

April 9, 2018

VIA E-FILING

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3



Reply to: Leigha Worth
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Ph: 604-687-3034
Our File: 7676

Dear Mr. Wruck:

**Re: Pacific Northern Gas (N.E.) Ltd.
Application for a Certificate of Public Convenience and Necessity to Acquire
And Operate the Northern Pine Fuel Gas Pipeline
Project No. 1598937**

We write to provide the final submission in this proceeding on behalf of our clients, the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre, known collectively in regulatory processes as "BCOAPO et al." The constituent groups of BCOAPO et al. represent the interests of low and fixed income energy consumers within British Columbia and more specifically in this process, the interests of Pacific Northern Gas (N.E.) Ltd.'s (hereinafter "PNG") low and fixed income residential ratepayers.

Introduction

On December 4, 2017, PNG submitted its modified application pursuant to section 45 of the *Utilities Commission Act (UCA)* seeking the British Columbia Utilities Commission's (BCUC) approval for a Certificate of Public Convenience and Necessity to acquire and operate the Northern Pine Fuel Gas Pipeline.

The Parameters of the Proposed CPCN

According to the Utility, it intends to use this 5.3 km long pipeline to provide transportation service for fuel gas to the AltaGas Northwest Processing Limited Partnership (hereinafter "AltaGas NPLP"). PNG has indicated the current fuel volume requirement for the Northern Pine

Facility is estimated at 280,000 Gj per year but that this requirement is “expected to double to 560,000 Gj per year with the completion of phase two of this project.”¹

The North Pine facility was commissioned and operational on November 9, 2017², and brings in Natural Gas Liquids mix which it then outputs into three marketable components: propane, butane, and natural gas condensates.³

Cost, NPV and Customer Impacts

The pipeline’s most recent forecast cost is \$1,712,431⁴ with a cost cap of \$1,800,000⁵: less than the estimated costs from May (\$2,603,277) and December (\$1,832,176) of 2017⁶. Our clients are pleased the utility was able to confirm that this final cost does include all of the equipment necessary “...to satisfy the requirements of the TSA and the General Terms and Conditions for Industrial Firm Transportation Service, including the measuring equipment.” This is a level of cost and risk comfort that is greatly appreciated by PNG’s low and fixed income residential customers.

¹ Exhibit B-1, page 1.

² Exhibit B-3, BCUC IR 1.1

³ Exhibit B-3, BCUC IR 1.2.

⁴ Exhibit B-3, BCUC IR 4.1

⁵ Exhibit B-1, page 2.

⁶ *Supra* note 4.

Table 9.1a – Illustrative Rate Impacts of Incremental Margin – Standard Depreciation

Exhibit B-1-1 - Anticipated Scenario - Standard Depreciation						
Depreciation Rate	1.94%					
Incremental Margin (per 20yr Contract Term)	976,859					
Average Incremental Margin (per yr)	48,843					
Customer Classification	2018 Customer Count	2018 Test Year Forecast Deliveries (GJ)	2018 Gross Margin (\$)	Allocation of Incremental Margin ¹ (\$)	Rate Change from Incremental Margin (\$/GJ)	Estimated Annual Bill Impact from Incremental Margin (\$)
	[A]	[B]	[C]	[D] = [C]/(Sum[C]-RS7[C])xSum[D]	[E] = [D]/[B]	[F] = [B]/[A]x[E]
Residential (RS1)	17,388	1,722,258	8,381,170	26,393	(0.015)	(1.52)
Commercial						
Small Commercial (RS2)	2,672	1,337,779	4,321,829	13,610	(0.010)	(5.09)
Large Commercial Firm (RS3)	21	338,800	790,448	2,489	(0.007)	(118.53)
Commercial Transportation (RS23)	21	68,500	196,505	619	(0.009)	(29.47)
Small Industrial Sales (RS4)	10	498,000	837,447	2,637	(0.005)	(263.72)
Industrial Transport						
RS6	12	270,000	488,097	1,537	(0.0057)	(128.09)
RS7 ¹	1	980,025	205,825	0	0.0000	0.00
RS10 ²	5	475,570	494,440	1,557	(0.0033)	(311.41)
Total	20,130	5,690,932	15,715,761	48,843		

¹ RS7 is a special fixed-price contract and does not benefit from Incremental Margin

² RS10 includes North Pine Facility at a full year demand of 240,170 GJ

Note: Each customer class share of the incremental margin is allocated based on the proportion of each customer class gross margin to total gross margin times the incremental margin. The allocated margin divided by forecast deliveries equals the illustrative rate change.

The above Table from Exhibit B-3 shows the impact of a standard depreciation rate (i.e. the proposed 1.94%). This scenario estimates a positive annual bill impact for residential ratepayers of \$1.52⁷ and positive impacts for all rate classes except for the 1 customer currently in the Industrial Transport RS7 rate class and then PNG’s calculations indicate that this customer is held whole.

PNG is proposing to use a 1.94% depreciation rate for this pipeline, a rate that would leave an undepreciated balance at the end of the primary term of \$1,119,600.⁸ While the utility is “confident” that the asset will continue to be used beyond the 20 year expiry of the primary term, in response to BCUC IR 6.2.1, it did calculate that, should it deactivate the pipeline after the 20 year term, this depreciation rate would result in a balance of \$1,119,600, an amount it proposes to then amortize over a five year period. This amortization schedule would result in a revenue deficiency of approximately \$285,000 which translates to a 2% rate hike.⁹

Table 6.2.1.1 from Exhibit B-3 shows that under the low demand scenario, there is an NPV of \$159,158. Our understanding is that this takes into account the recovery in years 21 through 25

⁷ Exhibit B-3, BCUC IR 9.1, Table 9.1a and BCOAPO IR 1.2.

⁸ Exhibit B-3, BCUC IR 6.2.

⁹ Exhibit B-3, BCUC IR 6.2.1.

of the undepreciated balance of \$1.1M, meaning that ratepayers like our clients will be in a better position under the low-demand/20 year deactivation scenario.

Table 6.2.1.1 – Asset Retirement after 20-Year Initial Term

Base Case - 20-year Contract at Standard Depreciation; Retire after 20 Years			
Demand (GJ)		240,000	280,000
Revenue	\$	3,895,461	4,421,420
Cost of Service			
Rate Base Items		3,787,048	3,787,048
O&M Costs		389,275	389,275
	\$	4,176,322	\$ 4,176,322
Incremental Margin	\$	(280,861)	\$ 245,098
Net Present Value	5.58%		
Revenue	\$	2,332,675	\$ 2,647,629
Cost of Service		2,173,516	2,173,516
NPV of Incremental Margin	\$	159,158	\$ 474,113

However, although PNG has indicated that it has a guaranteed NPV of the firm demand charge for a 20-year primary term¹⁰ and part ii of BCOAPO IR 9.2 seems to indicate that there is a positive NPV of the margin even if the plant is deactivated after the primary term,¹¹ BCOAPO does note that in paragraph 26, when PNG discusses the “most pessimistic scenario”, that the utility did not mention the NPV of the margin. We ask that in its Reply Submission, PNG provide that additional information for the Commission Panel’s consideration.

Conclusion

After a thorough examination of the costs, benefits, and risks of this project, BCOAPO has no objection to the Utility’s application for approval of the North Pine Fuel Pipeline CPCN.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Yours truly,
BC Public Interest Advocacy Centre

¹⁰ Exhibit B-3, BCUC IRs 1.2.2 and 1.4.

¹¹ Exhibit B-2.

Original on file signed by

Leigha Worth
Barrister & Solicitor
Executive Director