



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-88-14**

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

and

Pacific Northern Gas (N.E.) Ltd.
Application for Approval of 2014 Revenue Requirements
for the Fort St. John/Dawson Creek and Tumbler Ridge Divisions

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 (N.E.) Ltd. [PNG (N.E.)] Fort St. John/Dawson Creek (FSJ/DC) and Tumbler Ridge (TR) Divisions filed their 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 (N.E.) also sought interim relief, pursuant to sections 58 to 61, 89 and 90 of the UCA, to allow PNG (N.E.) to amend their 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-209-13 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-32-14, 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 (N.E.) filed an updated Application, which forecasted a revenue deficiency of approximately \$0.287 million for FSJ/DC, down from \$0.424 million in the original Application, and a

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revenue deficiency of approximately \$0.112 million for TR, down from \$0.239 million in the original Application;

- 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 for PNG (N.E.) were held in Vancouver on June 10, 2014, and an agreement was reached on the same day. 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 (N.E.), 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 (N.E.)'s 2014 Revenue Requirements, which will result in a revenue sufficiency of approximately \$39 thousand for FSJ/DC and a revenue deficiency of approximately \$68 thousand for TR, 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 (N.E.) Ltd. 2014 Revenue Requirements Application, as issued on June 26, 2014, is approved and attached as Appendix A to this Order.
2. Item 4 of the Negotiated Settlement Agreement for Pacific Northern Gas (N.E.) Ltd. Tumbler Ridge Division regarding the recovery of costs in the 2013/2014 Quintette Security of Supply Agreement Deferral Account shall be severed from the 2014 Negotiated Settlement Process as agreed upon by the parties participating in the Negotiated Settlement Agreement. This item shall be reviewed by way of a Written Hearing Process with a Regulatory Timetable to be issued in due course.

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3. Pacific Northern Gas (N.E.) 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 (N.E.) Ltd. in response to Information Requests in this proceeding.
4. Pacific Northern Gas (N.E.) Ltd. must inform all customers of permanent rates by way of written notice included in their next customer invoice.
5. Pacific Northern Gas (N.E.) 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 (N.E.) Ltd.'s principal bank for its most recent year. Pacific Northern Gas (N.E.) 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 (N.E.) Ltd. ("PNG(NE)")
Negotiated Settlement
2014 Revenue Requirements Application

Enclosed with this letter is the proposed Negotiated Settlement Agreement (Agreement) for PNG(NE)'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 (N.E.) Ltd.
(Fort St. John/Dawson Creek Division)**

2014 Revenue Requirements Application

NEGOTIATED SETTLEMENT AGREEMENT

Introduction

BC Utilities Commission staff (Commission Staff), representatives of Pacific Northern Gas (N.E.) Ltd. (PNG(N.E.)), 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(N.E.) Fort St. John/Dawson Creek (FSJ/DC) 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-11, 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 of relevance to the Application:

- 1) Items of a Policy Nature Addressed in Previous Hearings
- 2) Productivity Improvements

With this information, the Facilitator asked participants if there were issues that should be added, removed or amended. At that time, no one suggested or requested any revisions to the Issues Summary. The negotiations commenced on the 7 items identified in the Issues Summary.

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. This additional item was included in the discussions as Issue 8.

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 decrease the applied for Test Year 2014 revenue deficiency by \$325 thousand, from a revenue deficiency of approximately \$287 thousand to a revenue sufficiency of \$39 thousand. This will result in a decrease in residential customers delivery rates of approximately 0.3% compared to the applied for increase of 2.5%.

The following table summarizes the adjustments to the cost of service presented in the Application to achieve this reduction.

Issue	PNG(N.E.) FSJ/DC NSP 2014 Adjustments to the Application	Impact (\$000's)
1	Unaccounted for Gas (UAF) Deferral Account Treatment	n/a
2	Operating Expenses: Account 665 – Pipelines & Deferral Accounts – Investigative Digs	(43)
3	Operating Expenses: Account 675 – Mains and Services	nil
4	Operating Expenses: Account 718 – Customer Accounting Uncollectable Accounts	n/a amortize in 2015
5a	Administrative & General Expenses: Account 725 – Employee Savings Plan	(2)
5b	Administrative & General Expenses: Account 722 – Productivity Study	(16)
6	Approval for Continued Use of US Generally Accepted Accounting Principles (US GAAP)	n/a
7	Approval of 2013 RRA Reconsideration Request Costs	nil
8a	Amortization Period for GCOC Stage 2 Decision Impact on 2013 Rates	n/a amortize in 2015
8b	Impact of GCOC Stage 2 Decision on 2014 Rates	(152)
	Subtotal Change to Revenue Deficiency	(213)
	Impact on PNG-West Shared Services Cost Recovery from PNG(N.E.) FSJ/DC	(112)
	Total Change to Revenue Deficiency	(325)

1.0 Unaccounted for Gas (UAF) Deferral Account Treatment

References:

Exhibit B-1, FSJ/DC Original Application, pp. 7, 20
Exhibit B-1-2, Application Update: Section 5.1, p. 18; Section 5.2, p. 20; Section 7.1.13, p. 31
Exhibit B-5, BCUC IR 1.12.3, p. 18
Exhibit B-5, BCUC 1.14.1.1, Attached PDF File
Exhibit B-5-2, Evidentiary Update Filing Request, BCUC IR 1.1
Order G-43-11, Order G-25-12
2005 RRA Decision (G-42-05), 2006 NSP (G-100-06), 2007 RRA Decision (G-56-07), 2008 NSP (G-168-07), 2009 NSP (G-40-09), 2010 NSP (G-34-10), 2011 NSP (G-93-11)

Issue:

PNG(N.E.) is seeking approval to continue the unaccounted for gas (UAF) volume deferral account to record the difference between forecast and actual UAF volumes in Test Year 2014 based on using a 1.0 percent of deliveries UAF loss factor for 2014 and requiring PNG(N.E.) to apply for Commission approval to record actual 2014 UAF losses above 1.5 percent in the deferral account.

The issue is whether this approval should be changed to be based on something lower than 1.0 percent of deliveries (e.g. 0.5 percent) with a corresponding decrease in the upper limit of the variance that can be recorded in the deferral account.

Discussion:

PNG(N.E.) explained the issues around UAF for the FSJ/DC division. UAF is a number that falls out at a point in time when subtracting the calculated deliveries to customers, the use of gas by the company and/or blowdowns/losses and the gas received/metered mainly from Spectra Energy. Discussion followed on the historical trend in UAF, the significant work that has been performed by external consultants on UAF in the FSJ/DC division, and the impact of estimates in the resultant UAF figures. PNG(N.E.) also noted that the Company would need to implement automated meter reading in order to get more accurate readings and reduce the volatility of UAF volumes.

Settlement:

The parties have agreed that the current UAF treatment and approval process is appropriate and that no changes are required.

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

References:

PNG (N.E.) 2013 RRA Decision, pp. 34–35
Exhibit B-1-2, Application Update, Section 7.1.1.4, p. 27
Exhibit B-1-2, Updated Schedules: Tab 1, p. 3; Tab 2, pp. 8–9
Exhibit B-10, BCUC IR 2.9 (all), pp. 17–20

Issue:

PNG(N.E.) states in response to BCUC IR 2.9.4 that it made an error in its treatment of investigative digs for 2013, as it did not comply with the Commission’s directive in the PNG(N.E.) 2013 RRA Decision regarding the use of the Investigative Digs deferral account. PNG(N.E.) is now stating that it should have recorded a credit deferral amount for 2013 of \$37,889 in the Investigative Digs Variance deferral account to reflect the fact that this amount was included in its approved 2013 cost of service but was not actually spent, and that this credit amount should then be amortized into rates for 2014.

Discussion:

PNG(N.E.) agreed and acknowledged the issue. PNG(N.E.) also noted that upon further review, the final amount of credit deferral to be recorded on this account should be \$43,000, not the \$37,889 indicated in response to information requests.

Settlement:

PNG(N.E.) confirmed that it will establish and use an Investigative Digs deferral account to record the variance between forecast and actual investigative digs costs. PNG(N.E.) also confirmed that it will record a credit deferral for the 2013 investigative digs variance of \$43,000, which will be amortized into rates in 2014. The parties accepted PNG’s confirmation on this matter.

3.0 Operating Expenses: Account 675 – Mains and Services

References:

Exhibit B-1, FSJ/DC Original Application, Section 2.3.2, p. 22
Exhibit B-1-2, Application Update: Section 4.1, Table 5, p. 9; Section 7.1.1.1, pp. 26-27
Exhibit B-1-2, Updated Schedules, Tab 1, p. 3
Exhibit B-5, BCUC IR 1.19 (all), pp. 31-32
Exhibit B-10, BCUC IR 2.10 (all), pp. 21-23

Issue:

Is the 2014 forecast expense of \$429,000 for Account 675 — Mains and Services reasonable?

Discussion:

The actual expenses and activities in Account 675 were reviewed. The factors contributing to the 2014 forecast expense were discussed.

Settlement:

The parties accepted the PNG(N.E.) budget for mains and services of \$429,000 for 2014.

4.0 Operating Expenses: Account 718 – Customer Accounting Uncollectable Accounts

References:

Exhibit B-1, FSJ/DC Original Application, p. 26
Exhibit B-5, BCUC IR 1.25 (all), pp. 43–45
Exhibit B-10, BCUC IR 2.16 (all), pp. 33–38

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(N.E.)'s credit and collection procedures were discussed as was the improvement of economic conditions in PNG(N.E.)'s service area, both factors lowering PNG(N.E.)'s risk of bad debts. Also discussed was that PNG(N.E.) 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(N.E.)'s Application of \$419,000 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 \$80,000, 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 \$339,000 for December 31, 2014, will be amortized (and thereby refunded to customers) in 2015.

5.0 a) **Administrative & General Expenses: Account 725 – Employee Savings Plan**

References:

Exhibit B-1, FSJ/DC Original Application, pp. 28–29
Exhibit B-5, BCUC IR 1.33.1, p. 63
PNG (N.E.) 2013 RRA Decision, p. 16

Issue:

In the PNG(N.E.) 2013 RRA Decision the Commission disallowed a 1 percent company-match to the Employee Savings Plan. In 2014 PNG(N.E.) has included the 1 percent company match to the Employee Savings Plan of \$2,000 in the Cost of Service. Should PNG(N.E.) be entitled to recover the \$2,000 1 percent company-match in 2014?

Discussion:

It is noted that PNG(N.E.) 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 \$2,000 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.

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

References:

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(N.E.) was advised that it was not the Commission's intent to have PNG(N.E.) engage a productivity consultant if PNG(N.E.) did not expect net benefits to accrue to ratepayers from undertaking such a study. PNG(N.E.) noted that it did not have any expectations that a productivity consultant would provide such benefits. PNG(N.E.) 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(N.E.) noted that the company has implemented a computerized maintenance management system (CMMS). The CMMS allows the company to track and coordinate scheduled maintenance activities allowing it perform these requirements in the most efficient manner possible. The company has also studied the adoption of automated meter reading (AMR), however, has concluded that broad adoption of the technology would not result in savings to its customers.

PNG(N.E.) 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(N.E.) now does manually, will become automated and are expected to result in productivity gains. The procurement function, allowing PNG(N.E.) 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(N.E.) is to be excluded from the 2014 RRAs. The share of the productivity study costs applicable to PNG(N.E.) FSJ/DC leads to a reduction of \$15,900 in Account 722 in the 2014 RRA.

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

References:

Exhibit B-1-2, Application Update, p. 5

Issue:

PNG(N.E.) 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(N.E.)'s parent company AltaGas has securities regulators' approval to utilize US GAAP for reporting purposes.

Discussion:

PNG(N.E.) 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(N.E.) 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(N.E.)'s request to do so.

7.0 Approval of 2013 RRA Reconsideration Request Costs

References:

Exhibit B-1-2, Application Update, p. 6
PNG (N.E.) 2013 RRA Decision, Order G-131-13
PNG (N.E.) Reconsideration Request, Order G-177-13

Issue:

PNG(N.E.) is requesting approval to recover the total costs of \$2,914 incurred in connection with the 2013 RRA reconsideration request.

Discussion:

A brief discussion ensued on this matter.

Settlement:

The parties agreed to the approval of PNG(N.E.)'s request for the recovery of costs for the 2013 RRA reconsideration request.

8.0 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 5, 2014 PNG(N.E.) Compliance Filing on Stage 2 GCOC

Issue:

In its Stage 2 GCOC Compliance Filing, PNG(N.E.) proposed that the 2013 interim rates filed on October 23, 2013 in compliance with Order G-131-13 and the accepted tariff pages 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.

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(N.E.)'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.

8.0 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 5, 2014 PNG(N.E.) FSJ/DC Compliance Filing on Stage 2 GCOC

Issue:

In its Stage 2 GCOC Compliance Filing, PNG(N.E.) 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 \$152,000 for the net impact of the lower Return of Equity of 9.25% compared to 9.90% filed in the Application and the higher common equity component of 41% compared to 40% 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. It should be noted that following the NSP, the Commission issued an order on PNG(N.E.)'s Stage 2 GCOC compliance filing on June 12, 2014.

Settlement:

No issue.

**Pacific Northern Gas (N.E.) Ltd.
(Tumbler Ridge Division)**

2014 Revenue Requirements Application

NEGOTIATED SETTLEMENT AGREEMENT

Introduction

BC Utilities Commission staff (Commission Staff), representatives of Pacific Northern Gas (N.E.) Ltd. (PNG(N.E.)), 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(N.E.) Tumbler Ridge (TR) 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-12, 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 of relevance to the Application:

- 1) Items of a Policy Nature Addressed in Previous Hearings
- 2) Productivity Improvements

With this information, the facilitator asked participants if there were issues that should be added, removed or amended. At that time, no one suggested or requested any revisions to the Issues Summary. The negotiations commenced on the 5 items identified in the Issues Summary, with the second matter identified in the Commission Panel's Comments and Direction on productivity included in the discussions as Issue 6.

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. This additional item was included in the discussions as Issue 7. PNG(N.E.) also added

Issue 8 on uncollectible accounts to be consistent with PNG-West and PNG(N.E.) FSJ/DC NSP resolutions.

The discussion that follows summarizes the issues negotiated as well as the resolution 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 decrease the applied for Test Year 2014 revenue deficiency by \$44 thousand, from approximately \$112 thousand to \$68 thousand. This will result in an increase in residential customers delivery rates of approximately 6.5% compared to the applied for increase of 9.9%.

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

Issue	PNG(N.E.) TR NSP 2014 Adjustments to the Revenue Requirement Application	Impact (\$'s)
1	Reduction in Forecast Deliveries Related to Quintette Mine	(39,000)
2	Misallocation of Investigative Digs Costs and Establishment of Deferral Account for Variances	nil
3	Administrative & General Expenses: Account 725 – Employee Savings Plan	(200)
4	Recovery of Costs in the 2013/2014 Quintette Security of Supply Agreement (SSA) Deferral Account	n/a
5	Approval for Continued Use of US Generally Accepted Accounting Principles (US GAAP)	Nil
6	Administrative & General Expenses: Account 722 – Productivity Study	(1,000)
7a	Amortization Period for GCOC Stage 2 Decision Impact on 2013 Rates	nil amortize in 2015
7b	Impact of GCOC Stage 2 Decision on 2014 Rates	4,000
8	Operating Expense: Account 718 – Customer Accounting Uncollectible Accounts	n/a amortize in 2015
	Subtotal Change to the Revenue Deficiency	(36,200)
	Impact on PNG-West Shared Services Cost Recovery from PNG(N.E.) TR	(8,000)
	Total Change to the Revenue Deficiency	(44,200)

1.0 Reduction in Forecast Deliveries Related to Quintette Mine

References:

Exhibit B-1, Tumbler Ridge (TR) Original Application, Section 2.1, pp. 15–16
Exhibit B-1-1, Application Update: Section 2, p. 6; Section 4.1, pp. 17–18
Exhibit B-12, BCUC IR 2.3 (all), pp. 3–4
PNG (N.E.) CNG Virtual Pipeline Decision, Order C-4-14

Issue:

PNG(N.E.) states in its Application Update that it has revised Quintette Mine's forecast deliveries downwards by 10,000 GJ (from 40,000 GJs in the Original Application to 30,000 GJs in the Application Update), which results in a margin reduction of \$39,000. PNG(N.E.) states that it has assumed that Quintette Mine will switch to an alternate fuel supply by the end of September 2014 due to PNG(N.E.)'s inability to provide the firm service requested (Exhibit B-1-1, p. 6).

The issues are as follows:

- (i) Is the reduction in forecast deliveries reasonable given PNG(N.E.)'s current knowledge of Quintette Mine's plans/intentions?
- (ii) Due to the uncertainty around Quintette Mine's plans for taking service, would it be most appropriate for PNG(N.E.) to establish a deferral account to capture any variances between forecast and actual deliveries?

Discussion:

PNG(N.E.) provided an update on Quintette Mines and noted that the re-opening of the mine had been delayed and that for the time being, Quintette planned to use natural gas for space heating purposes at the mine site. Quintette has consumed more than 30,000 GJs to date.

Settlement:

PNG(N.E.) agreed to increase the forecast of volumes for Quintette Mine to 40,000 GJ for 2014, which was the forecast volume in the original application and reflect the incremental impact on margin of \$39,000. The parties agreed that any variance in volumes delivered to Quintette will be captured in the Industrial Customer Deliveries Deferral Account (ICDDA) commencing in Test Year 2014.

2.0 Misallocation of Investigative Digs Costs and Establishment of Deferral Account for Variances

References:

PNG (N.E.) 2013 Revenue Requirements Application (RRA) Decision, pp. 34–35
Exhibit B-1-1, Updated Schedules: Tab 1, pp. 3, 4; Tab 2, pp. 8, 9
Exhibit B-6, BCUC IR 1.24 (all), pp. 44–46
Exhibit B-12, BCUC IR 2.21 (all), pp. 34–38

Issue:

PNG(N.E.) identifies two issues in its responses to the BCUC IR 2.21 series of questions:

- (i) PNG(N.E.) mistakenly combined all costs related to 2014 investigative digs activities and allocated these costs to the Maintenance Expense Account 865 (“Pipelines”) (Exhibit B-12, BCUC IR 2.21.1, p. 34).
- (ii) PNG(N.E.) did not comply with the Commission Directive in the PNG (N.E.) 2013 RRA Decision which directed PNG (N.E.) to establish a variance deferral account for investigative digs costs (Exhibit B-12, BCUC IR 2.21.6, pp. 36–37).

Discussion:

PNG(N.E.) has explained that the amount related to maintenance for investigative digs is small and that there is no reason to include or establish maintenance expenses in the deferral account.

On subsequent review, PNG(N.E.) has identified an error in the amounts previously reported and confirms that the final Regulatory Schedules for the 2014 test Year will reflect adjustments to Accounts 665 and 865 so that the balances are as follows:

- Account 665: \$65,000 (rather than \$55,000); and
- Account 865: \$3,000 (rather than \$13,000).

PNG(N.E.) also agrees that the Continuity of Deferred Charges in the Final Regulatory Schedules will include a line item for the Investigative Digs Variance deferral account (even if the addition to the deferral account is zero for 2013 and 2014 at this time).

Settlement:

The parties accepted PNG(N.E.)’s position that it will establish a deferral account to capture the variances between forecast and actual investigative dig operating expenses.

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

References:

Exhibit B-1, FSJ/DC Original Application, pp. 28–29
Exhibit B-5, BCUC IR 1.33.1, p. 63
PNG (N.E.) 2013 RRA Decision, p. 16

Issue:

In the PNG(N.E.) 2013 RRA Decision the Commission disallowed a 1 percent company-match to the Employee Savings Plan. In 2014 PNG(N.E.) has included the 1 percent company match to the Employee Savings Plan of \$200 in the Cost of Service. Should PNG(N.E.) be entitled to recover the \$200 1 percent company-match in 2014?

Discussion:

It is noted that PNG(N.E.) stated that it considers it to be appropriate to recover all the costs associated with employee benefits. A brief discussion ensued.

Settlement:

The parties have agreed that the \$200 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.

4.0 Recovery of Costs in the 2013/2014 Quintette Security of Supply Agreement (SSA) Deferral Account

References:

Exhibit B-1-1, Application Update, Section 3.8, Table 10, pp. 13–15

Exhibit B-1-1, Updated Schedules, Tab 2, pp. 9–10

Exhibit B-12, BCUC IR 2.27 (all), pp. 50–58

Issue:

PNG(N.E.) requests approval to recover the costs recorded in the 2013/2014 Quintette SSA deferral account. PNG(N.E.) proposes to earn a Weighted Average Cost of Debt (WACD) rate of return on the deferral account and to amortize the deferral account on a straight-line basis over five years.

The issues are as follows:

- (i) Should PNG(N.E.) be approved to recover the costs in the 2013/2014 Quintette SSA Deferral Account from Tumbler Ridge ratepayers?
- (ii) If yes to the first issue, what is the appropriate carrying cost and amortization period for this deferral account?

Discussion:

PNG(N.E.) presented its proposal on this matter. PNG(N.E.) noted that the 2014 RRA does not reflect any impact on 2014 rates from the Quintette Mine Winter 2013/2014 SSA as the deferral account is a non-rate base account and there is no amortization of this deferral reflected in the 2014 RRA. As such, PNG(N.E.) proposed that this matter be addressed separately by the Commission Panel and not be included in NSP 2014.

Settlement:

The parties agreed that this issue should be severed from the NSP 2014 and presented to the Commission Panel for determination as a stand-alone item.

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

References:

Exhibit B-1-2, Application Update, p. 5

Issue:

PNG(N.E.) 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(N.E.)'s parent company AltaGas has securities regulators' approval to utilize US GAAP for reporting purposes.

Discussion:

PNG(N.E.) 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(N.E.) 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(N.E.)'s request to do so.

6.0 Administrative & General Expenses: Account 722 – Productivity Study

References:

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(N.E.) was advised that it was not the Commission's intent to have PNG(N.E.) engage a productivity consultant if PNG(N.E.) did not expect net benefits to accrue to ratepayers from undertaking such a study. PNG(N.E.) noted that it did not have any expectations that a productivity consultant would provide such benefits. PNG(N.E.) 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(N.E.) noted that the company has implemented a computerized maintenance management system (CMMS). The CMMS allows the company to track and coordinate scheduled maintenance activities allowing it perform these requirements in the most efficient manner possible. The company has also studied the adoption of automated meter reading (AMR), however, has concluded that broad adoption of the technology would not result in savings to its customers.

PNG(N.E.) 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(N.E.) now does manually, will become automated and are expected to result in productivity gains. The procurement function, allowing PNG(N.E.) 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(N.E.) is to be excluded from the 2014 RRAs. The share of the productivity study costs applicable to PNG(N.E.) TR leads to a reduction of \$1,000 in the 2014 RRA.

7.0 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 5, 2014 PNG(N.E.) TR Compliance Filing on Stage 2 GCOC

Issue:

In its Stage 2 GCOC Compliance Filing, PNG(N.E.) proposed that the 2013 interim rates filed on October 23, 2013 in compliance with Order G-131-13 and the accepted tariff pages 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.

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 amortization in 2015 rates. It should be noted that following the NSP, the Commission issued an order on PNG(N.E.)'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.

7.0 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 5, 2014 PNG(N.E.) TR Compliance Filing on Stage 2 GCOC

Issue:

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

Discussion:

PNG(N.E.) confirmed that the final Regulatory Schedules for 2014 would reflect a slight increase in the revenue requirement of \$4,000 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 40% 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(N.E.)'s Stage 2 GCOC compliance filing on June 12, 2014.

Settlement:

No issue.

8.0 Operating Expense: Account 718 – Customer Accounting Uncollectable Accounts

References:

PNG-West and PNG(N.E.) FSJ/DC NSP Settlement Documents.

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).

In both PNG-West and PNG(N.E.) FSJ/DC, 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:

PNG(N.E.) proposes to apply a consistent treatment to the PNG(N.E.) TR division as is to be applied to PNG-West and PNG(N.E.) FSJ/DC, and to reduce the ADA balance in its books. PNG(N.E.) also proposes that it would be able to seek special consideration from the Commission in a situation where a significant uncollectible amount were to arise should a large customer fail.

Settlement:

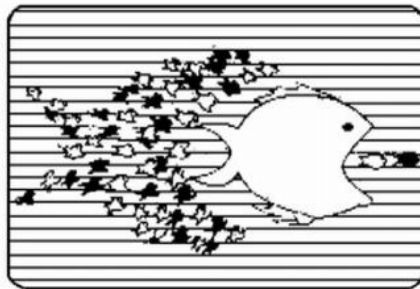
The parties have agreed that the balance sheet provision proposed in PNG(N.E.)'s Application of \$10,000 is greater than is necessary given the current economic conditions and review of bad debt accounts in recent years. On that basis, the parties agreed that the appropriate amount for the ADA in the current year's application is \$5,000, 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 \$5,000 for December 31, 2014, will be amortized (and thereby refunded to customers) in 2015.

British Columbia Public Interest Advocacy Centre

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Barristers & Solicitors

June 26, 2014

Our File: 7559

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 (N.E.) Ltd. 2014 Revenue Requirements Application
Fort St. John / Dawson Creek Division and Tumbler Ridge Division
Negotiated Settlement Agreement - Project No. 3698698**

The British Columbia Pensioners' and Seniors' Organization *et. al.* (BCPSO *et al.*) confirms its acceptance of the terms of the Negotiated Settlement Agreements dated June 24, 2014 for both the Fort St. John/Dawson Creek Division and the Tumbler Ridge Division 2014 revenue requirements applications.

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



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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 (N.E.) Ltd.
Fort St. John/Dawson Creek Division 2014 Revenue Requirements Application and
Tumbler Ridge Division 2014 Revenue Requirements Application
Negotiated Settlement Agreements
Project No. 3698698**

Pacific Northern Gas (N.E.) Ltd. hereby confirms its acceptance of the terms set forth in the Negotiated Settlement Agreements for both the Fort St. John/Dawson Creek Division and the Tumbler Ridge Division 2014 revenue requirements applications 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 Kennedy'. The signature is written in a cursive, flowing style.

J.P. Kennedy

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



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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 (N.E.) Ltd.
Project No. 3698763/Order G-209-13
2014 Revenue Requirements Application

I have acted as an Active Participant to the Negotiated Settlement Proceeding (NSP) of this Service Area in accordance with Exhibit A-9 to the proceeding. The role of an Active Participant is clarified in Exhibit A-9 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 two divisional NSP settlement agreements accompanying your email to the parties to the NSP, dated June 24, 2014, as they accurately capture, to the best of my knowledge, the consensus reached by the parties to the NSP in this proceeding.

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

Kind regards,

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

Kristine Bienert
BCUC staff member - Active Participant

KB/dg

cc: Parties of the NSP