BRITISH COLUMBIA UTILITIES COMMISSION

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 a Certificate of Public Convenience and Necessity  
To Acquire, Construct, Own and Operate  
A Compressed Natural Gas (CNG) Virtual Pipeline  
Between the Communities of Dawson Creek and Tumbler Ridge  
Project No. 3698725

British Columbia Pensioners’ and Seniors’ Organization,  
Active Support Against Poverty,  
BC Coalition of People with Disabilities,  
Council of Senior Citizens’ Organizations of BC, and  
Tenant Resource and Advisory Centre  
(“BCSPO” et al.)

Final Written Submission

November 27, 2013
Introduction

1. This is the final submission of British Columbia Pensioners’ and Seniors’ Organization, Active Support Against Poverty, the BC Coalition of People with Disabilities, Council of Senior Citizens’ Organizations of BC, and the Tenant Resource and Advisory Centre, collectively known as “BCPSO et al.” BCPSO et al. is a coalition of PNG (N.E)’s low and fixed income residential ratepayers and as such, has a keen interest in ensuring that the utility’s rates are no higher than they need to be and that all expenditures included in rates are justified and in the public interest.

2. In this proceeding BCPSO’s interest has been to examine the prudency and timing of this project, and whether the Commission should approve the application as being in the public interest.

Certificate of Public ConvenienCe and Necessity

3. Section 45(8) of the Utilities Commission Act requires that in order for an application for a certificate of public convenience and necessity (“CPCN”) to be approved, the Commission must be satisfied that the proposed application is (1) necessary for the public convenience, and (2) properly conserves the public interest.\(^1\)

4. Further, under section 46(3) the Commission may issue or refuse to issue the CPCN, or limit the certificate to the construction or operation of part of the proposed project, and may attach terms and conditions about the duration of the right or privilege granted by the CPCN.\(^2\) The Commission must also consider and be guided by British Columbia’s energy objectives, applicable integrated resource plan approved under section 4 of the Clean Energy Act (the “CEA”), and the application’s consistency with requirements under section 19 of the CEA.\(^3\)

5. BCPSO considers the proposed CNG Virtual Pipeline with regard to the two requirements of CPCN applications under s.45(8) of the UCA in the sections below.

Issues

A. Necessary for Public Convenience

6. In determining whether the proposed project is necessary for public convenience, BCPSO submits it is important to examine the apparent motivation for the application, and determine whose interests it will serve.

7. PNG (N.E.) acknowledges that the impetus for the proposed CNG Virtual Pipeline is appeasing Teck Coal – Quintette Mine (the “Quintette Mine”)—that is, being able to offer

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\(^1\) UCA, s.45(8).
\(^2\) UCA, s.46(3).
\(^3\) UCA, s.46(3.3).
that large industrial customer firm supply on an ongoing basis,\(^4\) and preventing it from fuel-switching to propane.\(^5\)

8. The Commission’s Reasons for Decision in PNG (N.E.)’s 2012 Resource Plan filing (the “Resource Plan Decision”) highlights that the project is specifically aimed at retaining/attracting industrial customers. It is not primarily aimed at ensuring security of supply for the community of Tumbler Ridge en masse (notwithstanding that this may be an additional benefit of retaining industrial customers). BCPSO specifically notes the following excerpt from the Resource Plan Decision:

With respect to the Tumbler Ridge system, PNG(N.E.) presented forecasts of design day demand that show that the capacity of the transmission pipeline and the Tumbler Ridge Town Gate are sufficient to meet the peak day demand of existing and possible new loads over the entire planning period and under all three forecast scenarios. However, the forecast demand from two mining projects would require an increase in throughput beyond the capability of the Tumbler Ridge processing plant. (Exhibit B-1, p. 32) PNG(N.E.) anticipates filing a CPCN application with the Commission in early 2013 to support the proposed trucking of compressed natural gas (CNG) from Dawson Creek to Tumbler Ridge to address this constraint. (Exhibit B-1, p. 37, Exhibit B-3, BCUC 1.25.3) PNG(N.E.) confirmed that all of the Resource Plan objectives will be considerations used to analyze alternative portfolios for meeting the gas supply requirements of PNG(N.E.)’s Tumbler Ridge system. (Exhibit B-3, BCUC 1.2.3).\(^6\)

9. While retaining and attracting large customers may have a favourable impact on residential customers’ rates due to increased throughput, it is meeting the energy needs of the mine(s) in the area that would require an additional source of supply.

10. That said, BCPSO submits that the demand from these mines in the Tumbler Ridge division seems far from certain. Even since the initial filing of the Application, the forecast demand for the Quintette Mine – a large customer in the division – has substantially decreased. PNG (N.E.) notes in its Evidentiary Update that “Quintette Mine’s forecast demand for 2014 has been revised down to 40,000 GJ from 100,000 GJ per the Application. Further, given the expected ramp up in mining operations, the forecast demand for 2015 has been revised down to 100,000 GJ from 160,000.”\(^7\)

11. Given the uncertainty, BCPSO submits that it is unclear why PNG (N.E.) could not keep servicing the needs of industrial customers in Tumbler Ridge in the same manner as

\(^4\) PNG (N.E.) Final Submission, p.11.
\(^5\) Exhibit B-1, PNG (N.E.) CNG Virtual Pipeline CPCN Application, p.30.
\(^7\) Exhibit B-1-1, Application for CNG Virtual Pipeline CPCN – Evidentiary Update, p.3.
was done for the 2012/13 three-month SSA, and will be done for the 2013/14 SSA for the time being.

12. The initial Application set out the necessity and urgency of the application to address the energy needs of the Quintette Mine\(^8\); however, when it became apparent that adhering to PNG (N.E.\(^{'s}\) proposed regulatory timeline would not be possible, PNG(N.E.) expeditiously arranged to re-implement the temporary CNG trucking solution from the Quintette SSA.\(^9\)

13. PNG (N.E.) has said that it is not their preference to continue the temporary CNG trucking solution; however, this possibility was not formally evaluated as one of the viable alternatives. PNG (N.E.) states that the temporary solution is more costly because equipment is rented on a monthly basis, and the trailers are not of the maximum size needed to minimize transportation costs.\(^10\)

14. BCPSO accepts that there are costs associated with renting as opposed to owning the trailers; however, for ratepayers to be held responsible for the cost of purchasing these assets, the costs must be incurred in the context of an established need. Given the uncertainty/fluctuation of demand even since the initial filing of this application, BCPSO is unable to support the assertion that a permanent CNG Virtual Pipeline is necessary at this time.

B. Properly Conserves Public Interest

15. In the alternative, in the event that the Commission accepts that a permanent solution is necessary at this time, BCPSO wishes to highlight the following issues with respect to whether the proposal as set out “properly conserves the public interest.”\(^11\)

Evaluation of Alternatives

16. In addition to the CNG Virtual Pipeline, the Application evaluates three alternate supplemental gas supply options. These include:

   (a) Seeking contractual changes with CNRL to allow for firm supply contracts;
   (b) Expanding capacity of Tumbler Ridge gas processing plant; and
   (c) Constructing a transmission pipeline to nearby source of sweet gas.\(^12\)

17. Excepting the lack of full evaluation of the option of continuing the temporary CNG trucking solution, BCPSO is satisfied with the alternatives presented, and PNG (N.E.\(^{'s}\) analysis of each. We are also sympathetic to the desire to secure a backup supply

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\(^8\) Exhibit B-4, PNG (N.E.) Response to BCUC 1.8.0; 1.19.0.
\(^9\) Exhibit B-8, PNG (N.E.) Response to BCUC 2.2.1-2.2.2.
\(^10\) Exhibit B-4, PNG (N.E.) Response to BCUC 1.8.0; 1.8.1.2; 1.19.0.
\(^11\) UCA, s.45(8).
\(^12\) Exhibit B-1, PNG (N.E.) CNG Virtual Pipeline CPCN Application, p. 23.
source not owned by CNRL. This is clearly a major drawback of the options involving altering contractual arrangements with CNRL (even if CNRL were amenable to that proposition) or connecting to a sweet gas supply (i.e., given that the nearest sweet gas pipeline is owned by CNRL).

Impact on Residential Ratepayers

18. PNG (N.E.) initially stated that the proposed Virtual Pipeline will have “no material impact on Tumbler Ridge or Dawson Creek residential and small commercial service rates” (Application, p. 37). In their Final Submission, PNG (N.E.) acknowledges that Tumbler Ridge customer rates are, in fact, expected to increase.¹³

19. The impact on residential rates was revised in response to the Commission Information Request No. 3; the amended Table 6-6 evinces a 6%, 7%, and 3% burner tip impact to residential ratepayers in 2014, 2015 and 2016, respectively.¹⁴ This represents a total increase of 16% over three years. BSPCO wishes to emphasize that Table 6-6 sets out burner tip impacts rather than rate increases; the rate increase may in fact be a higher percentage.

20. The impact of the proposed project on residential customers over a relatively short period of time is clearly significant, which suggests that the application warrants particular scrutiny.

Deferral Accounts

21. PNG (N.E.) notes that, pending approval of the CNG CPCN and the RS30 tariff, they are applying to the Commission for approval of the disposition of the following deferred costs (collectively, the “Deferral Accounts”):

(a) Costs deferred under the Quintette SSA (transfer of $43,180 in costs to the capital costs of the proposed CNG Virtual Pipeline, and recovery of remaining costs of $261,706 on a straight-line basis over a 5-year period); and

(b) Transfer of costs accumulated in the “Studies” deferral account ($3,203) and the costs associated with the “Sweet Gas Supply Options” Study ($18,613) (for a total of $21,816) to the capital cost of the CNG Virtual Pipeline.¹⁵

22. PNG (N.E.) justifies its proposed 5 year amortization period for the Deferral Accounts in part by emphasizing the need for rate smoothing.¹⁶

¹³ PNG (N.E.) Final Submission, p.3.
¹⁴ Exhibit B-11, PNG (NE) Response to BCUC 3.42.1.
¹⁵ PNG (N.E.) Final Submission, p.4.
¹⁶ Exhibit B-4, PNG (N.E.) Response to BCUC 1.52.1.
23. The scenarios requested by the Commission for amortization over one-, two-, and three-year periods all show a significant impact on residential customers. Given the already significant rate impact of the project on residential ratepayers in the Tumbler Ridge division (as noted above in paragraph 18), BCSPO is strongly opposed to an amortization period of less than five years for the Deferral Accounts. BCPSO would support amortizing the Deferral Accounts over a period even longer than five years to lessen impact on residential customers.

Low Risk of Stranded Assets

24. The risk of stranded assets is of great concern to BCPSO, particularly given PNG (N.E.?’s) history.

25. PNG (N.E.) states that one of the benefits of the proposed virtual pipeline is that there is a low risk of stranded assets; this is contrasted with the risk of stranded capital investment associated with the options of building a new pipeline or upgrading the Tumbler Ridge processing plant. They state in the initial Application that the “proposed CNG facilities are mobile and can be re-deployed or sold with relative ease, an important consideration in the event that alternative incremental supply options become more cost-effective.” This benefit is reiterated in PNG (N.E.)’s Final Submission. The virtual pipeline is the only alternative presented in which the assets have a non-zero salvage value assigned to it at the end of each of the forecast periods.

26. BCPSO questions whether the emphasis on this benefit of the CNG Virtual Pipeline option speaks to PNG (N.E.)’s view on the probable duration of increased demand in the Tumbler Ridge division. PNG (N.E.) acknowledges in its application the possibility that demand projections for Tumbler Ridge may not materialize. If the goal is truly to minimize the risk of stranded assets, BCPSO submits that continuing to rent the equipment would be the best solution.

27. Further, BCPSO notes that PNG (N.E.) has highlighted the low risk of stranded assets, but has not identified either potential buyers or potential areas of redeployment if the demand in Tumbler Ridge is lower than forecast. This is a concern, as the utility will still recover the costs of the assets from ratepayers even if they are stranded.

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17 Exhibit B-8, PNG (N.E.) Response to BCUC 2.42.1; Table 6-6-BCUC42.1A to Table 6-6-BCUC42.1D.
18 PNG (N.E.) Final Submission, p. 2 & 9;
19 Exhibit B-1, PNG (N.E.) CNG Virtual Pipeline CPCN Application, p. 24.
20 Exhibit B-1, PNG (N.E.) CNG Virtual Pipeline CPCN Application, p. 24.
21 PNG (N.E.) Final Submission, p.5.
28. BCPSO also submits that the design of the RS30 tariff is problematic in that it was not
determined through a formal cost of service study,\(^{24}\) and may therefore not be reflective
of the actual costs.

29. PNG (N.E.) states that they expect the proposed RS30 reflects that rate that would flow
from a fully allocated cost of service study, in that it “reflects all of the capital and
operating and maintenance costs associated with the CNG compression facility, and
includes a share of general administration and overhead.”\(^{25}\)

30. However, BCPSO submits that a full cost of service study would include Operating &
Maintenance (O&M) costs of the existing system. This has not been considered in the
design of the proposed rate, despite the fact that the Bulk CNG sales could not operate
on a standalone basis. For example, PNG (N.E.) has confirmed that the proposed rate
does not include any allocation of depreciation costs associated with PNG (N.E.)’s plant,
except for the capital associated with directly providing service to the RS30 class.\(^{26}\)

31. BCPSO submits that we cannot be certain that the allocation of incremental costs plus a
contribution to corporate overhead reflects the same cost allocation as would be
determined via a formal cost of service methodology.

32. BCPSO is prepared to accept PNG (N.E.)’s rate design for the present application;
however, we submit that the proper methodology for setting a new rate is a fully
allocated cost of service study—regardless of whether or not the final result would be the
same.

**Land Purchase**

33. Finally, BCPSO notes that PNG (N.E.) has entered into an offer to purchase a 4-acre
industrial-zoned site from BC Rail for the Compression and Dispensing site (the “C&D
Site”) in Tumbler Ridge; this offer has been accepted by BC Rail subject to Commission
approval of the Application.\(^{27}\)

34. BCPSO has long been concerned that *ATCO Gas and Pipelines Ltd. v. Alberta (Energy
and Utilities Board)* (“ATCO”)\(^{28}\) creates an incentive for utilities to become land
speculators, with ratepayers providing very favourable financing. While we do not
suggest this is the intent in the present proceeding, we do want to highlight this

\(^{24}\) Exhibit B-7, PNG (N.E.) Response to BCPSO 2.6.1.
\(^{25}\) Exhibit B-7, PNG (N.E.) Response to BCPSO 2.6.1.
\(^{26}\) Exhibit B-10, PNG (N.E.) Response to BCPSO 3.2.1.
\(^{27}\) Exhibit B-1, PNG (N.E.) CNG Virtual Pipeline CPCN Application, p.8 & Appendix B.
\(^{28}\) 2006 SCC 4.
alignment of interests for the Commission to consider when reviewing the acquisition of any non-depreciating asset.

35. Given that ATCO gives rise to the possibility of a future application to dispose of assets and retain all capital gains for the shareholder, there should therefore be a high regulatory bar in terms of clear, certain, and material ratepayer benefit for approval to be granted.

Conclusion

36. BSPCO does not outright oppose the construction of the CNG Virtual Pipeline, as it appears to be the most reasonable and cost-effective of the alternatives evaluated. We submit, however, that the Commission should consider deferring granting the CPCN at this time. We submit it is in the public interest that the virtual pipeline be continued on a temporary basis (as was done in the 2012/13 SSA and will be done for 2013/14 SSA) until the long-term need for the project is more certain.

All of which is respectfully submitted.

Sincerely,

**BC Public Interest Advocacy Centre**

*Original on file signed by:*

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