



Verlon G. Otto
Director, Regulatory Affairs

Pacific Northern Gas Ltd.
750 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4
Tel: (604) 691-5680
Fax: (604) 697-6210
Email: votto@png.ca

Via E-file

December 12, 2019

B.C. Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

File No.: 4.2(2019)

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Services

Dear Mr. Wruck:

**Re: Pacific Northern Gas Ltd.
Certificate of Public Convenience and Necessity for Watson Island Customer Tie-in
Establishment of Depreciation Rate
PNG Final Argument**

In accordance with the regulatory timetable established under BCUC Order G-266-19, accompanying please find the Final Argument of Pacific Northern Gas Ltd. on its application for approval of a Certificate of Public Convenience and Necessity for the Watson Island Customer Tie-in and the Establishment of Depreciation Rate.

Please direct any questions regarding the application to my attention.

Yours truly,

A handwritten signature in black ink, appearing to read 'Verlon Otto', is written over a light blue circular stamp.

Verlon G. Otto

PACIFIC NORTHERN GAS LTD.

**Application to the
British Columbia Utilities Commission
Certificate of Public Convenience and Necessity for the
Watson Island Customer Tie-in
Establishment of Depreciation Rate**

FINAL ARGUMENT

December 12, 2019

PACIFIC NORTHERN GAS LTD.
APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
FOR THE WATSON ISLAND CUSTOMER TIE-IN
ESTABLISHMENT OF DEPRECIATION RATE
FINAL ARGUMENT

TABLE OF CONTENTS

A. Introduction.....	1
B. Illustrative Depreciation Rates	2
C. Existing Regulatory and Accounting Practices.....	2
(a) Estimated Useful Life	3
(b) Asset Impairment.....	4
D. US GAAP Differences.....	4
E. Conclusion.....	5

A. INTRODUCTION

1. On September 25, 2019, Pacific Northern Gas Ltd. (PNG) filed an application to seek approval of a Certificate of Public Convenience and Necessity (CPCN), pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA), for net capital expenditures of approximately \$2.55 million to design and construct new natural gas service infrastructure, including a pipeline, a regulating station and meter site assets (collectively, the Watson Island Customer Tie-In [WICT] Project). The WICT Project is necessary to provide natural gas service to Pembina Pipeline Corporation (Pembina) for their proposed liquefied petroleum gas export terminal to be constructed on Watson Island in Prince Rupert, British Columbia (Application).¹ In the Application PNG also sought approval under section 39 of the UCA to enter into a gas sales agreement (GSA) with Pembina dated September 4, 2019, to provide natural gas service to Pembina for an initial period of 20 years.

2. By Order C-4-19 dated October 9, 2019, the BCUC granted a CPCN to PNG authorizing the construction and operation of the WICT Project and approved the GSA. Order C-4-19 included a preliminary regulatory timetable that included provision for PNG to issue a public notice of the proceeding, one round of information requests by the BCUC directed at PNG, and for the submission of letters of comment on the appropriate depreciation rate.

3. On October 31, 2019, the BCUC issued Order G-266-19 to amend the regulatory timetable and to include provision for submission of a final argument by PNG.

4. As PNG did not specifically address the matter of what might be appropriate depreciation rates for the WICT Project assets in its Application, PNG submitted a letter of comment² to summarize its views on several matters pertaining to the appropriate depreciation rates that arose in the course of responding to information requests.

5. The British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Counsel of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre

¹ Exhibit B-1

² Exhibit B-6, PNG Letter of Comment

(BCOAPO et al.) also submitted a letter of comment.³ In its submission, BCOAPO et al. expressed its view that standard regulatory practices should generally be maintained and deviated from only when there is strong evidence filed showing that such deviation(s) are appropriate. BCOAPO et al. further stated its view that the evidence submitted in this proceeding did not support a deviation from standard regulatory practice.

6. The submissions that follow are consistent those made in PNG's letter of comment and include the matters of illustrative depreciation rates, existing regulatory and accounting practices and US GAAP differences.

B. ILLUSTRATIVE DEPRECIATION RATES

7. PNG's Application presented a net present value (NPV) analysis, for illustrative purposes only, whereby the WICT Project assets were depreciated evenly over the primary term of the GSA (i.e. depreciate capital cost over 20 years at a flat rate of 5% per year).⁴ PNG reiterates that this scenario was presented solely for illustrative purposes, to show that under the negotiated contractual arrangements the capital cost of WICT Project assets would be fully recovered over the primary term of the GSA, and that incremental margin would also be generated to the benefit of ratepayers.

8. PNG was not proposing to depreciate the WICT Project assets over the GSA contract term.

C. EXISTING REGULATORY AND ACCOUNTING PRACTICES

9. In submitting its Application, PNG had anticipated depreciating the WICT Project assets in accordance with its established regulatory and accounting practice of depreciating assets over their estimated useful lives. PNG had presented its financial analysis under this assumption.⁵ PNG has also submitted that should the situation arise whereby the assets were determined to be no longer used or useful, or to be impaired in value before the end of the assets' estimated useful life, PNG would retire the

³ Exhibit E-1, BCOAPO et al. Letter of Comment

⁴ Exhibit B-1, Section 2.4.1, Exhibit 2-3 NPV of Incremental Margin Over 20 Years – Accelerated Depreciation

⁵ Exhibit B-1, Section 2.4.1, Exhibit 2-2 NPV of Incremental Margin Over 20 Years – Standard Depreciation

assets or record a write-down in the value of the assets in a manner consistent with established regulatory and accounting practices.

(a) Estimated Useful Life

10. In response to information requests, PNG noted that similar to many other utilities, the useful life estimates for PNG's assets are supported by periodic depreciation studies undertaken by independent depreciation consultants.⁶ Depreciation studies give consideration to estimated lives for asset groups, including a peer review and consultation with utility management to identify company-specific factors that may impact service lives. The last depreciation study for PNG was completed in August 2017 with the resultant depreciation rates being implemented effective January 1, 2018. The 2017 Depreciation Study and the rates proposed therein were subject to BCUC review and approved as part of PNG's 2018-2019 Revenue Requirements Application.

11. As the WICT Project assets are primarily distribution pipeline and regulating assets, they are comprised of assets classified to BCUC Account 475 – Distribution Mains and BCUC Account 477 – Regulating. BCUC Account 475 assets are depreciated over the estimated useful life of 65 years for assets in this class at a rate of 1.538%. BCUC Account 477 assets are depreciated over the estimated useful life of 35 years for assets in this class at a rate of 2.857%, as per the recommendations of the 2017 Depreciation Study.⁷ As noted, the estimated useful life of the WICT Project assets of 35-65 years exceeds the GSA contract term of 20 years by a considerable amount.⁸

12. Further, PNG has noted that a significant secondary benefit from construction of the WICT Project is that PNG will have an asset in place that has the potential to be used as a platform to serve other new customers in the Watson Island development.⁹ PNG has detailed that competition for land and other resources, which have viable access to tidewater, is currently very high and that a number of project developers giving consideration to Watson Island as a potential project site have spoken to PNG

⁶ Exhibit B-5, PNG response to BCUC 2.1

⁷ Exhibit B-5, PNG response to BCUC 1.1 and BCUC 2.3

⁸ Exhibit B-5, PNG response to BCUC 2.2

⁹ Exhibit B-1, Section 2.4

over the past year. Further, PNG has communicated that the City of Prince Rupert is actively marketing this site for industrial development and that PNG expects most of these projects would require natural gas.¹⁰

(b) Asset Impairment

13. As indicated in the Application and as noted in response to Information Requests, PNG believes that the WICT Project assets will be used and useful, to some extent, beyond the 20-year GSA term.¹¹ Consequently, the WICT Project assets are expected to generate cash flows, either directly or indirectly, after the primary and any renewal contract terms expire.

14. In the unforeseen event that the WICT Project assets are determined to be no longer used and useful, or assessed as being impaired in value at any time during their estimated useful life, PNG would propose to retire or write-down the asset and defer the amount of the undepreciated plant balance or write-down in the Ordinary Plant Gains and Loss deferral account to be amortized over five years. This would be consistent with PNG's current BCUC-approved treatment for asset retirements and gains and losses realized in the normal course of business.¹²

D. US GAAP DIFFERENCES

15. As a final consideration and as noted in response to Information Requests, PNG believes there would be a difference in the accounting treatment for regulatory purposes and financial reporting under US GAAP if PNG were directed to use a depreciation rate based on the primary term of the GSA contract. This would result in accelerated depreciation of assets and recognition of amortization expenses that would be materially different than what is permitted under US GAAP.¹³

16. While the incremental cost to PNG would not be significant, if PNG were directed to use a depreciation rate based on the primary term, it would result in PNG keeping two sets of accounting records

¹⁰ Exhibit B-5, PNG response to BCUC 4.1 and 4.2

¹¹ Exhibit B-1, Section 2.4; Exhibit B-5, PNG response to BCUC 4.1 and 4.2

¹² Exhibit B-5, PNG response to BCUC 1.1.2

¹³ Exhibit B-5, PNG response to BCUC 2.2

– one for financial reporting under US GAAP and one for regulatory purposes – to track differences in asset value and amortization expenses, thus doubling the administrative time and effort required to account for the WICT Project assets.¹⁴

E. CONCLUSION

17. For the reasons described in these submissions, PNG respectfully submits that depreciation of the WICT Project assets in accordance with the established regulatory and accounting practice of depreciating assets over their estimated useful lives is warranted. PNG's submission on this matter is consistent with that of BCOAPO et al., that standard regulatory practices should generally be maintained and deviated from only when there is strong evidence filed showing that such deviation(s) are appropriate.¹⁵

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

DATED at Vancouver, British Columbia this 12th day of December 2019.

PACIFIC NORTHERN GAS LTD.



Verlon G. Otto
Director, Regulatory Affairs

¹⁴ Exhibit B-5, PNG response to BCUC 3.2

¹⁵ Exhibit E-1, BCOAPO et al. Letter of Comment