



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-160-12**

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

and

An Application by Pacific Northern Gas (N.E.) Ltd.
for Approval of the Disposition of Property
and Approval for Capital Expenditures

BEFORE: R.D. Revel, Commissioner
B.A. Magnan, Commissioner

October 31, 2012

O R D E R

WHEREAS:

- A. On September 13, 2012, Pacific Northern Gas (N.E.) Ltd. [PNG(N.E.)] applied to the British Columbia Utilities Commission (Commission or BCUC) pursuant to sections 44.2(1)(b) and 52 of the *Utilities Commission Act* (Act) for approval for:
- (i) capital expenditures necessary to construct a new Dawson Creek Operations Centre at 1805 – 98th Avenue, Dawson Creek (New Operations Centre);
 - (ii) disposal of the facilities comprising the existing Dawson Creek office building and land at 1208 – 102nd Avenue, Dawson Creek (Existing Operations Centre) (Application);
- B. As part of PNG(N.E.)'s 2012 Revenue Requirement Application (2012 RRA), PNG(N.E.) requested approval for a capital expenditure of \$421,000 to reconstruct a significant block wall and grade beam at the Existing Operations Centre. Subsequent to the 2012 RRA submission, of which a Commission Decision is still pending, PNG(N.E.) filed the Application. PNG(N.E.) states that based on the evaluation of both financial and non-financial factors the option of selling the Existing Operations Centre and constructing a New Operations Centre is the preferred alternative;
- C. PNG(N.E.) states that it has received and conditionally accepted an offer from a third party to purchase the Existing Operations Centre on an 'as is' basis, for an amount that approximates the market value of the assets. The offer also permits PNG(N.E.) to lease back the office space for a period of nine months while the New Operations Centre is under construction;
- D. The accounting and income tax gain on the proposed sale of the Existing Operations Centre is estimated to be \$64,000 on the building and \$92,000 on the land, which create a total gain of \$156,000. PNG(N.E.) also proposes to attribute the entire gain to the ratepayers;

- E. Commission Order G-134-12 established a Written Public Hearing and Regulatory Timetable for review of the Application;
- F. The Commission and the British Columbia Pensioners' and Seniors' Organization *et al.* (BCPSO) issued Information Requests No. 1 on October 4, 2012 and October 5, 2012, respectively. PNG(N.E.) responded to the Information Requests No. 1 on October 12, 2012;
- G. PNG(N.E.) submits that the Application will result in a minor increase in rate base and annual revenue requirements. In BCUC Information Request 3.1, PNG(N.E.) states that building the New Operations Centre, as compared to retaining and repairing the Existing Operations Centre, will result in an average annual increase to customer bills in the Fort St. John/Dawson Creek service area of \$1.23 or 0.12 percent for residential customers and \$5.47 or 0.14 percent for small commercial customers;
- H. In its Final Submission, PNG(N.E.) states that if the capital expenditure plan is approved by the Commission to build the New Operations Centre, PNG(N.E.) will undertake a competitive bidding process and will solicit bids from a minimum of three independent contractors. PNG(N.E.) also states that the construction tender will seek turn-key proposals that place the risk of building construction cost overruns with the contractor;
- I. The BCPSO issued its Final Submission on October 17, 2012, in which it states that it does not support the Application at present due to the following concerns:
- (i) The timing of the Application;
 - (ii) PNG(N.E.) not having included building of a new operations centre in the 2012 RRA;
 - (iii) The treatment of the improvement costs requested in the 2012 RRA;
 - (iv) The age of the Existing Operations Centre;
 - (v) The reliability of PNG(N.E.)'s evidence regarding the value of and the conditional purchase offer for the Existing Operations Centre;
 - (vi) The uncertainty regarding the treatment of proceeds from future asset sales.
- J. PNG(N.E.) issued its Reply Submission on October 19, 2012, responding to each of the concerns raised in the BCPSO Final Submission;
- K. The Commission reviewed the Application and the comments received, and considers that approval of the \$1,017,000 capital expenditures to construct the New Operations Centre, and approval to dispose of the Existing Operations Centre is in the public interest.

NOW THEREFORE as set out in the Reasons for Decision attached in Appendix A, pursuant to sections 44.2(1)(b) and 52 of the Act the Commission Panel orders as follows:

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1. The Commission Panel approves the \$1,017,000 of capital expenditures for construction of the New Operations Centre.
2. Should capital expenditures exceed the approved \$1,017,000 by an amount greater than 10 percent, PNG(N.E.) shall apply to the Commission for approval to include the additional capital expenditures in rate base.
3. The Commission Panel approves the disposition of the Existing Operations Centre.
4. PNG(N.E.) shall attribute the gain on sale of the Existing Operations Centre to the ratepayers. The gain shall be added to the Plant Gains and Losses Deferral Account and shall be amortized over a period of five years.

DATED at the City of Vancouver, in the Province of British Columbia, this 31th day of October 2012.

BY ORDER

Original signed by:

R.D. Revel
Commissioner

Attachment

**Pacific Northern Gas (N.E.) Ltd.
Dawson Creek Operations Centre
Application for Approval of Disposition of Property and
Approval for Capital Expenditures**

REASONS FOR DECISION

1.0 EXECUTIVE SUMMARY

On September 13, 2012, Pacific Northern Gas (N.E.) Ltd. [PNG(N.E.) or the Company] applied to the British Columbia Utilities Commission (Commission) pursuant to sections 44.2(1)(b) and 52 of the *Utilities Commission Act* (Act) for approval to undertake capital expenditures necessary to construct a new Dawson Creek Operations Centre (New Operations Centre) on land presently owned by PNG(N.E.) and to dispose of the property and buildings comprising its current operations centre (Existing Operations Centre), also in Dawson Creek.

After consideration of the evidence and arguments of the Applicant and the sole intervener, the British Columbia Pensioners' and Seniors Organization' *et al.* (BCPSO), the Commission Panel determines that the requested expenditure and disposal of assets is in the public interest as per sections 44.2(3)(a) and 52 of the Act and approves the Application as filed.

2.0 THE APPLICATION

On September 13, 2012, PNG(N.E.) applied to the Commission, pursuant to sections 44.2(1)(b) and 52 of the Act, for approval to undertake:

- (i) capital expenditures necessary to construct a new Dawson Creek Operations Centre on vacant property presently owned by the Company and located at 1805 – 98th Avenue, Dawson Creek, BC;
- (ii) the disposition of the facilities comprising the existing Dawson Creek office building and land located at 1208 – 102nd Avenue, Dawson Creek, BC. (Exhibit B-1, p. 4)

PNG(N.E.) commissioned an independent engineering report which identified significant structural issues affecting the integrity of the Existing Operations Centre. The estimated capital cost to remediate the identified deficiencies is \$421,000 plus additional projected capital costs in the near future. This amount was included in the 2012 planned capital expenditures included in the Company's 2012 Revenue Requirements Application. (Exhibit B-1, p. 4)

The Company received a conditional offer to purchase the Existing Operations Centre at close to both fair market values and assessed value which, along with the rapid growth of the region caused the Company to reconsider its decision. An economic and efficiency analysis of its operations and the unsolicited offer for its Existing Operations Centre led PNG(N.E.) to seek permission to capitalize on an opportunity to consolidate operational facilities at a new operations centre to be located in Dawson Creek at a single site already owned by PNG(N.E.). This location is away from the business centre of the community and would involve the construction of a purpose-built facility to meet current and future operational needs. (Exhibit B-1, p. 4)

In light of the significant expenditures required for the repair and maintenance of the existing office building, and in consideration of the offer to purchase these assets, the Company evaluated the alternative of constructing a new operations centre at a cost of \$1,017,000 on a second piece of property that the Company owns in Dawson Creek. PNG(N.E.) believes that this is the best alternative in consideration of both financial and non-financial factors. (Exhibit B-1, p. 4)

PNG(N.E.) indicates that customers are likely to benefit from improved service due to the more efficient operational structure with a minor rate impact. In addition, the relocation of the Company's operating activities away from the business core will benefit other downtown businesses and the community due to less congestion in the area. (Exhibit B-1, p. 5)

3.0 REGULATORY PROCESS

PNG(N.E.) requested a minimal written review process for the Application given that the alternative available to the Company is straightforward and the proposed course of action is the best suited to PNG(N.E.)'s future operational requirements. PNG(N.E.) is seeking an expedited approval of this Application to allow, if approved, for commencement of construction of the New Operations Centre in the Fall of 2012. Furthermore, PNG(N.E.) indicates that the offer to purchase the Existing Operations Centre is conditional on Commission approval by September 30, 2012. The deadline for the conditional offer to purchase the Existing Operations Centre was later extended to October 30, 2012. (Exhibit B-1, p. 6; Exhibit B-2)

In its request for expedited approval, PNG(N.E.) proposes to attribute the full gain on sale of the Existing Operations Centre to the benefit of ratepayers but notes that a different treatment may be applied to gains on future asset sales. (Exhibit B-1, p. 15)

In consideration of this request, the Commission Panel determined that the Application be examined by a written review process, in accordance with the following Regulatory Timetable as established by Order G-134-12:

- Intervener/Interested Party Registration - Friday, September 28, 2012;
- Commission Information Request No. 1 - Thursday, October 4, 2012;
- Intervener Information Request No. 1 - Friday, October 5, 2012;
- PNG(N.E.) Response to Commission and Intervener Information Request No. 1 - Friday, October 12, 2012;
- PNG(N.E.) Written Final Submission - Monday, October 15, 2012;
- Intervener Written Final Submission - Wednesday, October 17, 2012;
- PNG(N.E.) Written Reply Submission - Friday, October 19, 2012.

4.0 INTERVENER CONCERNS (BCPSO, Final Written Submission) and APPLICANT RESPONSES [PNG(N.E.) Reply Argument]

The sole Intervener in the process, BCPSO, raised some concerns in its final submission, causing them to withhold their support for the project. At the same time, it invited PNG(N.E.) to respond to its concerns. PNG(N.E.) subsequently responded to each of the concerns raised by BCPSO in its Reply Argument. Each of the concerns raised by the BCPSO is addressed in the following sections:

4.1 Timing of the Application

BCPSO expressed concerns that the Application review timeline was too tight given that the Application was filed on September 13, 2012, and the original purchase agreement for the Existing Operations Centre was conditional on Commission approval by September 30 (the conditional purchase agreement deadline was later extended to October 30, 2012). BCPSO further stated its concern that the short timeline "undermines the role and legitimacy of the Commission."

In its Reply Argument, PNG(N.E.) responded that the compressed timeline for the Application was necessary to take advantage of the purchase offer received for the Existing Operations Centre. PNG(N.E.) further stated it was necessary to expedite the regulatory process so that, if approved, the Company could commence with the permitting and construction for the New Operations Centre prior to the on-set of winter conditions.

The issue of a tight time frame for making a decision on the Application was raised late in the review process by the BCPSO even though the timeline was known at the outset. In addition, the Commission set out a regulatory timetable in Order G-134-12 which was different than that proposed by PNG(N.E.), to allow for more time for consideration of the Application. The Panel is satisfied this extension provided sufficient time to allow for submissions by interested parties and to review and make a decision on the Application.

4.2 Inclusion of New Operations Centre Alternative in PNG(N.E.) 2012 Revenue Requirement Application (2012 RRA)

BCPSO raised concerns as to why PNG(N.E.) was not able to present the alternative of disposing of the Existing Operations Centre and subsequently building of a New Operations Centre in PNG(N.E.)'s 2012 RRA, when it was filed in November 2011.

PNG(N.E.) responded that it did not receive the conditional offer to purchase the Existing Operations Centre until after the 2012 RRA was filed, and that it was the conditional purchase offer that prompted PNG(N.E.) to consider the alternative of building the New Operations Centre. PNG(N.E.) further stated that the request for funding for structural repairs to the existing office wall that was included in the 2012 RRA was based on its intent and information available at the time the 2012 RRA was filed.

As noted in the PNG (N.E.) reply to the BCPSO's final submission, the conditional offer to purchase the Existing Operations Centre occurred after the 2012 RRA had been submitted for approval. The Panel accepts PNG(N.E.)'s argument that the purchase offer was not in place at the time of the 2012 RRA submission and that the decision to sell the existing building was made on a business like basis.

4.3 Recovery of Improvement Costs

BCPSO stated its concern that the \$421,000 of capital related to repairing the Existing Operations Centre has already been requested in the 2012 RRA and therefore, if approved in the 2012 RRA, will be collected in rates but will have zero value to ratepayers if the Application is approved and the sale of the Existing Operations Centre proceeds.

PNG(N.E.) remarked that there has not yet been a Commission Decision regarding the 2012 RRA and that the requested \$421,000 capital expenditure has not yet been incurred.

The Panel observes PNG(N.E.)'s statement that the \$421,000 capital expenditure estimate originally set aside for repairing the Existing Operations Centre has not yet been incurred, nor has a decision been made regarding the \$421,000 in the 2012 RRA. The Panel also accepts PNG(N.E.)'s argument that the \$421,000 capital expenditure requested in the 2012 RRA for repairs to the Existing Operations Centre will be repurposed to partially fund the proposed New Operations Centre whose total cost is estimated at \$1,017,000.

4.4 Age of the Building

The BCPSO requested clarification as to the age of the Existing Operations Centre. The BCPSO stated that in the 2012 RRA, PNG(N.E.) quoted the age of the Existing Operations Centre to be 40 years, whereas in the Application the age was quoted to be 53 years.

PNG(N.E.) responded that the Existing Operations Centre was acquired from a predecessor company in 1958 and used as an operations centre by the predecessor company and PNG(N.E.) for over 53 years.

The Panel notes the discrepancy in the evidence concerning the age of the Existing Operations Centre and accepts PNG(N.E.)'s explanation that the building was part of the purchase of a predecessor company and a second look at the records indicates the age to be more than 53 years old. The Panel does not consider the precise age of the building as material to its determination.

4.5 Sale of Existing Building

The BCPSO stated that it is not comfortable that PNG(N.E.) has secured the best purchase offer for the Existing Operations Centre for the following reasons:

1. PNG(N.E.) stated in BCUC IR 15.2 that the building was never listed for sale on the open market;
2. The BCPSO believes that PNG(N.E.) is relying solely on the opinion of the un-named "local real estate agent" that the current offer to purchase is "competitive";
3. The BCPSO is concerned that the potential buyer may have affiliations with PNG(N.E.).

PNG(N.E.) provided the following responses to the BCPSO's concerns:

1. In BCUC IR 15.3, PNG(N.E.) stated that as part of the sale process, PNG(N.E.)'s realtor undertook an informal canvassing of prospective clientele and developers for the site. As a result of this informal canvassing, some interest was shown, but the only offer received was the offer currently under consideration as part of the Application;
2. The BC Assessment Authority's 2012 Property Assessment, provided in BCUC IR 17.4, shows that the assessed market value of the property is \$425,700. This is comparable to the conditional purchase offer received after deductions for legal fees, real estate commission fees, and a deduction for the structural repairs required to the west wall of the building;
3. PNG(N.E.) confirmed that both the realtor and prospective purchaser are independent and have no affiliation with PNG(N.E.).

The Panel accepts PNG(N.E.)'s statement that the real estate agent and potential buyer have no affiliation with PNG(N.E.). Furthermore, the Panel accepts that PNG(N.E.) performed sufficient market investigation regarding the value of the building and that the purchase offer is based on reasoned arguments, as provided by PNG(N.E.) in its Reply Submission. The Panel also accepts PNG(N.E.)'s evidence that seeking further offers places the ratepayers at greater risk as subsequent offers may either be lower in value or not forthcoming. Furthermore, the Panel approves the disposal of the Existing Operating Centre in conjunction with the construction of the New Operations Centre.

4.6 Sale of Future Building

The BCPSO has stated that it would be much more likely to support the Application if it had some assurance that any future sale of the New Operations Centre would be treated in a similar way as the sale of the Existing Operations Centre.

PNG(N.E.) responded that its long term intention is to operate out of the New Operations Centre to serve the community of Dawson Creek long into the future and that the Company does not have any foreseeable plans or intentions to sell the New Operations Centre. PNG(N.E.) additionally states that in the event that a future sale of the

New Operations Centre is considered, the proposed treatment of any gain on such a transaction would be evaluated based on the circumstances at that time.

The Panel accepts PNG(N.E.)'s assertion that it will be using the new building for the foreseeable future and that any gain on possible sale of the building in the future will need to be evaluated based on the circumstances prevalent at that time.

5.0 ATTRIBUTION OF CAPITAL GAINS

The Panel accepts the proposal of PNG(N.E.) to attribute all the capital gains on the sale of the Existing Operations Centre to the ratepayers and notes that this goes a considerable distance in mitigating additional rate requirements.

6.0 RATE IMPACT

The Application requests approval of capital expenditures of \$1,017,000. As part of the Application, PNG(N.E.) stated that the Company does not anticipate any material change to the annual operations and maintenance expense related to the New Operations Centre. However, PNG(N.E.) does expect a net increase in the annual property tax expense of approximately \$38,000 due to the higher value of the New Operations Centre.

The Application indicates that, the estimated impact of the additional revenue requirement is approximately 1.2 cents per gigajoule to customer rates on a levelized basis above the impact of repairing and maintaining the existing building.

PNG(N.E.) indicated the overall impact of the Application is an average annual increase to revenue requirement of \$53,000, which is equivalent to an annual increase of \$1.24 to residential customer bills and \$5.48 to commercial customer bills.

In BCUC IR 3.1, PNG(N.E.) provided the annual increase to customer bills as percentage increases. The annual increase to residential customer bills is 0.12 percent and the annual increase to commercial customer bills is 0.14 percent.

The Panel accepts that the impact of the undertaking will have a minimal impact on rates for both residential and commercial ratepayers and that these impacts may be more than offset by the improved efficiencies, safety and services attendant with the proposed undertaking.

7.0 COMMISSION PANEL DISCUSSION AND DETERMINATION

The Commission Panel appreciates the urgency of the Application and PNG(N.E.)'s desire to operate its business with a certain measure of responsiveness to take advantage of opportunities as they present themselves. Improvement in the efficiency and safety of PNG(N.E.)'s operations while also providing improved service, benefits its ratepayers at a minimal cost and impact on rates. The Commission Panel acknowledges PNG(N.E.)'s decision to ascribe the full financial gain from the sale of the Existing Operations Centre to ratepayers.

Section 44.2(3) of the Act states:

After reviewing an expenditure schedule submitted under subsection (1), the commission, subject to subsections (5), (5.1) and (6), must

- (a) Accept the schedule, if the commission considers that making the expenditures referred to in the schedule would be in the public interest, or
- (b) Reject the schedule.

In consideration of the Act, the Commission Panel considers the relevant public interest issues to be:

1. The new investment is timely and forward looking, taking advantage of an opportunity to the benefit of both the ratepayers and PNG(N.E.);
2. The project provides benefits for the ratepayers and the local community;
3. The rate impact.

The Commission Panel determined that Section 44.2 subsection (5) is not relevant to this decision. The Commission Panel also considered the concerns raised by the BCPSO, and for the reasons discussed in section 4, does not consider them to have a material impact on this decision.

The Panel is satisfied the requests are in the public interest.

COMMISSION DECISION

In consideration of the above, the Commission Panel grants the PNG(N.E.) request, as applied for, pursuant to sections 44.2(1)(b) and 52 of the Act, for approval to undertake:

- (i) capital expenditures of the estimated \$1,017,000 necessary to construct a new Dawson Creek Operations Centre on vacant property presently owned by the Company and located at 1805 – 98th Avenue, Dawson Creek, BC;**
- (ii) the disposition of the facilities comprising the existing Dawson Creek office building and land located at 1208 – 102nd Avenue, Dawson Creek, BC, including the attribution of the gain on sale of the Existing Operations Centre to the ratepayers as proposed in the Application with one caveat. The gain shall be added to the Plant Gains and Losses Deferral Account and shall be amortized over a period of five years.**