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Via E-File

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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.
Application Regarding Process for Allocation of Reactivated Capacity and
Approval of Large Volume Industrial Transportation Rate
Applicant's Final Argument**

In accordance with the regulatory timetable established under BCUC Order G-258-19, accompanying please find the Final Argument of Pacific Northern Gas Ltd. on its application regarding the process for allocation of reactivated capacity and approval of a large volume industrial transportation rate.

Please direct any questions regarding the application 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

Attachment

PACIFIC NORTHERN GAS LTD.

Application to the

British Columbia Utilities Commission

Regarding the Process for Allocation of Reactivated Capacity

and Approval of Large Volume Industrial

Transportation Rate

FINAL ARGUMENT OF

PACIFIC NORTHERN GAS LTD.

PACIFIC NORTHERN GAS LTD.
APPLICATION REGARDING THE PROCESS FOR
ALLOCATION OF REACTIVATED CAPACITY
AND APPROVAL OF LARGE VOLUME INDUSTRIAL TRANSPORTATION RATE
FINAL ARGUMENT

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1. INTRODUCTION

1. Pacific Northern Gas Ltd. (**PNG**) submits this final argument in support of its application regarding the process for PNG to allocate reactivated capacity and the approval of a related Large Volume Industrial Transportation Rate and the related standard form agreements (**Application**).¹

2. In the Application, PNG explained its plans to conduct an open season to determine the demand for gas transportation capacity on its transmission system and to allocate its existing and prospective capacity of approximately 80 MMSCFD or greater through its proposed Reactivated Capacity Allocation Process (**RECAP** or **Allocation Process**). PNG also explained the historical background on the deactivated capacity and the current market demand leading to revived interest for the proposed reactivation of that capacity.²

3. PNG designed the RECAP to: (i) obtain sufficient information from the market to accurately measure the demand for capacity; (ii) concurrently assess the value of that capacity; and (iii) allow PNG to accommodate that demand to the extent that it is economically viable and in the public interest, all in an open, fair, transparent and competitive manner.³ All interested parties may participate in this open season process.

4. PNG is seeking British Columbia Utilities Commission (**Commission** or **BCUC**) approval of the draft standard forms for both the Transportation Service Agreement (**TSA**) and Transportation Reservation Agreement (**TRA**), the new Rate Schedule 80 for Large Volume Industrial Transportation Service (the **Base Toll**) and the concept of the Toll Premium, as set out

¹ Pacific Northern Gas, *Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate*, dated 28 June 2019, Exhibit B-1

² See Application, Sections 1.2 to 1.6

³ See Application, Section 2

in section 2 of this argument and section 1.7 of the Application.

5. PNG expects the RECAP to result in the full utilization of its transmission system to the benefit of its existing ratepayers, and will achieve the following objectives:

- a) Optimize the overall use of the PNG transmission system by reactivating decommissioned assets;
- b) Optimize the use of PNG's existing facilities and consider the addition of new facilities if economically justified;
- c) Benefit existing ratepayers through lower rates;
- d) Provide for system capacity, resilience, reliability, and operational flexibility;
- e) Allow PNG's shareholder an opportunity to earn a fair and reasonable return on its investment in system assets; and
- f) Expand and diversify the system shipper/customer base through the long-term contracting of transmission capacity.

6. Before the filing of the Application, PNG began communicating with potential shippers who have expressed an interest in pipeline capacity to seek an understanding of their interests so PNG could design a capacity allocation process that is responsive and fair.⁴ PNG incorporated those understandings into the design of the RECAP process and the related agreements and tariffs. PNG has continued those shipper consultations to keep apprised of their ongoing projects development and maintain relations.⁵

⁴ See Application, section 11 and Appendix I *PNG Presentation to Interested Parties*

⁵ See PNG Response to BCUC IR No. 1, Q8.1 for further details on shipper consultations

7. PNG also sent formal notice to potentially affected communities and Indigenous nations on 20 August 2019 in response to Order G-191-19.⁶ PNG has received very little feedback subsequent to sending out the notice of this proceeding, and any feedback to date has been positive, particularly related to the prospect of future reduced rates for residential and commercial customers.⁷ Based on PNG's consultations, PNG does not expect any community opposition to the Reactivation Project.⁸

8. The Commission convened a public review of the Application. During the review, the only interveners who registered to participate were four potential shippers. Triton LNG asked several questions to clarify the RECAP process, but no other intervener asked questions. No ratepayers or potential shippers have raised any concerns about the requested approvals.

9. For the reasons detailed in the Application and this Argument, PNG submits that the record before the Commission supports the requested approvals as being in the interests of ratepayers and the public.

2. COMMISSION APPROVALS REQUESTED

10. In support of the RECAP, PNG seeks the following approvals from the Commission for the underlying elements of the RECAP, all of which are explained further in this Application:

- a) Approval, pursuant to sections 59 to 61 of the *Utilities Commission Act (UCA)*, for the proposed Large Volume Industrial Transportation Service Tariff (Rate Schedule 80);

⁶ See PNG Response to BCUC IR No. 2, Q36.1

⁷ See PNG Response to BCUC IR No. 2, Q36.2 for details on the Application notice

⁸ See PNG Response to BCUC IR No. 1, Q8.2-8.4 for further details on community and regulatory agency consultations

- b) Approval, pursuant to section 58 of the UCA, for the draft standard form of a Transportation Service Agreement (TSA) for customers seeking Large Volume Industrial Transportation Service;
- c) Approval, pursuant to section 58 of the UCA, for the draft standard form of the Transportation Reservation Agreement (TRA) for customers seeking to reserve capacity as a Large Volume Industrial Transportation Customer;
- d) Approval pursuant to sections 59 to 61 of the UCA, for the creation of a new interest bearing deferral account, the Large Volume Industrial Deferral Account (**LVIDA**); and
- e) Approval pursuant to sections 59 to 61 of the UCA, for the creation of a new rate base deferral account to track development costs for the Reactivation Project estimated at \$1 million.

11. A draft BCUC Order detailing the approvals sought is attached as Appendix A to this submission.

3. THE REACTIVATION PROJECT

12. PNG expects the RECAP will result in binding TSAs or TRAs for all of the firm transportation capacity available with PNG's existing facilities. Once this outcome is achieved and supported by TSAs, PNG plans to undertake system reactivation and recommissioning work to prepare for returning the system back to full capacity. PNG intends to undertake a limited amount of early development work prior to the execution of TSAs in order to be able to meet the expected in-service date requests of early stage shippers.⁹ This early work will facilitate the success of the Reactivation Project and contribute to its economic efficiency, both of which are in the interest

⁹ See Application, Sections 10.1 and 10.2

of the ratepayers.

13. PNG has outlined the work and estimated cost for the reactivation in the Application,¹⁰ and then elaborated on that summary in response to Commission Information Requests.¹¹

14. Depending on the shipper response to the RECAP process, the Reactivation Project may

- a) include compressor rehabilitation, pipeline reactivation, recommissioning and system reinforcement,
- b) cost up to approximately \$120 million, and
- c) result in up to approximately 88 MMSCFD of contractible capacity, of which 50 MMSCFD, which is roughly double the current capacity, could be delivered to Prince Rupert.¹²

15. The additional capacity associated with the Reactivation Project would ease pipeline capacity constraints, and the system reinforcement would improve the reliability and resiliency of the overall pipeline system.¹³

16. The results of the RECAP Process will determine the ultimate scope of the project, including the timing of the components and how PNG applies for any necessary Certificate of Public Convenience and Necessity (**CPCN**). The size and specifics of the capital investment will

¹⁰ See Application, Section 1.6

¹¹ See PNG responses to Commission IR No. 1, Q4.1.1 and Confidential IRs No. 1, Q1.1, 3.2,3.2.1, 3.3, 3.4.1, and 4.4

¹² See Application, Section 1.6

¹³ See PNG Response to BCUC IR No. 1, Q6 for elaboration on how system enforcement enhances reliability and resilience of the overall pipeline system

also depend on the RECAP capacity demand and the related toll premiums.

17. Once the RECAP process is complete, PNG will determine the scope of the Reactivation Project required to meet the associated volumes, delivery locations and service request dates. Based on consultations with the various regulators and associated parties, as well as PNG's engineering and regulatory experience, PNG will determine a reasonable timeframe that is achievable and meets the needs of both PNG and the specific Shipper to the extent reasonably possible.¹⁴ PNG will optimize the scope and timing of the work to align the various interests, as follows.

- a) PNG would schedule the sequence of any required work to align with the timing of required demand as per the executed TSAs.
- b) If customer requested in-service dates are spread significantly apart, then PNG may treat each required increase in capacity as a separate capital project, if that approach makes economic sense from the customer and system perspectives.¹⁵
- c) If customer requested in-service is imminent, then PNG may seek an expedited approval of the capital work, as necessary.¹⁶
- d) PNG will treat the Reactivation Project and the related assets that serve the overall system as common assets, since all customers benefit from increased capacity through the reactivation of compressors and pipeline, as well as from any related system reinforcement.¹⁷ These assets will be subject to the depreciation

¹⁴ See PNG Response to BCUC IR No. 1, Q11.2

¹⁵ See PNG Response to BCUC IR No. 2, Q33.2

¹⁶ See PNG Response to BCUC IR No. 2, Q33.3

¹⁷ See PNG Response to BCUC IR No. 2, Q34

rates approved by the Commission for application to specific asset classes under the Uniform System of Accounts and in accordance with established regulatory and accounting practices. Depreciation over any other period would be administratively complex and would not reflect the expected useful life of the assets.¹⁸

- e) PNG will treat any customer-specific assets separate from common assets for cost and toll purposes, since those assets do not serve the overall system.¹⁹

18. PNG expects customers having project sites located away from PNG's existing transmission pipeline system will need interconnecting pipelines. For customers choosing to have PNG build, own and operate these interconnecting lines, PNG proposes to levy a separate interconnecting toll to be addressed separately from this Application.

19. PNG will follow its current practices in determining the CPCN application requirements for the Reactivation Project components, taking into account the BCUC's directives as outlined in the 2018-2019 Revenue Requirement Decision. In that Decision, the BCUC directed PNG, in accordance with Section 45(6) of the UCA, to file with the BCUC at least once a year a report of all planned significant system modifications or additions. In its recently filed 2020-2021 Revenue Requirements Application, PNG has proposed a process to respond to this BCUC directive. Historically, PNG has filed CPCN applications for capital projects that are greater than \$1 million and that have not been approved in its revenue requirements applications.²⁰

20. Before executing a TSA under the RECAP process, PNG intends to consult with the BCUC

¹⁸ See PNG Responses to BCUC IR No. 1, Q27.10 through Q27.14 and BCUC IR No. 2, Q34.1 and Q34.6

¹⁹ See PNG Response to BCUC IR No. 2, Q34

²⁰ See PNG Response to BCUC IR No. 2, Q33.1

regarding the date by which approval of a CPCN is required.²¹

21. PNG modeled a wide array of scenarios, as set out in Section 2 of the Application. In all scenarios, PNG believes the RECAP will result in benefits to its existing ratepayers. See Section 8.b. of this Argument for further elaboration.

4. REACTIVATED CAPACITY ALLOCATION PROCESS

22. PNG has proposed the RECAP as a new open, fair, transparent and competitive process to assess the demand for, and value of, capacity on PNG's transmission system and to accommodate that demand to the extent that it is economically viable and in the public interest. The RECAP process allows all interested shippers an opportunity to participate. Shippers that have a project in an advanced stage of development may enhance their opportunity to secure transportation by bidding for a firm TSA, and shippers that have a project in an early stage of development may reserve capacity by bidding for a TRA.

23. By using the RECAP process to assess current demand for capacity (TSAs) and the potential future demand for capacity (TRAs), PNG expects to be able to generate the greatest value for the use of its system. PNG's proposed evaluation methodology favours TSA requests since they provide certainty of future revenues, as opposed to requests for TRAs which may not result in the execution of a TSA.

24. Section 2.2 of the Application describes the RECAP process, and Section 2.3 explains how PNG will evaluate the bids.²²

25. Subject to receiving BCUC approval of the Application by early 2020, PNG plans to

²¹ See PNG Response to BCUC IR No. 1, Q11.6.1

²² See also PNG Response to BCUC IR No. 1, Q7.1, 7.2, 7.6, and 7.8

commence the RECAP immediately within the first quarter of 2020.

5. TRANSPORTATION SERVICE AGREEMENT

26. In the regulatory proceeding for PNG's *Application for a Certificate of Public Convenience and Necessity to Construct and Operate an Interconnecting Pipeline between Kitimat and Douglas Channel (Douglas Channel CPCN Application)*, the Commission reviewed and approved PNG's Service Agreement for Firm Transportation Service.²³

27. PNG used this approved TSA as the basis for the draft TSA for the proposed Rate Schedule 80 Tariff (see Appendix B of the Application).

28. In section 3.1 of the Application, PNG reviewed the differences from the previously approved TSA. PNG has also responded to all information requests on the TSA to explain how the terms have been tailored to the RECAP and represent fair and reasonable terms.

6. TRANSPORTATION RESERVATION AGREEMENT

29. The draft TRA, attached as Appendix D to the Application, sets forth the rights and obligations of Shippers who have won bids to reserve capacity pursuant to the RECAP. The TRA includes as a schedule the same form of TSA that other Shippers will execute if they enter directly into TSAs pursuant to the RECAP (see Appendix B and Section 3 of the Application).

30. PNG has also responded to all information requests on the TRA to explain how the terms have been tailored to the RECAP and represent fair and reasonable terms.

²³ Approved on 9 October 2015 by Commission Order C-10-15

7. GENERAL TERMS AND CONDITIONS

31. The Commission reviewed and approved General Terms and Conditions (**GTCs**) for gas transportation service during the Douglas Channel CPCN Application.

32. PNG used those GTCs as the basis for the General Terms and Conditions – Industrial Transportation Service for the proposed Rate Schedule 80 Tariff (see Appendix E of the Application).

33. In section 5.1 of the Application, PNG reviewed the differences from the previously approved GTCs. PNG has also responded to all information requests on the GTCs to explain how the terms have been tailored to the RECAP and represent fair and reasonable terms.

8. NEW LARGE VOLUME INDUSTRIAL TRANSPORTATION RATE (RATE SCHEDULE 80)

34. PNG does not currently have a common large industrial transportation rate schedule for industrial customers. Historically, PNG industrial transportation customers have negotiated different rates with PNG under their respective TSAs, which were all approved by the BCUC. Section 6.3.2 in the Application summarizes the history of these contracts. As the overall volumes on the PNG system have decreased, these rates have tended to increase.

35. PNG seeks approval of a new Large Volume Industrial Transportation Rate Schedule for customers seeking firm transportation service on PNG's transmission system. Rate Schedule 80 will require a minimum contracted capacity of 10 MMSCFD and a minimum contract term of 20 years. Establishing minimum volumes and minimum terms will lock in PNG's uncontracted firm service capacity with long-term commitments for the benefit of all customers.

36. The initial toll for Rate Schedule 80 would be set at \$1.00/GJ, subject to BCUC approval, and will be offered to potential shippers who participate in the RECAP and meet the minimum volume and term requirements.

37. Compared to historical rates for industrial transportation service, PNG submits that the proposed Base Toll of \$1.00/GJ is reasonable.

38. Due to the uncertainty of the outcome of the RECAP, and due to the various in-service dates expected for bidder's projects, PNG is proposing that the initial rate of \$1.00/GJ remain fixed until the calendar year following the last Service Commencement Date of all the bidders that have or could receive capacity via the RECAP. PNG expects that in the calendar year following the last Service Commencement Date of such bidders, the Rate Schedule 80 toll would become a rolled-in toll that would then be subject to periodic changes following the BCUC's review and approval. PNG proposes to amend the bid documents to specify that bids will be limited to in-service dates 7 years from the bid date.²⁴

39. PNG submits that fixing the initial rate for a defined term provides Rate Schedule 80 customers a fair toll for service, regardless of their commencement date. This approach will minimize any advantage or disadvantage related to the timing of a bidder's project.²⁵

40. Under PNG's current methodology of allocating revenue deficits and surpluses on the basis of normalized margins, not fixing Rate Schedule 80 during the period described could result in an unfair outcome by allocating a portion of revenues from new RECAP TSA and thereby reducing the margin requirements from shippers in this customer classification.²⁶

41. Once the appropriate time to convert the Rate Schedule 80 toll from a fixed toll to a rolled-in toll has been determined, PNG will notify all affected customers and future revenue deficits and surpluses would be allocated to all customer classes, including Rate Schedule 80,

²⁴ See PNG Responses to BCUC IR No 1, Q22.3.2 and BCUC IR No. 2, Q48.1

²⁵ See also PNG Response to BCUC IR No. 1, Q20.1 for further explanation supporting the fairness of fixing the initial rate.

²⁶ See PNG Response to BCUC IR No. 1, Q20.3

using the normalized gross margin as the allocator, consistent with PNG's current practice of adjusting all customer rates.

42. One of PNG's highest priorities has been to secure arrangements that will moderate the rates for existing ratepayers that have borne the impact of the loss of PNG's large industrial customers over many years.

a. RATE-SETTING PRINCIPLES

43. In setting the Rate Schedule 80 Base Toll at \$1.00/GJ, PNG considered the following principles for setting rates and terms of service set out in the relevant sections of the UCA, including the following basic requirements:

- a) Provide service without undue discrimination or delay to all persons who apply for service, are reasonably entitled to it, and pay the rates established for the service. (s. 39)
- b) Not demand or receive an unjust, unreasonable, unduly discriminatory or unduly preferential rate. (s. 59)
- c) Not subject any person, locality or particular description of traffic, to an undue prejudice or disadvantage. (s. 59)
- d) Not extend to any person a form of agreement, a rule or a facility or privilege, unless the agreement, rule, facility or privilege is regularly and uniformly extended to all persons under substantially similar circumstances and conditions for service of the same description. (s. 59)
- e) Segregate the various kinds of service into distinct classes of service. (s. 60)
- f) Set rates that are just and reasonable so they are not:

- i. More than a fair and reasonable charge for service of the nature and quality provided by the utility,
- ii. Insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or
- iii. Unjust and unreasonable for any other reason. (s. 59)

44. PNG also considered the recognized rate design principles which were last reviewed by the BCUC in the July 20, 2018 BCUC decision (Order G-135-18) on the 2016 Rate Design Application of FortisBC Energy Inc. (FEI).

- a) Ensuring the recovery of the cost of service; therefore the aggregate of all customer rates and revenues will be sufficient to recover the cost of service.
- b) Providing a fair apportionment of costs among customers;
- c) Customer understanding and acceptance;
- d) Rate and revenue stability; and
- e) Avoidance of undue discrimination.

b. FAIR APPORTIONMENT OF COSTS

45. To test the validity of its rate design, PNG evaluated the cost of transportation under various potential outcomes of the RECAP process, each with its own associated incremental capital and operating cost estimate, and subscribed firm capacity.²⁷

²⁷ See Application, Section 6.3.3. and PNG Response to BCUC Confidential IR No. 1, Q4.2

46. While the outcome of the RECAP is unknown at this time, PNG has set a Base Toll for Rate Schedule 80 that will recover more than the incremental cost of service associated with providing service to large volume industrial transportation customers in all potential outcomes. In all possible outcomes of the RECAP, all classes of existing customers stand to benefit from the additional revenues from Schedule 80 shippers through lower, and in some cases significantly lower, delivery rates.

47. PNG submits that setting a clear price signal, in the form of a Base Toll for Rate Schedule 80, for prospective bidders is vital to ensuring a successful outcome of the RECAP. Bidders will have the option to bid a Toll Premium to the Base Toll, further increasing the benefits to existing ratepayers.

48. In view of the considerations outlined above, PNG submits that the proposed Base Toll of \$1.00/GJ will find broad acceptance amongst potential bidders for reactivated capacity, and that will in turn result in a fully subscribed RECAP. Full utilization of PNG's existing facilities generates increased revenues for the benefit of all of PNG's customers.

c. COMPETITIVE RATE

49. During the Multi-Lateral Process (**MLP**), PNG held various meetings and discussions and provided a list of common questions and answers to interested parties. PNG also indicated that the combined single toll would be in the range of \$1.25/GJ to \$1.50/GJ. The combined single toll took into consideration offering transportation services using both the reactivated capacity as well as expansion capacity from a proposed looping of the PNG pipeline system from Summit Lake to Kitimat.

50. At the time, PNG did not receive indications that this combined reactivation and expansion toll would be uncompetitive for the prospective bidder's projects. Based on the outcome of the MLP, PNG submits that the proposed Base Toll of \$1.00/GJ for large volume

industrial transportation customers utilizing the reactivated capacity represents a competitive and economic toll for the service to be provided.

51. PNG has also considered how the proposed RS 80 rate compares to PNG's existing industrial tolls to assess whether it is fair and reasonable.²⁸

d. CUSTOMER IMPACTS

52. PNG submits the proposed toll for Rate Schedule 80 will be acceptable to prospective large volume industrial transportation customers. These customers are sophisticated entities who would understand the justification for this toll given PNG's history and the need to balance the interests of all stakeholders.

53. PNG has also analyzed the revenue and cost impacts for a broad range of outcomes of the RECAP. Based on this analysis, PNG is confident that the proposed toll for Rate Schedule 80 will result in rate reductions for existing customers under all foreseeable outcomes of the RECAP.

e. SUMMARY OF THE FAIR AND REASONABLE BASIS FOR RATE SCHEDULE 80

54. PNG submits that the new Rate Schedule 80 rate of \$1.00/GJ is a fair and reasonable toll, based on the following:

- a) Rate principles, in particular ensuring the full recovery of the increased cost of service associated with providing service to new customers following the RECAP and a fair apportionment of the costs.
- b) Historical rates for previous large volume industrial transportation customers such as Methanex, which were approximately \$1.14/GJ prior to the negotiated

²⁸ See PNG Response to BCUC IR No. 1, Q21.5.1 for a details of the assessment

load retention rate of \$0.50/GJ.²⁹

- c) The previously approved toll of \$0.50/GJ under various terminated large volume transportation agreements (2009 – 2016) which were accepted by PNG following negotiations and approved by the BCUC during a period when PNG had no other alternatives for its unutilized capacity.
- d) Based on PNG's consultations with shippers, the proposed rate is competitive for prospective shippers and their respective projects.
- e) The proposed rate is fair and reasonable under all anticipated outcomes of the RECAP process, with revenues in excess of the incremental cost of service associated with the provision of firm transportation service going to the benefit of existing ratepayers in a managed manner via the use of a deferral account. This benefit was demonstrated even under scenarios with higher CAPEX and O&M.
- f) PNG also filed risk registers with the Commission to demonstrate the level of due diligence and risk analysis that PNG undertook.
- g) The proposed toll of \$1.00/GJ achieves a balance between the consideration of the benefits to existing ratepayers and achieving the best possible outcome of the RECAP for new shippers and PNG.

9. INTERRUPTIBLE CHARGE

55. As noted in the GTCs, PNG will offer interruptible service in excess of the Shipper's Contracted Capacity when available and subject to interruption and curtailment at PNG's discretion based on system circumstances and requirements. PNG is proposing a Large Volume

²⁹ See PNG Response to BCUC IR No. 1, Q21.1 for a summary of the other industrial rates historically

Industrial Transportation Interruptible rate that is set at the 100% load factor toll proposed for Rate Schedule 80.

56. PNG will consider amending this interruptible charge in the future once it has the benefit of operating experience following the RECAP.

10. TOLL PREMIUM

57. In the RECAP, parties will have the option to bid a Toll Premium over the Base Toll for firm transportation service or to reserve for capacity on PNG's pipeline system. Taking this option to bid a Toll Premium would enhance a bidder's opportunity to be selected as one of the winning bidders in the RECAP. PNG proposes that the Toll Premium remain fixed for the duration of the contract term and any contract renewals.

58. PNG submits that the concept of the proposed Toll Premium would be akin to having PNG and individual interested parties negotiate a rate for providing firm transportation service, which has been the historical practice. The history of the PNG system demonstrates that industrial transportation customers have each had different negotiated rates in the past. The Toll Premium is voluntary and dependent on the bidder's own assessment in determining a toll that would be economically viable for its project. Further, the RECAP process, including the Toll Premium bid option, is transparent and equally available to all potential bidders.

59. The Toll Premium will help PNG achieve the objective of optimizing the value for its reactivated capacity. All revenues from the Toll Premium received from prospective shippers will benefit PNG's ratepayers and not the shareholder.

60. PNG submits that together, the Base Toll and Toll Premium result in a rate that is fair and reasonable for the service provided.

11. LARGE VOLUME INDUSTRIAL DEFERRAL ACCOUNT (LVIDA)

61. PNG seeks approval to create a new credit deferral account, the LVIDA. Pending the outcome of the RECAP, PNG plans to record a portion of the revenues to be received from the contracted shippers executing TSAs as well as all the reservation fees to be received from potential shippers that execute TRAs into this deferral account. The amortization of this account would be to the benefit of ratepayers.

a. DESCRIPTION AND JUSTIFICATION

62. PNG expects a successful outcome from the RECAP to result in the execution of long term contracts for the capacity on its pipeline system. PNG is also proposing that a credit deferral account be created to provide PNG some flexibility on how to manage the incremental revenues to be received from shippers and the reservation fees to be received from future shippers. The intent is to:

- a) manage the inherent uncertainty related to the RECAP outcome,
- b) avoid volatility in customer rates by systematically managing expected rate decreases,
- c) have the ability to avoid rate shock as contracts eventually expire, and
- d) provide flexibility to manage any unforeseen circumstances that may arise in the future.

63. One of the main objectives of the RECAP is to optimize benefits to existing ratepayers by lowering their rates as PNG collects revenues from the new shippers in excess of the costs to provide such service. PNG will not know the magnitude of these benefits until after the completion of the RECAP. At that time, PNG will be able to better understand the longer-term impact on customer rates and the requirements for the credit deferral account.

64. PNG plans to address additions and the method of amortization in future revenue requirement applications or via a separate regulatory application, if required.

b. ADDITIONS TO LVIDA

65. PNG plans to record a portion of the revenues to be collected from Rate Schedule 80 shippers, which includes both the Base Toll as well as the Toll Premium, in the LVIDA. At this time, PNG cannot state what portion of the revenues would be included in the LVIDA. Following the completion of the RECAP, PNG will assess the expected net benefits that can be attributed to existing ratepayers. PNG will design the resultant rate decreases in a manner that does not create future rate volatility.

66. PNG also plans to record the reservation fees to be collected from prospective shippers who have executed TRAs into the LVIDA.

c. FINANCING CHARGE

67. In the decision on PNG's 2013 Revenue Requirements Application, the BCUC discussed two important issues related to deferral accounts: the appropriate length of amortization and the appropriate financing charge. PNG has followed the approach discussed by the BCUC. The amortization of this account would be to the benefit of existing ratepayers and would not apply to Rate Schedule 80 customers, until Rate Schedule 80 becomes a rolled-in toll. PNG addresses the proposed amortization in Section 9.4 of the Application.

68. For the appropriate financing charge, PNG has applied the principles identified in the 2013 Revenue Requirements Application decision and is proposing that the LVIDA be a non-rate base deferral account earning interest at PNG's Weighted Average Cost of Debt. This credit deferral account is non-capital in nature and should therefore earn an interest rate of return.

d. AMORTIZATION OF LVIDA

69. Depending on the outcome of the RECAP, PNG will propose a methodology for amortizing the LVIDA, taking into account the benefits of rate smoothing and the length of time where there is direct value related to the item being amortized. PNG will amortize the LVIDA to the benefit of ratepayers.

70. PNG will seek BCUC approval for the amortization of the LVIDA through its future revenue requirements applications following the completion of RECAP.

12. REACTIVATION PROJECT DEVELOPMENT COSTS – DEFERRAL ACCOUNT

a. ADVANCING CAPITAL PROJECT DEVELOPMENT

71. The Reactivation Project will entail significant work on engineering, permitting, and First Nations and stakeholder engagement and consultation prior to construction and recommissioning. PNG plans to seek BCUC approval for its Reactivation Project through a CPCN Application following the execution of TSAs.

72. However, for PNG to be ready to reactivate its pipeline system on expedited timelines to meet expected customers' Commercial Operations Dates (**CODs**), it is prudent to begin the engineering, permitting and consultation processes for the initial works in early 2020 (post-RECAP and prior to obtaining CPCN approval).

73. PNG expects the full Reactivation Project work required on PNG's system to take two to three years to complete. Time is of the essence for a successful execution of the Reactivation Project to fulfill its expected service requirement obligations and provide assurance to prospective shippers that the pipeline would be ready for their projects' in service dates. Many of the prospective shippers are in globally competitive businesses and delays in receiving natural gas service could have a deleterious impact to both PNG's new and existing customers.

**b. APPROVALS SOUGHT FOR DEFERRAL ACCOUNT FOR PRELIMINARY ENGINEERING
AND PERMITTING**

74. PNG submits that it is prudent to maintain progress on the engineering, permitting, and First Nations relations for its Reactivation Project. PNG is therefore seeking approval to establish a rate base deferral account to record Front-End Engineering and Design work for the initial works (estimated at \$1 million) which will be required to deliver capacity for the early stage projects. If projects have delayed CODs or prospective shippers do not sign TSA's following the RECAP, PNG submits that this work will be used and useful for several years for future projects and reactivation scenarios.

75. By initiating expenditures in early 2020, PNG believes it could save six to nine months on the schedule for the Reactivation Project, which is in the interests of ratepayers.

13. CONCLUSION

76. PNG submits that it has designed an open, fair, and transparent process to assess the demand for, and value of, capacity on PNG's transmission system, and to accommodate that demand to the extent that it is economically viable and in the public interest. PNG expects this process will result in the optimization of its pipeline system and will benefit its ratepayers.

77. PNG also submits that there is no identifiable financial risk to PNG and its existing ratepayers in undertaking the Reactivation Project. The Base Toll (new Rate Schedule 80 – Large Volume Industrial Transportation Tariff) has been designed so that all capital and operating costs are recovered from prospective shippers, thereby eliminating the risk of asset stranding and ensuring that there are negligible rate impacts on PNG's other ratepayers. In fact, PNG expects significant rate reductions to existing ratepayers.

78. PNG is seeking approval of the new Rate Schedule 80 as well as the concept of the Toll Premium, and submits that the Application and PNG's responses to the Commission's

Information Requests demonstrate that the proposed toll is fair and reasonable. Overall, the proposed toll structure carefully balances the interests of existing ratepayers, new shippers and PNG.

79. PNG further submits that the two proposed deferral accounts – the LVIDA and the Early Development Cost accounts – will further mitigate any financial risk to ratepayers while allowing time-sensitive reactivation activities to proceed.

80. PNG submits that approval of this Application by the BCUC is in the public interest and in the best interests of PNG's ratepayers.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

DATED at Vancouver, British Columbia this 19th day of December 2019.

PACIFIC NORTHERN GAS LTD.



Janet P. Kennedy

Vice President, Regulatory Affairs and Gas Supply

APPENDIX A: DRAFT BCUC ORDER

DRAFT



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Utilities Commission

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ORDER NUMBER

G-???-20

IN THE MATTER OF

the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.

An Application for Approval of Large Volume
Industrial Transportation Rate and Process for
Allocation of Reactivated Capacity

BEFORE:

???????, Commissioner

???????, Commissioner

???????, Commissioner

on January ??, 2020

ORDER

WHEREAS:

- A. On June 28, 2019, Pacific Northern Gas Ltd. (PNG) filed with the British Columbia Utilities Commission (BCUC) regarding the Process for Allocation of Reactivated Capacity (RECAP) and approval of a Large Volume Industrial Transportation Rate (RS 80) (Application);
- B. In the Application, PNG requests the following approvals:
 - 1) Approval of RS 80 and the related General Terms and Conditions, pursuant to sections 59 to 61 of the Utilities Commission Act (UCA);
 - 2) Approval of the draft form of the Transportation Service Agreement (TSA) for customers seeking Large Volume Industrial Transportation Service, pursuant to section 58 of the UCA;
 - 3) Approval of the draft form of the Transportation Reservation Agreement (TRA) for customers seeking to reserve capacity as a Large Volume Industrial Transportation customer, pursuant to section 58 of the UCA;
 - 4) Approval of the creation of a new interest-bearing deferral account, the Large Volume Industrial Deferral Account (LVIDA), to record revenues from RS 80 including the base toll charges and premium toll charges as per executed TSAs and reservation fees from the executed TRAs, pursuant to sections 59 to 61 of the UCA; and
 - 5) Approval for the creation of a new rate base deferral account to track development costs for the reactivation project estimated at \$1 million, pursuant to sections 59 to 61 of the UCA.

- C. By Orders G-169-19, G-191-19 and G-258-19, the BCUC established a written public hearing process and a regulatory timetable for the proceeding;
- D. Registered interveners in the proceeding are: Distributed gas Solutions Canada (DGCS); Triton LNG Limited Partnership (Triton); Western LNG LLC (Western); and Tenaska Marketing Canada (Tenaska). Registered interested parties in the proceeding are: Mica Consulting Solutions Inc.; District of Kitimat; Macquarie Energy Canada; FortisBC Energy Inc.; MetaLNG LLC; Top Speed Energy Canada Holding Ltd.; and Gary Dong;
- E. In the review process, PNG responded to two rounds of information requests from the BCUC and to one information request from Triton. In addition, MetaLNG LLC filed a letter of comment; and
- F. The BCUC has reviewed the evidence in this proceeding and finds that certain approvals are necessary and in the public interest.

NOW THEREFORE pursuant to sections 58, 59 to 61 of the *Utilities Commission Act* the BCUC orders as follows:

1. Pursuant to Sections 59 to 61 of the UCA, the proposed Rate Schedule 80 Large Volume Industrial Transportation Tariff (RS 80) is approved. PNG must file with the BCUC by no later than 30 days from this order, the tariff and rate schedule which includes the related GTCs.
2. Pursuant to Section 58 of the UCA, the forms of the TSA and TRA are approved.
3. The creation of new credit deferral account bearing interest at PNG's weighted average cost of debt to record revenues from RS 80 customers, toll premiums and reservation fees is approved. Amortization of this account will require future BCUC approval.
4. The creation of a new rate base deferral account to record development, permitting and consultation expenses related to the reactivation project, estimated at \$1 million, is approved.
5. PNG must file on a confidential basis the results of the Reactivated Capacity Allocation Process within 10 days of determining the winning bids.

DATED at the City of Vancouver, in the Province of British Columbia, this ?? day of January 2020.

BY ORDER

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Panel Chair/Commissioner