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Verlon G. Otto
Director, Regulatory Affairs

Via E-File

May 14, 2021

British Columbia Utilities Commission
Suite 410 - 900 Howe Street
Vancouver, BC V6Z 2N3

File No.: 4.2 (2021)

Attention: Patrick Wruck
Commission Secretary

Dear Mr. Wruck:

Re: Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity for Construction of Kitimat Regulating Station LDS#1
Applicant's Final Argument

In accordance with the regulatory timetable established under BCUC Order G-110-21, accompanying please find the Final Argument of Pacific Northern Gas Ltd. on its application regarding a Certificate of Public Convenience and Necessity for the Kitimat Regulating Station LDS#1.

Please direct any questions regarding the application to my attention.

Yours truly,

Original on file signed by:

Verlon G. Otto

Encl.

PACIFIC NORTHERN GAS LTD.

APPLICATION
to the
BRITISH COLUMBIA UTILITIES COMMISSION

FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR CONSTRUCTION OF KITIMAT REGULATING STATION LDS#1

APPLICANT'S FINAL ARGUMENT

May 14, 2021

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1. INTRODUCTION

1. On March 25, 2021, Pacific Northern Gas Ltd. (PNG) filed an Application for a Certificate of Public Convenience and Necessity (CPCN) seeking British Columbia Utilities Commission (BCUC) approval, pursuant to Sections 45 and 46 of the *Utilities Commission Act* (UCA), for capital expenditures of approximately $1.9 million to design and construct a new purpose-built regulating station (referred to as let-down station #1 (LDS#1)) dedicated to provide natural gas service to the permanent administration and non-process facilities being constructed as part of the LNG Canada (LNGC) liquefied natural gas (LNG) export facility in Kitimat, British Columbia (LNGC Project). In the Application PNG also sought BCUC approval under Section 39 and 59 to 61 of the UCA to enter into a gas sales agreement (GSA) to provide firm natural gas service to JGC Fluor BC LNG Joint Venture (JFJV) as the Engineering, Procurement and Construction (EPC) and prime contractor for the LNGC Project for an initial term of 26 months.[1]

2. There were no parties registering as either Intervener or Interested Party in the proceeding.

3. One round of information requests on the Application was issued by the BCUC to PNG. Responses were filed by PNG on May 10, 2021 (Exhibit B-3). The BCUC also issued one round of confidential information requests, which PNG also responded to on May 10, 2021 (Exhibit B-4).

4. PNG submits that, as evidenced in the Application and further elaborated upon in the responses to Information Requests, and as summarized in the submissions that follow, approval of the CPCN for the LDS#1 project and of the underlying GSA are in the public interest.

5. As no parties registered as Intervener, and no Intervener Final Argument is forthcoming, PNG considers this to be its final submission in the proceeding.

6. The submissions below generally follow the framework of the Application, addressing the justification for the LDS#1 project CPCN, including the project need, benefits and risks, followed by matters relating to project costs and other issues that arose in the course of the

[1] Exhibit B-1

proceeding.

2. PROJECT NEED AND JUSTIFICATION

7. As described in the Application, PNG has been requested to provide distribution pressure natural gas service for the LNGC Project non-process related facilities on an ongoing basis. PNG notes that the LNGC Project is one of the largest and most important capital projects in Canada, and that construction activities are well advanced at this time. To accommodate this service request, PNG is required to construct a new regulating station, LDS#1. This request is supported by a GSA with JFJV for an initial 26-month period that anticipates commencement of service in the third quarter of 2021 and to run for the life of the LNGC Project (20+ years).

2.1 Project Benefits

8. The LDS#1 project proposes infrastructure dedicated to providing service to one customer. PNG's financial evaluation of the contractual arrangements demonstrates that the margin generated from the firm contract demand from the customer will recover all capital and operating costs over the primary term of the GSA. Further, the analyses illustrate that additional margin will be generated to the benefit of PNG's other customers over the anticipated 20-year life of the LNGC Project.[2]

2.2 Project Risks

9. PNG has assessed financial or operational risks associated with the proposed capital project and the underlying service arrangements as negligible, with identified risks mitigated through contractual arrangements or able to be mitigated in the normal course of operation.[3] Specific mitigations include:

i) Contractual arrangements are such that the margin generated from the firm contract demand will recover all capital and operating costs from the customer over the primary term of the GSA;

[2] Exhibit B-1, Section 3.4.

[3] Exhibit B-1, Section 3.5; Exhibit B-3, PNG responses to BCUC IRs 3.1, 5.1, 7.6, and 7.7.

ii) PNG has insurance coverage that protects it against general business risks;

iii) Operational risks are mitigated as LDS#1 will be constructed, operated and maintained to PNG's existing standards for infrastructure of this nature; and

iv) Design, contracting and construction of LDS#1 are considered to be synonymous with that for LDS#2 which PNG successfully completed on schedule and under budget.

10. PNG's submits that existing customers will not be adversely impacted by the construction nor the operation of LDS#1.

3. PROJECT DESCRIPTION AND COSTS

3.1 Project Description

11. As described in the Application,[4] LDS#1 will be constructed as a replacement for the pre-existing deactivated and largely demolished Methanex Station. PNG engaged Lauren Services Inc. (Lauren Services), to complete an evaluation of options for meeting the request for service from JFJV, and this evaluation concluded that there were no alternatives to the proposal contained in this Application to construct the new LDS#1 regulating station. While no appreciable or suitable Methanex Station assets were identified for refurbishment, PNG does plan to repurpose a portion of the existing concrete pad to reduce the cost of LDS#1.[5]

12. As a replacement for the Methanex Station, the LDS#1 project site is located on private property now owned by LNGC. As part of the planning for this project, the existing lands agreement between PNG and LNGC has been replaced by a new statutory right of way.[6]

13. As noted previously, the design, contracting and construction of LDS#1 are considered to be synonymous with that for LDS#2 which was approved under BCUC Order C-3-19. As proposed, the capacity of LDS#1 station will meet the maximum expected demand from JFJV. Furthermore, under the proposed design approximately 174% or 1.4 MMSCFD capacity is expected to be available for any potential, but presently unanticipated, growth in the

[4] Exhibit B-1, Section 3.3.

[5] Exhibit B-3, PNG response to BCUC IR 7.1.

[6] Exhibit B-1, Section 4.1; Exhibit B-3, PNG response to BCUC IR 10.1.

customer's service needs.[7]

3.2 Project Costs

3.2.1 Capital Costs

14. In the Application, the LDS#1 project was identified as having an estimated capital cost of $1.862 million.[8] This capital cost estimate is based upon Design Basis Memorandum and Basis of Estimate (Advancement of Cost Engineering International Class 3) documentation[9] prepared by Lauren Services and includes provisions for PNG overhead (19%) and contingency (15%). PNG notes that in the course of responding to information requests it identified a duplication in costs for fencing of $20,000; correcting for this error reduces the capital cost estimate for LDS#1 to $1.833 million.[10]

15. In response to information requests, PNG provided further information on the basis for the overhead[11] and contingency[12] provisions. PNG believes it prudent, conservative and appropriate to include these provisional amounts in its analysis so as not to overstate the net benefits to customers.

16. The Lauren Services' Basis of Estimate noted certain exclusions to the capital cost estimate, including import duties, taxes, escalation and allowance for funds used during construction (AFUDC). In response to BCUC IR 13.5, PNG provided the rationale for each of the exclusions, observing that the provision for contingency would address any unexpected cost increase that may arise from these items.

3.2.2 Cost of Service

17. The cost of service forecast incorporated into the AMR Project NPV analysis presented in the Application includes rate base items and operating costs.[13]

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[7] Exhibit B-3, PNG response to BCUC IR 4.2.

[8] Exhibit B-1, Section 5.1.

[9] Exhibit B-1, Appendices F and H.

[10] Exhibit B-3, PNG response to BCUC IR 8.3.

[11] Exhibit B-3, PNG response to BCUC IR 13.3.

[12] Exhibit B-3, PNG response to BCUC IR 13.1 and 13.2.

[13] Exhibit B-1, Section 5.2.

18. Rate base items primarily relate to the capital expenditures required for the LDS#1 project, including provision for depreciation, taxes, capital cost allowance, interest, and return on equity. In the Application these costs are estimated to average approximately $161,000 annually over the 27-year analysis period.

19. PNG's financial evaluation includes an annual provision of $2,000 for operating[14] and maintenance[15] costs. As LDS#1 is a newly constructed asset, annual operating and maintenance costs are expected to be negligible, relating primarily to meter reading, billing activities, fuel gas costs and property taxes.

4. GAS SALES AGREEMENT AND BACKSTOP ARRANGEMENTS

4.1 Gas Sales Agreement (GSA)

20. As described, PNG and JFJV have entered into a GSA for firm natural gas sales service at PNG's Large Commercial Sales Rate (RS3) on a take-or-pay basis. This request anticipates commencement of service in September 2021 for an initial service term of 26 months. Subsequently, once construction is completed, JFJV will turn the facility service over to LNGC to whom PNG anticipates providing service on a long-term basis, for the 20+ year estimated life of the LNGC Project.

21. In response to BCUC IR 3.2, PNG noted that the short initial term of the GSA is attributed to the fact that, as EPC and prime contractor for the LNGC Project, JFJV was not in a position to enter into a long-term contract on behalf of itself and LNGC. Despite the short term of the GSA, PNG reiterates that the GSA arrangements produce a Profitability Index of 1.10 and incremental margin with a NPV of $176,288 in the primary term of service, demonstrating the low risk of adverse impacts on other ratepayers.[16]

4.2 Backstop Arrangements

22. In order to advance development of the LDS#1 project, PNG and JFJV have entered into two backstop arrangements: (i) the Engineering Costs Letter Agreement to cover costs up to $230,000 for preliminary engineering design, cost estimate, permitting, and planning for

[14] Exhibit B-3, PNG response to BCUC IR 11.1 and 11.2.

[15] Exhibit B-3, PNG response to BCUC IR 11.3.

[16] Exhibit B-3, PNG response to BCUC IR 5.1.

LDS#1; and (ii) the Backstop Letter Agreement to cover costs up to $210,000 for demolition and site preparation, and for procurement of long-lead materials for the service request.[17]

23. In response to information requests, PNG advised that $243,144[18] in costs related to the LDS#1 project had been incurred to date, including the full amount backstopped under the Engineering Costs Letter Agreement,[19] and $13,144 of the amount backstopped under the Backstop Letter Agreement.[20] PNG further noted that it had open commitments with vendors up to the maximum amount backstopped under the Backstop Letter Agreement.[21]

24. In addition, PNG provided clarification that with the execution of the GSA the Engineering Costs Letter Agreement has been terminated and that JFJV is now contractually obligated to pay PNG for the requested gas service for the duration of the primary term of the GSA. PNG further noted that the GSA takes into consideration the full cost of the LDS#1 project, including those costs backstopped by the Engineering Costs Letter Agreement.[22]

25. Lastly, PNG was asked to address the risk of not recovering costs backstopped by the Backstop Letter Agreement. PNG identified the scenarios under which it may not be able to recover costs incurred in relation to the agreement and has assessed the possibility of any of the scenarios coming to fruition as very low.[23] Further, as noted previously, while PNG has open commitments with vendors for the full backstopped amount, at this time PNG has only incurred $13,144 in costs associated with this agreement.

5. CONSULTATION AND SUPPORT

26. As described, LDS#1 will be constructed as a new asset to replace previously existing PNG infrastructure situated on private property owned by LNGC.

27. Given extensive First Nations consultation undertaken by LNGC on their project, and the stated support for the LNGC Project by the Haisla Nation (in whose territory the LNGC

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[17] Exhibit B-1, Section 5.3.

[18] Exhibit B-3, PNG response to BCUC IR 12.1.

[19] Exhibit B-3, PNG response to BCUC IR 14.3.

[20] Exhibit B-3, PNG response to BCUC IR 15.2.

[21] Ibid.

[22] Exhibit B-3, PNG response to BCUC IR 14.5.

[23] Exhibit B-3, PNG response to BCUC IR 15.3.

Project is located), PNG did not undertake any further formal outreach to the general population of the Haisla Nation on the LDS#1 project.

28. Similar to its First Nations outreach activities, LNGC has undertaken extensive communication and engagement activities to reach other parties that may be affected by the LNGC Project. As LDS#1 is necessary to provide service to the LNGC Project, PNG did not undertake any further formal community outreach on this matter. That said, PNG has had discussions on the LDS#1 project with the District of Kitimat (the municipality in which the LNGC Project is situated) and they have provided a letter of support for PNG's Application.[24]

6. TIMING OF REQUESTED BCUC DECISION

29. PNG has noted that the LDS#1 project has a fixed in-service date of September 1, 2021 to ensure that construction and commissioning is complete in order to optimize synergies, and minimize complication associated with, ongoing coactive construction in the immediate proximity to the LDS#1 location for the balance of the LNGC Project construction period.[25] To accommodate this requirement, and to meet the project construction and operations schedule as detailed in Section 4.4 of the Application, PNG is seeking BCUC approval of its Application no later than June 30, 2021.[26] In this regard, PNG requests that the BCUC give consideration to the timeliness of a decision on the Application, including the possibility of expediting the issuance of the decision with reasons to follow.

7. CONCLUSION

30. PNG submits that it has demonstrated that the proposed construction of LDS#1 to provide ongoing service to the LNGC Project administrative and non-process facilities and the underlying contractual arrangements are in the public interest. In consideration of the evidence on record in this proceeding and the arguments presented in this submission, PNG submits that the approvals sought in the Application should be granted.

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[24] Exhibit B-1, Appendix J.

[25] Exhibit B-1, Sections 1.3 and 3.2.1; Exhibit B-3, PNG response to BCUC IR 1.1.

[26] Exhibit B-3, PNG response to BCUC IR 1.2.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated at Vancouver, British Columbia this 14th day of May 2021.

PACIFIC NORTHERN GAS (N.E.) LTD.

Original on file signed by:

Gordon Doyle
Vice President, Regulatory Affairs, Legal & Gas Supply