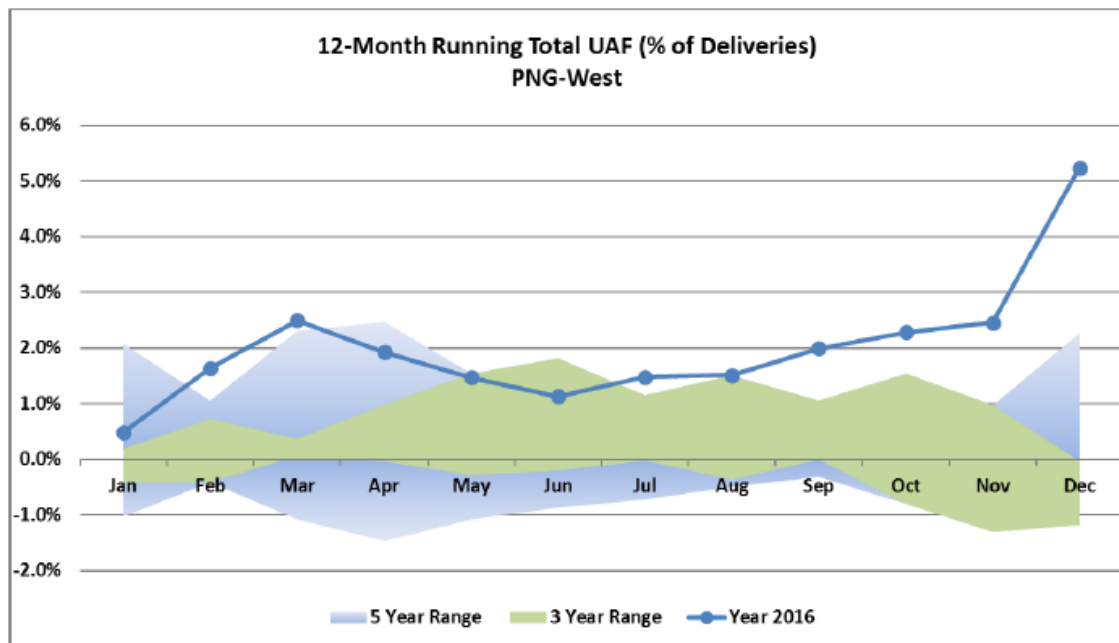
In the Application PNG is seeking Commission approval to record the 2016 PNG-West service area UAF loss over 1.0 percent in the Company Use Price and UAF Gas Volume component of the GCVA. PNG submitted that the 2016 actual UAF losses were 5.2 percent or 226,552 GJ which has a value of \$436,566 before tax at the approved Company Use gas commodity cost of \$1.927/GJ. The difference between the 1.0 percent UAF losses, for which PNG did not need further Commission approval, and the 5.2 percent actual 2016 UAF loss is 183,336 GJ with a value of \$353,288 before tax.

In the Application PNG states:

¹ Commission Order G-131-16 dated August 10, 2016, Directive 6

As noted in the report, PNG has not been able to provide any additional explanations of the significant UAF volume recorded in 2016, however PNG observes that over one quarter of the UAF loss for 2016 is due to a loss of nearly 61,000 GJ in the month of December. PNG further notes that large monthly UAF volumes were also recorded in the northeast on the PNG(NE) Fort St. John and Dawson Creek systems during December 2016. These results suggest that a cause may be found in the processes and reports common to all three systems.²

In the internal report included as Appendix B to the Application, PNG provides the following figure to show the UAF trend for 2016 for PNG-West.



The left most marker on the blue line represents the total UAF volume for the 12 months ending January 2016; the right most marker represents the 12 month total UAF over the period January to December 2016. The blue and green shaded areas represent the range of 12-month running total UAF during the periods 2013 – 2015 and 2011 – 2015, respectively.

In the Application, PNG states that oftentimes abnormally large UAF gains or losses such as the one experienced for December 2016 are reversed over the next two months due to an under- or over-statement of either the residential or small commercial unbilled estimate.³ PNG includes an internal report on the review of the 2016 UAF loss in the Application and states PNG intends to continue its internal examination of all data and calculations. This review may include PNG initiating a field review of measurement facilities at large customer sites and at the Spectra custody transfer meter. In the Application PNG proposes to submit findings from the continued analysis in an update to the Commission in the third quarter of 2017.

On May 5, 2017 PNG, PNG filed a response to Commission staff questions regarding the Application. PNG provided the following table showing a comparison of the 2016 UAF loss to UAF losses and gains from the previous five years.

² Application, p. 3

³ Ibid

	2011	2012	2013	2014	2015	2016
Total Deliveries (GJ)	4,121,976	4,053,583	3,799,510	3,976,663	4,115,752	4,327,115
UAF (Gain)/Loss (GJ)	93,287	4,802	(30,385)	(47,032)	(1,647)	226,552
UAF as % of Total Deliveries (%)	2.26%	0.12%	-0.80%	-1.18%	-0.04%	5.24%

In its May 5, 2017 response PNG also confirms that PNG recorded all 2016 UAF losses, including those over 1.0 percent, in the GCVA and these losses have been factored in to the quarterly setting of the GGVA Company Use rate rider.⁴

In response to the Commission staff question regarding how PNG would propose to treat the 2016 PNG-West UAF loss over 1.0 percent in the interim in the event the Commission did not approve the recovery of the loss at this time, PNG responds that PNG would propose reclassifying the UAF loss in excess of 1.0 percent to a separate new deferral account to be created outside of the GCVA Company Use deferral account. This new account would attract interest at the short term cost of borrowing until such time as the disposition of this excess UAF is determined.⁵

When asked if PNG had any comments or concerns if the Commission were to direct that the review of the findings and decision regarding recovery of the 2016 UAF loss over 1.0 percent be included in the PNG-West 2018-2019 revenue requirement application, PNG states that, while it would prefer the request for approval be dealt with at this time, PNG is amenable to having this matter reviewed and ruled upon as an element of its next revenue requirements application. PNG restates that it believes that the 2016 year-end calculated loss is an anomaly and will reverse during 2017. PNG also states its view is that "UAF gains and losses which occur in the normal course of business and arise from estimates and timing differences outside of management's control should be borne by ratepayers." PNG also states it believes that, while it is amenable to establishing a separate UAF deferral account that is reviewed on an annual or multi-year basis through the revenue requirements process, PNG submits that this adds undue complexity to the administration and accounting for these amounts.⁶

Commission Discussion and Determination

The Commission is of the view that the increase in the PNG-West UAF for 2016 is large as compared to past years and further information and review is required in order to clarify the nature of and reasons for the increased loss. In the Application PNG indicates it was not able to determine the cause of the increase in UAF and is continuing its investigation. PNG proposes to file a report on its findings with the Commission in the third quarter of 2017. The Commission believes the matter should be investigated further before a determination can be made regarding the disposition of the loss over 1.0 percent and is concerned that approval of PNG's request at this time would reduce the incentive for PNG to continue to pursue a meaningful investigation.

PNG's request for Commission approval to record the PNG-West service area 2016 UAF losses above 1.0 percent in the UAF deferral account is denied pending further review of the reasons for the increased 2016 UAF loss. PNG is directed to establish a separate temporary deferral account to record the PNG-West 2016 UAF loss over 1.0 percent, with interest to be accrued at the short term cost of borrowing until such time and the disposition of this excess UAF is determined.

⁴ PNG's May 5, 2017 response to Commission staff questions, Questions 3.1 and 3.2

⁵ Ibid, question 3.2

⁶ Ibid, question 3.2.1

PNG is directed to include in the next revenue requirements application (RRA) for the PNG-West service area a report summarizing the results of its further examination of all data and calculations and investigation into the reasons for the increased 2016 UAF loss and a proposal for the recovery of the PNG-West 2016 UAF loss over 1.0 percent deferral account.

In the review of the Application the Commission observed that the current reporting on the GCVA provides insufficient detail for the Commission to ascertain the percentage of UAF loss that has been recorded in the GCVA each year. **PNG is directed to file a status report for the PNG-West GCVA by April 30th of each year showing the closing balance and the actual Gigajoule amounts and costs/recoveries recorded in the GCVA for the previous calendar year with separate line entries for commodity purchases and sales, Company Use quantities, UAF losses and gains up to the percentage approved in the applicable RRA decision and the UAF gains and losses over the percentage approved in the applicable RRA decision. The 2016 GCVA status report should be filed with the next PNG-West RRA.**

The quarterly gas cost reports do not currently set out the percentage of UAF loss that is to be recovered through the proposed changes to the GCVA Company Use rate rider. **PNG is directed to meet with Commission staff by August 11, 2017 to discuss the format and information regarding the UAF amounts recorded in the GCVA to be included in future quarterly gas cost reports.**