



**ORDER NUMBER
C-3-21**

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity
for the Construction of Kitimat Regulating Station LDS#1

BEFORE:

C. M. Brewer, Panel Chair
M. Kresivo, QC, Commissioner

on June 30, 2021

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

WHEREAS:

- A. On March 25, 2021, pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA), Pacific Northern Gas Ltd. (PNG) filed an application with the British Columbia Utilities Commission (BCUC) seeking approval of:
 1. a Certificate of Public Convenience and Necessity (CPCN) to design and construct a new let-down station #1 (LDS #1). LDS #1 will be dedicated to providing new natural gas service to JGC Fluor BC LNG Joint Venture (JFJV) as engineering, procurement and construction contractor for the permanent administration and non-process facilities being constructed as part of the LNG Canada liquified natural gas (LNG) export facility in Kitimat, British Columbia (LNGC Project);
 2. PNG also seeks approval pursuant to sections 39 and 59 to 61 of the UCA to enter into a gas sales agreement to provide natural gas service to JFJV for an initial period of 26 months (Gas Sales Agreement) (together, Application);
- B. PNG requests BCUC approval of its Application by no later than June 30, 2021, and states it is seeking an expedited review of its Application;
- C. On April 10, 2021, by Order G-110-21, the BCUC established a proceeding and regulatory timetable including, among other things, intervener registration, one round of information requests and final and reply arguments. No interveners registered and no letters of comment were received;
- D. By letter dated April 23, 2021, the BCUC requested PNG provide the reasons for confidential treatment for certain items contained in the Application;
- E. On April 26, 2021, PNG filed a revised Application removing some of the information from its confidentiality request, and providing reasons for the information that remained subject to the request; and

F. The BCUC has reviewed the evidence and submissions and determined that approval of the Application is warranted.

NOW THEREFORE for the reasons attached as Appendix A to this order, the BCUC orders as follows:

1. Pursuant to sections 45 and 46 of the UCA, a CPCN is granted to PNG approving the design and construction of LDS #1.
2. PNG is directed to file a final report within three months following the completion of LDS#1. The report is to include a complete breakdown of the final costs and provide an explanation of all material cost variances.
3. The Gas Sales Agreement is accepted, as filed, for endorsement by the BCUC.
4. The BCUC will hold the following documents confidential as requested by PNG:
 - a. Exhibit B-1-1, including Appendix C - PNG-JFJV LDS#2 Gas Sales Agreement, Appendix D - PNG-JFJV LDS#2 Gas Sales Agreement with Changes Tracked to PNG-JFJV LDS#1 Gas Sales Agreement, Appendix G-2 – LNGC Project - Overall site plan, Appendix I – PNG JFJV Backstop Arrangements;
 - b. Exhibit B-2, Redacted sections of the public version of the revised Application; and
 - c. Exhibit B-4 – PNG Responses to BCUC Confidential Information Request No. 1.

DATED at the City of Vancouver, in the Province of British Columbia, this 30th day of June 2021.

BY ORDER

Original signed by:

C. M. Brewer
Commissioner

Attachment

Pacific Northern Gas Ltd.

**Application for a Certificate of Public Convenience and Necessity
for the Construction of Kitimat LDS#1**

Reasons for Decision

June 30, 2021

Before:

C. M. Brewer, Panel Chair
M. Kresivo, QC, Commissioner

Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity
for the Construction of Kitimat Let Down Station #1

REASONS FOR DECISION

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Executive Summary

On March 25, 2021, Pacific Northern Gas Ltd. (PNG) filed an application with the British Columbia Utilities Commission (BCUC) for approval of:

1. a Certificate of Public Convenience and Necessity (CPCN) to design and construct a new let-down station #1 (LDS #1); and
2. a gas sales agreement to provide natural gas service to JGC Fluor BC LNG Joint Venture (JFJV) for an initial period of 26 months (Gas Sales Agreement) (together, Application).

LDS #1 will be dedicated to providing new natural gas service to JFJV as contractor for the permanent administration and non-process facilities of the LNG Canada liquified natural gas (LNG) export facility in Kitimat, British Columbia (LNGC Project).

According to the terms of the Gas Sales Agreement (GSA), service will commence in September 2021 for an initial term of twenty-six months. During the initial term, the project will generate an incremental margin with a net present value (NPV) of \$176,000. Additionally, as part of the GSA, JFJV has also requested interruptible natural gas supply commencing in September 2021 in order to meet anticipated initial gas supply needs at the commencement of the typical local heating season.

The Panel established a written hearing process that consisted of public notification, intervener registration, information requests (IRs), and PNG responses to IRs. No interveners registered in the proceeding and no letters of comments were received.

The Panel finds that PNG has sufficiently demonstrated the need for LDS#1 to provide the service requested by JFJV for the LNGC Project administration and non-process facilities. The Panel accepts that PNG has adequately explored alternatives for the proposed project. The Panel is satisfied that, for safety reasons, reuse of the existing 10 inch piping is not feasible.

The Panel is satisfied that PNG's cost estimates provide an appropriate level of detail, and that the contingency amounts are sufficient to include potential unanticipated changes in costs over the course of construction. The Panel accepts that the project risks have been adequately identified and is satisfied with PNG's mitigation plans. The Panel accepts PNG's submission with respect to consultation to date. The Panel is satisfied that PNG has met the requirements of section 46(1) of the *Utilities Commission Act* (UCA).

The Panel notes that the revenue stream is sufficient to ensure the full recovery of the incremental capital and operating costs of providing service to JFJV. The Panel is persuaded that PNG has met the legislative test for the GSA.

The Panel finds that the proposed project is in the public interest. Accordingly, the Panel grants PNG a CPCN for the design and construction of LDS#1. The Panel finds that the rate prescribed in the GSA is not unjust, unreasonable, unduly discriminatory or unduly preferential, and therefore meets the criteria set out in section 39 and sections 59 to 61 of the UCA. The GSA dated August 11, 2020 between PNG and JFJV, as set out in the Application, is accepted pursuant to sections 59 to 61 of the UCA, as filed, for endorsement by the BCUC.

1.0 Introduction

1.1 Background

On March 25, 2021, Pacific Northern Gas Ltd. (PNG) filed an application with the British Columbia Utilities Commission (BCUC) for approval of:

- a Certificate of Public Convenience and Necessity (CPCN) to design and construct a new let-down station #1 (LDS #1)(LDS#1 Project or Project); and
- a gas sales agreement to provide natural gas service to JGC Fluor BC LNG Joint Venture (JFJV) for an initial period of 26 months (Gas Sales Agreement) (together, Application).

LDS#1 Project will be dedicated to providing new natural gas service to JFJV as engineering, procurement and construction (EPC) contractor for the permanent administration and non-process facilities being constructed as part of the LNG Canada liquified natural gas (LNG) export facility in Kitimat, British Columbia (LNGC Project).¹

1.2 The Applicant

PNG owns and operates a natural gas transportation system and distributes gas to more than 20,400 residential, commercial and industrial customers in communities in northwestern British Columbia via its PNG-West division. PNG is the parent company of Pacific Northern Gas (N.E.) Ltd. (PNG(NE)), also a natural gas distribution utility, providing sales and transportation services to approximately 21,000 residential, commercial and industrial customers in the northeastern British Columbia communities of Fort St. John, Dawson Creek and Tumbler Ridge. PNG and PNG(NE) are both regulated by the BCUC.² PNG is a wholly owned subsidiary of TriSummit Utilities Inc. (TSU).³

PNG, in its Application, states it has the technical capacity to oversee the design and construction of the LDS#1 Project. PNG submits it has many years of experience in constructing, operating and maintaining natural gas transmission and distribution systems, including regulating and meter stations. PNG also states it can finance the design and construction of the LDS#1 Project either directly, or indirectly, through its association with its parent company, TSU. PNG further notes it has entered backstop arrangements with JFJV to cover costs up to \$440,000.⁴

1.3 Approvals Sought

PNG seeks approval for a CPCN, pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA) to design and construct LDS#1 to provide natural gas service to JFJV for the permanent administration and non-process facilities associated with the LNG Canada project.⁵

PNG also seeks approval under sections 39 and 59 to 61 of the UCA to enter into a gas sales agreement (GSA), attached as confidential Appendix C to the Application, to provide natural gas service to JFJV for an initial period of 26 months.⁶

¹ Exhibit B-2, p. 1.

² Ibid., p. 5.

³ Ibid.

⁴ Ibid.

⁵ Ibid., p. 2.

⁶ Ibid., p. 3.

1.4 Legislative Framework

Section 45 (1) of the UCA stipulates that a person must not begin construction or operation of a public utility plant or system, or an extension of either, without first obtaining from the BCUC a certificate that public convenience and necessity require, or will require, the construction or operation of the plant or system.⁷

Section 46 (3.1) of the UCA requires the BCUC to consider the following in determining whether to issue a CPCN:

- (a) the applicability of British Columbia's energy objectives, which are defined in the *Clean Energy Act*;
- (b) PNG's most recent long-term resource plan filed with the Commission; and
- (c) the extent to which the Application is consistent with the applicable requirements under sections 6 and 19 of the *Clean Energy Act*.

Sections 6 and 19 of the CEA apply only to BC Hydro or "prescribed utilities." PNG is not a prescribed utility under the CEA.

The BCUC's CPCN Guidelines provide general guidance regarding the BCUC's expectation of the information that should be included in a CPCN application to reflect the specific circumstances of the applicant, the size and nature of the project and issues raised by the application.⁸

PNG is also requesting approval of the Gas Sales Agreement pursuant to sections 39 and 59 to 61 of the UCA.

Section 39 of the UCA provides that, on reasonable notice, a public utility must provide suitable service without undue discrimination or undue delay to all persons who:

- (a) apply for service,
- (b) are reasonably entitled to it, and
- (c) pay or agree to pay the rates established for that service under this Act.

Sections 59 to 61 of the UCA govern the approval of rates. Section 59(1) of the UCA states that "[a] public utility must not make, demand or receive (a) an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia, or (b) a rate that otherwise contravenes this Act, the regulations, orders of the commission or any other law." Section 60(1)(b) states "the commission must have due regard to the setting of a rate that:

- i. is not unjust or unreasonable within the meaning of section 59,
- ii. provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands, and
- iii. encourages public utilities to increase efficiency, reduce costs and enhance performance."

1.5 Regulatory Process

PNG sought an expedited review process of the Application that would allow PNG to meet the LDS#1 Project construction and operation schedule. As the LDS#1 Project has a fixed construction completion date of September 1, 2021, PNG states it hopes to have BCUC approval no later than June 30, 2021.⁹

⁷ UCA, section. 45(1).

⁸ Order G-20-15, 2015, Certificate of Public Convenience and Necessity Application Guidelines, p. 1.

⁹ Exhibit B-2, p. 3.

By Order G-110-21, dated April 12, 2021, the BCUC established a regulatory timetable for reviewing the Application which consisted of public notice, intervener registration, one round of information requests (IRs), followed by final and reply arguments.

By letter dated April 23, 2021,¹⁰ the BCUC requested PNG to provide reasons for seeking confidential treatment of certain information contained in the Application. On April 26, 2021, PNG filed a revised Application removing some of the information from its confidentiality request, and providing reasons for the information that remained subject to the request.¹¹

No interveners registered and no letters of comment were received.

2.0 Proposed LDS#1 Project

In this section the Panel reviews the Project background, need, alternatives, cost, benefits, and risk. Having considered each of these aspects of the LDS#1 Project in turn, the Panel then makes its determination on the CPCN in Section 4 of these reasons for decision.

2.1 LDS#1 Project Background

On October 1, 2018, LNG Canada made a final investment decision to proceed with the development of the first phase of its proposed LNG export facility in Kitimat, BC. The LNGC Project is being constructed on a site owned by LNGC that was formerly occupied by Methanex Corporation. LNGC has selected JFJV as both EPC and prime contractor for the development of the LNGC Project. JFJV has full responsibility for the detailed engineering design of the LNGC Project, procurement of all equipment and materials necessary, and all construction activities to deliver a fully functioning facility to LNGC.¹²

In recent years, PNG has been providing natural gas service to LNGC primarily for space heating for existing buildings on the LNGC Project site at PNG's Small Commercial Sales Rate (RS2). PNG has had discussions with JFJV pertaining to the following three separate requests for natural gas service with respect to the LNGC Project:

- Temporary CNG Service: JFJV requested PNG provide natural gas service to the legacy buildings on the LNGC Project site for six months pending the completion of temporary construction facilities. In response, PNG filed an application with the BCUC seeking approval for a temporary CNG supply agreement with JFJV for the period between June 2019 to November 2019. On May 9, 2019, the BCUC approved the temporary supply agreement and the underlying supply agreements.¹³
- Construction period service: JFJV asked PNG to provide natural gas distribution service during the construction phase of the LNGC Project. On August 23, 2019, PNG applied to the BCUC for approval of:
 - a CPCN to design and construct a new let-down station with expected capital costs of approximately \$1.8 million to provide natural gas service to JFJV (LDS#2), and
 - a gas sales agreement with JFJV.

¹⁰ Exhibit A-3.

¹¹ Exhibit B-2.

¹² Ibid., p. 8.

¹³ Order G-101-19; Exhibit B-2, p. 9.

On September 25, 2019, the BCUC granted the requested CPCN and approved the underlying gas sales agreement.¹⁴ The LDS#2 station was completed in December 2019 and service to JFJV commenced in March 2020.¹⁵

- Post-construction service: The subject of this Application is JFJV's request for PNG to provide natural gas sales service for the LNGC Project administration and non-process related facilities. Pending BCUC approval of this Application, PNG will provide service under a GSA with JFJV, commencing late 2021. The GSA provides for firm natural gas sales service at PNG's Large Commercial Sales Rate (RS3) on a take-or-pay basis, with an underlying contract demand that ensures the full recovery of incremental capital and operating costs of providing service to JFJV over the 26-month primary term of the agreement.¹⁶

2.2 LDS#1 Project Need

JFJV has requested PNG supply post-construction distribution pressure natural gas sales service for the LNGC Project administration and non-process facilities, including new administrative offices, site control facilities, storage and warehouse facilities, workshop areas and employee amenities.¹⁷ PNG states that a new let down station (LDS#1) is required to provide the requested service.

Natural gas service is anticipated to commence in September 2021, in alignment with JFJV's requirements. The GSA has an initial primary service term of approximately 26 months, which is the projected time to complete construction of the first phase of the LNGC Project. Once construction of the LNGC Project is complete, JFJV will hand-off the facility to LNGC to operate. At this time, it is anticipated that the GSA will be assigned to LNGC, or that PNG will enter into a new contract with LNGC under terms that are the same or similar to those in the GSA. Service to LNGC is projected to be provided for the 20-year life of the LNGC facility.¹⁸

Panel Determination

The Panel finds that PNG has sufficiently demonstrated the need for LDS#1 to provide the service requested by JFJV for the LNGC Project administration and non-process facilities.

2.3 Project Description

LDS#1 will be constructed as a replacement for the pre-existing deactivated and largely demolished Methanex Station. The Project site is located on private property owned by LNGC. As part of the planning for this Project, the existing land agreement between PNG and LNGC has been replaced by a new statutory right of way. The station site is situated adjacent to Ocelot Road (an existing roadway) and as such, the station site can be easily accessed.¹⁹

The primary construction elements for LDS#1 include demolition of existing building and piping, pipe shop fabrication of a new station, site civil preparation, hot tap and isolation for tie in, and final commissioning. Project management and procurement activities will be led by PNG with the support of Lauren Services, PNG's primary engineering consultant.²⁰

¹⁴ Order C-3-19.

¹⁵ Exhibit B-2, p.9.

¹⁶ Ibid., p. 10.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid., p. 22.

²⁰ Exhibit B-2, p. 23.

Project construction is expected to commence in July 2021 following BCUC approvals and is expected to be complete before the in-service date of September 1, 2021.²¹

2.4 Project Alternatives

PNG states that there are no alternatives to the construction proposal for LDS#1 set out in this Application. While LDS#1 is intended to be built on the site of the legacy station owned by Methanex Corporation, refurbishment of the legacy facilities was not an option due to insufficiency of existing infrastructure from a process-support perspective. Specifically, PNG notes that the legacy station had previously been demolished such that only the building shell remained. As the building shell contains asbestos and lead materials, it could not be repurposed.²²

Further, PNG observed that the legacy station previously provided large volumes of natural gas to Methanex Corporation through a 10" high pressure pipe, while LDS#1 is only required to have a 1.5-inch to 2-inch high pressure inlet.²³ PNG determined that there were alternative approaches for piping to supply LDS#1 and engaged its engineering consultant, Lauren Services, to conduct a review of the following piping alternatives:

- **Option A:** Reuse of the existing 10-inch piping; and
- **Option B:** Removal of the 10-inch piping combined with hot tap installation and isolation work.²⁴

Based on the analysis presented by Lauren Services, PNG determined that re-use of the existing 10-inch piping (Option A) involves high safety and construction difficulty risks and will result in non-ideal operations and maintenance conditions for the life of the station. There are potential cost savings associated with Option A; however, if the integrity assessment of the 10-inch piping identifies unacceptable defects, the total cost will escalate significantly, approaching the combined cost of Option A and Option B.²⁵ Furthermore, if Option A is chosen, the engineering and integrity assessments would cause additional delays to the project greater than three weeks.²⁶ PNG determined Option B has a higher overall cost but considerably lower overall risk, with improvements to safety, maintenance and operability. Based on the assessment of the two options, PNG selected Option B (removal of the 10-inch piping combined with hot tap installation and isolation work) as the preferred option.²⁷

Panel Discussion

The Panel accepts that PNG has adequately explored alternatives for the proposed Project. The Panel is satisfied that, for safety reasons, reuse of the existing 10-inch piping is not feasible. We are therefore persuaded that, despite Option B being costlier than Option A, PNG has provided sufficient evidence to support Option B, removal and replacement of the 10-inch pipe, as the preferred approach.

2.5 LDS#1 Project Cost

PNG commissioned Lauren Services to provide a Class 3 cost estimate for LDS#1 with expected accuracy of +30%/-20%. This estimate was developed giving consideration to AACE International Recommended Practices

²¹ Ibid., p. 24.

²² Ibid, p. 12.

²³ Ibid.

²⁴ Exhibit B-2, Appendix E, p. 1.

²⁵ Ibid., p. 3.

²⁶ Exhibit B-3, BCUC IR 7.6.

²⁷ Exhibit B-2, Appendix E, p. 3.

Nos. 18R-97 and 97R-18 as guides.²⁸ The cost estimate of \$1.8 million includes a provision for contingencies of 15 percent, and demolition of the existing building and piping, pipe shop fabrication of the new station, site civil preparation, hot tap and isolation for tie-in and final commissioning.²⁹ The following table outlines the capital cost components of LDS#1:

Table 1: Capital Cost Components of LDS#1³⁰

Capital Component	Cost
Indirect:	
Engineering	\$ 132,000
Survey, Lands & Regulatory (BC OGC)	40,000
Internal Labour	18,000
	190,000
Direct:	
Construction - Mechanical Contractor	717,000
Materials	156,000
Construction - Hot Tap and Isolation	152,000
Construction - Management	44,000
Non-Destructive Examination	32,000
	1,101,000
Subtotal	1,291,000
Overhead (19%)	303,000
Subtotal including Overhead	1,594,000
Contingency (15%)	239,000
Total Capital Cost	\$ 1,833,000

PNG states that rate base items in the cost of service forecast include provisions for depreciation, taxes, capital cost allowance, interest and return on equity. These costs are estimated to be approximately \$161,000 annually over a 25-year analysis period that includes the primary service term with JFJV, an estimated service term of 20 years with LNGC and a residual 5-year period over which the remaining undepreciated plant balances are amortized after the expiry of the LNGC service term. PNG anticipates that as a newly constructed asset, annual operating costs are expected to be negligible. Operating costs are estimated to be approximately \$2,000 annually to cover meter reading, billing activities, fuel gas costs and property taxes.³¹

In addition to the GSA, PNG and JFJV have entered into a backstop arrangement to cover costs up to \$230,000 for preliminary engineering design, cost estimate, permitting, and planning for LDS#1. PNG and JFJV have also entered into a second backstop arrangement to cover costs up to \$210,000 for demolition and site preparation, and for procurement of long-lead materials for the service request.³²

²⁸ Exhibit B-2, p. 26.

²⁹ Ibid., pp. 23, 25.

³⁰ Exhibit B-3, p. 21.

³¹ Exhibit B-2, p. 26.

³² Ibid.; Exhibit B-1-1, Appendix I.

PNG submits that applying the Mains Extension Test³³ to JFJV's request for initial service and to LNGC's anticipated long-term service requirements indicates that sufficient margin would be realized from the contractual arrangements so that there is no requirement for a contribution in aid of construction.³⁴

Panel Discussion

The Panel is satisfied that PNG's cost estimates provide an appropriate level of detail, and that the contingency amounts are sufficient to include potential unanticipated changes in costs over the course of construction.

2.6 LDS#1 Project Benefits

According to the GSA, service will commence in September 2021 for an initial term of twenty-six months. During the initial term, the LDS#1 Project will generate an incremental margin with a net present value (NPV) of \$176,000. Additionally, as part of the GSA, JFJV has also requested interruptible natural gas supply commencing in September 2021 in order to meet anticipated initial gas supply needs at the commencement of the typical local heating season. Volumes are expected to ramp up in alignment with construction progression and building occupancy, eventually reaching full capacity in April 2022.³⁵ Therefore, PNG submits any additional revenues from interruptible service will benefit ratepayers.

Subsequently, service is anticipated to be required by LNGC on a long-term basis for the twenty-year estimated life of the LNGC Project. With this extended service term, PNG forecasts an incremental margin with a NPV of \$9.6 million and will provide further benefits to PNG's ratepayers.³⁶

2.6.1 Revenue from Gas Sales Agreement

JFJV has requested that PNG supply post-construction distribution pressure natural gas sales service at PNG's Large Commercial Sales Rate (RS3) on a take-or-pay basis for the LNGC Project administration and non-process facilities. Through this GSA, PNG has secured a guaranteed revenue stream over the term of the agreement.³⁷

2.7 LDS #1 Project Risk

2.7.1 Financial Risk

PNG provides a Class 3 cost estimate of \$1.8 million for the construction of LDS#1 which includes a fifteen percent contingency.³⁸ PNG submits that the financial risks associated with the construction and operation of LDS#1 are minimal and acceptable and have been mitigated via the development of detailed engineering, the Class 3 cost estimate, contractual arrangements and a competitive bidding process.³⁹ PNG states that, per the GSA, the tariff to be paid by JFJV and the minimum take-or-pay component to the contract demand are such

³³ The Mains Extension Test is a discounted cash flow evaluation that ensures the benefits of providing service exceed the costs, and where there is a shortfall, the Mains Extension Test identifies the customer contribution required to make up the shortfall.

³⁴ Exhibit B-2, p. 11

³⁵ Exhibit B-3, p. 2

³⁶ Exhibit B-2, pp. 1, 13, 14.

³⁷ *Ibid.*, p. 1.

³⁸ *Ibid.*, p. 26.

³⁹ *Ibid.*, p. 21.

that all capital and operating costs will be recovered and that these provisions eliminate the risk of stranded assets and ensure that there is no risk of adverse rate impacts to PNG’s other customers.⁴⁰

As described above, PNG has entered into backstop arrangements with JFJV. PNG states the risks of collectability of the funds as:

- 1) Bankruptcy of both parties to the GSA concurrently;
- 2) A breach of contract for non-payment; and
- 3) Termination of the LNGC Project.

PNG submits that the possibility of any of these events taking place is very low, as the JFJV partners are both subsidiaries of large international entities. Further, PNG perceives the risk of the LNGC Project not proceeding, which it describes as one of the largest energy investments in the history of Canada, as very low.⁴¹

2.7.2 Operational Risk

PNG states that LDS#1 will be constructed and operated to PNG’s existing standards for infrastructure of this nature. PNG states it has insurance coverage to protect against general business risks.⁴² PNG provides the following table summarizing the project construction risks and mitigating factors:

Table 2: Construction Risk Register⁴³

Risk	Mitigation
Paying above market rates due to contractor and material selection	Competitive bidding process.
Civil construction affected by soil conditions	Geotechnical report. Brownfield site with pre-existing civil works performed.
Site rework due to drawing discrepancies	Engineering and constructability reviews.
Schedule slip and site inefficiencies	3 rd party onsite full time supervision.
Underestimating of costs	Compiling information to a Class 3 Estimate including firm pricing on materials and competitive bidding on contractors. This information is inclusive of an occupational hygiene study for determination of hazardous material presence (lead, asbestos, mold) in legacy buildings and infrastructure, and the estimating of abatement and disposal costs.
Control of quality and works	Designed to maximize shop fabrication. Shop fabrication under prime contractor.

In addition, PNG states it recently completed construction of the Kitimat LDS#2 station project, which was completed on-time and under budget.⁴⁴

⁴⁰ Exhibit B-2, p. 20.

⁴¹ Exhibit B-3, BCUC IR 15.3.

⁴² Exhibit B-2, p. 20.

⁴³ Ibid., p. 21.

⁴⁴ Ibid., p. 2.

Panel Discussion

The Panel accepts that the Project risks have been adequately identified and is satisfied with PNG's mitigation plans.

2.8 Public Consultation and Support

The BCUC's CPCN Guidelines⁴⁵ state that, if an applicant is of the view that the application does not require consultation with First Nations, reasons supporting its conclusion must be provided to the BCUC. Further, an applicant should provide an overview of public consultation to date, including any issues raised and any future planned consultative activities.

PNG states that the proposed regulating station is a replacement of existing infrastructure and will be constructed on private property owned by LNGC. On this basis, PNG submits that no formal public consultation is required for the LDS#1 Project. PNG notes it has discussed the LDS#1 Project and this Application with the District of Kitimat, the municipality in which the LNGC Project is situated. The District of Kitimat has stated its support for PNG's Application and has issued a letter of support for the project.⁴⁶

PNG notes the construction of LDS#1 is to provide service in support of the construction of the LNGC Project, and LNGC has undertaken consultation activities with the Haisla Nation in whose territory the LNGC Project is located. PNG states the Haisla Nation has expressed its support for the LNGC Project in recognition of the benefits the Project will bring to its community. This support is evidenced through multiple press releases issued by LNGC.⁴⁷

Panel Discussion

The Panel accepts PNG's submissions with respect to consultation for the Project activities to date. The Panel notes there were no intervenors or letters of comment, and no objections to the Project were raised by the local first nation or the municipality.

2.9 Application of Section 46(3.1) of the UCA

As set out above, section 46(3.1) of the UCA requires the Panel to consider the most recent long term resource plan and the applicable of BC's energy objectives in reviewing the CPCN application. On October 31, 2019, PNG filed its 2019 Consolidated Resource Plan (2019 CRP) with the BCUC which was approved by Order G-265-20.⁴⁸ The construction of LDS#1 was identified in Section 7.3.3.1.1, PNG-West, of the 2019 CRP. In particular, PNG had noted LNG Canada has requested natural gas service from PNG for the to-be-constructed, permanent, non-process related facilities and that it had included the underlying demand in its long-term demand forecast.⁴⁹ PNG submits that the attributes of LDS#1 and the associated demand proposed in this Application remain generally consistent with the representations made in the 2019 CRP.⁵⁰

With regards to British Columbia's energy objectives, PNG states that of the *Clean Energy Act*, only objective (k) is relevant to proposed LDS#1. Objective (k) is "to encourage economic development and the creation and

⁴⁵ [Order G-20-15, 2015, Certificate of Public Convenience and Necessity Application Guidelines](#)

⁴⁶ Exhibit B-2, p. 27.

⁴⁷ Ibid.

⁴⁸ Decision and Order G-265-20 <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/487408/1/document.do>

⁴⁹ Exhibit B-2, p. 28; PNG 2019 CRP proceeding, Exhibit B-1, pp. 98-99.

⁵⁰ Ibid., pp. 28-29.

retention of jobs.”⁵¹ PNG states the construction of LDS#1 does indirectly support the provincial government’s desire to develop the LNG export market and to have LNG export facilities up and running in British Columbia. Further, LDS#1 indirectly supports the provincial government’s goals of creating investment, jobs, and new economic opportunities not only for the Kitimat region, but for the province as a whole.⁵²

Panel Discussion

The Panel is satisfied that the Application addresses the considerations under section 46(3.1) of the UCA. PNG has provided evidence the project supports the governments goals of creating jobs and economic opportunities in Kitimat and the province as a whole.

3.0 Gas Sales Agreement (GSA)

In this section, the Panel reviews the GSA pursuant to sections 59 to 61 of the UCA.

Pursuant to section 39 of the UCA, a public utility must provide service to all persons who apply for service. PNG states that JFJV has requested service for the LNGC Project.⁵³

Sections 59 to 61 of the UCA provide the framework for the BCUC to set rates. These sections of the UCA provide that rates must not be unjust or unreasonable, unduly discriminatory or unduly preferential. In addition to taking into account all matters that it considers proper and relevant affecting the rate, the BCUC must also have regard for the factors set out in section 60(1)(b) of the UCA including the encouragement of public utilities to increase efficiency, reduce costs and enhance performance.

PNG states that the revenue from the GSA will allow it to fully recover its costs over the initial 26-month term of the contract, and states that no contribution in aid of construction is required under its Mains Extension Test. Under the GSA, PNG will provide natural gas sales service on a minimum monthly take-or-pay commitment, thereby providing PNG with a guaranteed revenue stream over the 26-month term of the GSA.⁵⁴

The terms of the GSA provide firm natural gas sales service at PNG's Large Commercial Sales Rate (RS3) and allow provision for interruptible service in addition to the firm demand.⁵⁵

Panel Determination

The Panel notes that the revenue stream from the GSA is sufficient to ensure the full recovery of the incremental capital and operating costs of providing service to JFJV.

The Panel finds that the rate prescribed in the GSA is not unjust, unreasonable, unduly discriminatory or unduly preferential, and therefore meets the criteria set out in section 39 and sections 59 to 61 of the UCA.

⁵¹ Ibid., p. 28.

⁵² Exhibit B-2, p. 28.

⁵³ Exhibit B-1, p. 1.

⁵⁴ Exhibit B-1, p. 11.

⁵⁵ Ibid.

4.0 Panel Determinations

4.1 CPCN

Subject to and in accordance with the findings and determinations in this decision, the Panel finds that the public convenience and necessity require the construction of the proposed Project and it is in the public interest. Accordingly, the Panel issues PNG a CPCN for the design and construction of LDS#1.

4.1.1 Reporting

PNG is directed to file a final report within three months following the completion of the Project. The final report is to include a complete breakdown of the final costs and provide an explanation of all material cost variances.

4.2 Gas Sales Agreement

The Panel finds that the rate prescribed in the GSA is not unjust, unreasonable, unduly discriminatory or unduly preferential, and therefore meets the criteria set out in section 39 and sections 59 to 61 of the UCA.

The Panel accepts the GSA, as filed, for endorsement by the BCUC.