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Utilities Commission

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May 16, 2018

Sent via eFile

PNG & TRITON LNG LETTER AGREEMENT
EXHIBIT A-3

Ms. Janet P. Kennedy
Vice-President, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
2550 – 1066 West Hastings Street
Vancouver, BC V6E 3X2
jkennedy@png.ca

Re: Pacific Northern Gas Ltd. – Pacific Northern Gas Ltd. and Triton LNG Limited Partnership Letter Agreement Application – Information Request No. 1

Dear Ms. Kennedy:

Further to your filing of the Pacific Northern Gas Ltd. and Triton LNG Limited Partnership Letter Agreement Application dated April 9, 2018, please find enclosed British Columbia Utilities Commission Information Request No. 1. In accordance with the regulatory timetable, please file your responses electronically by June 1, 2018.

Sincerely,

Original signed by

Patrick Wruck
Commission Secretary

/jo
Enclosure
cc: Mr. Verlon G. Otto, CA
Director, Regulatory Affairs
Pacific Northern Gas Ltd.
votto@png.ca

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Pacific Northern Gas Ltd.
Pacific Northern Gas Ltd. and Triton LNG Limited Partnership Letter Agreement Application

INFORMATION REQUEST NO. 1 TO PNG

1.0 Reference: INITIAL CAPACITY
Exhibit B-1, Application, pp. 2–3, 5
Firm service volume – initial capacity

Pacific Northern Gas Ltd. (PNG) states on page 2 of the Application that "representatives of AltaGas formally approached PNG in July 2017 requesting information about the status of PNG's unutilized capacity with the intention of securing an option to contract all available capacity to Ridley Island, British Columbia."

PNG further states that it "advised AltaGas that it could provide approximately 20 MMcf/day of gas to Ridley Island using its existing mainline transmission assets."

PNG states on page 3 of the Application that it has agreed to provide Triton LNG Limited Partnership (Triton) with at least 20 MMcf/day of firm gas transportation service capacity (Initial Capacity), and that this represents the maximum capacity currently available to Ridley Island using existing facilities and "minimum additional capital investment" to supply this committed firm capacity.

1.1 Please explain if PNG has incurred any costs (capital or operating) to determine the amount of maximum available capacity (i.e. 20 MMcf/day) it is able to provide to Triton.

1.1.1 If yes, please provide a breakdown and description of these costs and explain how PNG intends to recover these costs.

1.2 Please provide a breakdown of the capital and operating and maintenance (O&M) costs required to supply the 20 MMcf/day of committed firm capacity to Triton.

1.2.1 As part of the above response, please distinguish between the O&M and capital costs (including the "minimum additional capital investment" referred to by PNG in the above preamble) required in order to begin providing the firm service to Triton, and the future ongoing capital and O&M costs required to provide this service.

1.2.2 Please explain how PNG proposes to recover the costs incurred to supply the Initial Capacity, including the "minimum additional capital investment," and explain why this proposed recovery method is appropriate.

1.3 Please explain how PNG determined it had a maximum available capacity of 20 MMcf/day.

1.4 Please discuss the likelihood that less capacity than the anticipated 20 MMcf/day will be available to supply to Triton.

1.5 In the event that the capacity demand exceeds the maximum available capacity, what impact would this have on Triton and on other existing customers? Please specifically explain how PNG would address a situation where a capacity issue occurs.

1.6 Please explain how PNG would address a situation where a new customer requested firm capacity service during the time period that PNG is providing the remaining available 20 MMcf/day of capacity service to Triton. Please explain the impact of this scenario on the potential new customer, on Triton and on existing customers.

1.7 Please provide a tabular and graphical representation of the monthly capacity demands (both firm and interruptible) of existing customers, the total contractible demand available and the total pipeline capacity under design year conditions.

PNG states on page 5 of the Application it considers that locking in its uncontracted firm service capacity to the Ridley Island service area for a minimum of 20 years to be reasonable.

1.8 Please discuss whether, under the proposed terms of the letter agreement entered into between PNG and Triton on March 29, 2018 (Letter Agreement), it is possible that Triton could elect to continue to receive service from PNG at the Initial Capacity for the duration of the 20-year agreement term.

1.8.1 If yes, please explain whether the 20-year commitment at the negotiated Unit Demand Charge would put PNG's existing customers at risk of having to fund system reinforcements within the contract term, and why such a situation would be fair to existing customers.

PNG further states on page 3 of the Application that its "existing system will also require recommissioning in various segments upstream all the way to Summit Lake, BC."

1.9 Please confirm, or explain otherwise, that recommissioning of the existing system as referred to in the above preamble would only occur under the Expanded Capacity scenario (i.e. if Triton agrees to contract for greater than 20 MMcf/day of firm capacity).

PNG states the following on page 5 of the Application:

> As noted in Exhibit A of the Letter Agreement, Triton will supply in kind to PNG the percentage of Company use gas required for the daily gas deliveries to Triton and currently estimated to be at most four percent. The four percent figure was sufficient when the PNG pipeline was operating at almost full capacity at the time Methanex's methanol facility was operating in the PNG service area. In other words, based on historical experience with a fully utilized pipeline, PNG is confident the quantity of Company use gas to be used by PNG to deliver gas to Triton will average at most approximately four percent of the total volume of gas delivered by PNG to Triton.

1.10 Aside from historical experience, please explain how PNG determined the four percent figure of Company use gas would be sufficient.

1.10.1 If no other analysis has been carried out, please explain why.

1.10.2 What is the probability that the percentage of Company use gas required to deliver gas to Triton will be greater than four percent?

2.0 Reference: FIRM TRANSPORTATION SERVICE RATE
Exhibit B-1, Application, pp. 2–5
Negotiated unit demand charge

PNG states on page 3 of the Application that Triton is a wholly-owned subsidiary of the AltaGas Idemitsu Joint Venture Limited Partnership.

On page 4 of the Application, PNG states: "PNG and Triton have agreed to a minimum unit demand charge for the Initial Capacity…"

2.1 Please confirm, or explain otherwise, that Triton is a related, or non-arm's length, party to PNG.

2.1.1 If confirmed, please explain how the BCUC can be satisfied that the rate negotiated with Triton is reasonable when compared to a rate which PNG were to negotiate with an unrelated third party.

PNG states the following on page 5 of the Application:

> PNG considers the proposed unit demand charge for PNG's existing initial capacity of 20 MMcf/day to be just and reasonable since, based on an internal analysis, the unit demand charge for the minimum 20 MMcf/day would result in lower tolls for existing customers. PNG also understands that the economic viability of a prospective LNG or methanol project at only 20 MMcf/day is very challenging and believes that Triton would prefer a higher delivery volume than PNG currently has available.

2.2 Please clarify if, based on the statements in the above preamble, the negotiated unit demand charge for PNG's existing Initial Capacity would not be considered reasonable if Triton were intending to continue to only contract for the Initial Capacity over the 20-year term of the agreement.

2.3 Please discuss whether, if Triton continued to contract for only the Initial Capacity over the 20-year agreement term, the additional costs incurred to maintain the system and to serve Triton would result in higher tolls for existing customers over the long term. Please fully explain all assumptions made when providing this response.

3.0 Reference: REQUIRED APPROVALS
Exhibit B-1, Application, p. 6
Letter Agreement

PNG states it is requesting the BCUC approve the Letter Agreement on the condition that if Triton exercises its option to contract for firm gas service, PNG will file a fully executed definitive firm gas transportation service agreement that is "materially the same as the agreement contemplated under the Letter Agreement."

3.1 Please clarify what PNG means by "materially the same."

3.2 Please discuss what potential non-material changes might be made to the fully executed firm gas transportation service agreement compared to the Letter Agreement.

3.3 In the event that a material change was made, please discuss how PNG would address this situation with the BCUC.

4.0 Reference: OPTION FEES
Exhibit B-1, Application, pp. 6–7
Calculation and treatment of option fees

4.1 Please explain how PNG determined the Initial Option Fee amount of $0.5 million and why this amount was considered appropriate.

4.2 Please explain how PNG determined the additional option fee amounts of $25,000 for each 1 MMcf/day of Expanded Capacity and why this amount was considered appropriate.

PNG states the following on page 7 of the Application:

> If the option is exercised, the Option Fees paid will be credited to transportation service demand charges as per the Transportation Agreement. If the option is not exercised,

PNG would keep the Option Fees and they would be available for use by PNG and its customers.

PNG is requesting to record the Option Fees received in an interest bearing deferral account for future disposition either as a credit to transportation service demand charges if the option is exercised or as a credit to customers if the option is not exercised.

4.3 Please explain why PNG considers it appropriate to accrue carrying charges on the deferral account at PNG's short-term interest rate. As part of this response, please explain why carrying charges based on PNG's Weighted Average Cost of Capital or its Weighted Average Cost of Debt are not more appropriate.

4.4 In the absence of an approved deferral account to record the Option Fees, how would PNG record these amounts for financial reporting purposes? Please provide the applicable US Generally Accepted Accounting Principles (GAAP) section(s) in support of this response.

4.4.1 As part of the above response, please explain why recording the Option Fees in accordance with US GAAP and without the use of a deferral account would not be more appropriate.