

REQUESTOR NAME: BCOAPO *et al.*
INFORMATION REQUEST ROUND NO: #1
TO: Pacific Northern Gas Ltd. (PNG)
DATE: July 12, 2018
APPLICATION NAME: Application for Approval of Letter Agreement
between Pacific Northern Gas Ltd. And Triton
LNG Limited Partnership

1.0 Reference: Exhibit B-2, BCUC IR 1.1.1.1 and BCUC IR 1.1.2.2

The first referenced IR response states:

PNG incurred approximately \$32,000 to develop the scope and update the re-activation costs for a potential major customer in the Prince Rupert area. The entire amount was incurred for costs related to a third-party engineering consultant. These costs were included in PNG's 2017 operating expenses.

The second referenced IR response states:

The proposed unit demand charge is sufficient to recover the costs to be incurred to supply the Initial Capacity, including the "minimum additional capital investment" as well as incremental margin that would reduce existing customer rates. Please also see the response to BCUC Confidential IR No. 1.1.1.

- 1.1 Is it PNG's evidence, position, or opinion, that the proposed unit demand charge will recover all costs related to the instant proposal, including the \$32,000 incurred in 2017 and any other previously incurred developmental costs, and still provide a reduction in the rates for existing customers?
- 1.2 Can PNG confirm that the "*potential major customer in the Prince Rupert area*" referred to in the first cited response is a third party, unrelated in any way to PNG, AltaGas, and/or Triton?

2.0 Reference: Exhibit B-1, Application, page 2

The referenced page states:

AltaGas Ltd. (AltaGas), PNG's parent company, has been collaborating with PNG since July 2015 to develop a business plan to utilize PNG's unutilized pipeline capacity. The collapse in global energy prices in 2014 caused many projects to be cancelled or delayed until markets returned to a more favorable situation which has been demonstrated to be the case in recent months. As a result, 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. The purpose of the request is to provide feedstock gas for the Proposed Project that would be collocated with AltaGas's existing propane export facility at the same location. AltaGas also indicated that commencement

of Transportation Service would be in the last quarter of 2020 or early 2021. PNG advised AltaGas that it could provide approximately 20 MMcf/day of gas to Ridley Island using its existing mainline transmission assets. AltaGas subsequently requested PNG to undertake investigative works to determine the feasibility and cost of delivering an additional 30 MMcf/day to Ridley Island for a potential total of approximately 50 MMcf/day of Transportation Service. PNG advised AltaGas that an expansion scenario would require engineering studies to determine pipeline looping and compressor facilities to meet the higher contract demands. It was subsequently acknowledged that the capital additions for the expansion scenarios would be significant in terms of both cost and scope having regard to the anticipated contract term of a minimum of 20 years. The parties then commenced to negotiate the terms noted on the Letter Agreement and also the terms for a pipeline capacity expansion study cost recovery backstop agreement (Backstop Agreement) (see Appendix B).

- 2.1 Has PNG ever (i) publicly announced that it has excess pipeline capacity and invited expressions of interest, binding or otherwise, from all potential takers, (ii) conducted an open season for bids on its excess capacity, or (iii) undertaken some similar activity in respect of excess pipeline capacity?
- 2.2 If the response to the preceding is negative, how has PNG established a benchmark with respect to prospective counterparties' willingness to pay for the subject capacity or to otherwise establish a "market price" for it?
- 2.3 Please explain how PNG has determined that the proposal is fair and provides the best value to ratepayers in respect of providing excess capacity to the counterparty prepared to bid the most for the capacity in question.
- 2.4 Is PNG convinced that no party other than Triton would be willing to accept the same terms and conditions, or from the perspective of PNG, better terms and conditions for the subject capacity? If so, please provide the basis for this conviction.

3.0 Reference: Exhibit B-2, BCUC IR 1.2.1.1

The referenced IR is reproduced below:

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.

Response:

PNG is very cognizant of its relationship with its parent company and has followed the principles of its Code of Conduct in its dealings with Triton. As such, PNG submits that the rate negotiated with Triton is reasonable and would be the same rate that would be negotiated with an unrelated third party. Please also see the response to the BCUC Confidential IR No. 1.1.1.

- 3.1 Would PNG be willing to revise or abandon this application if, prior to concluding the current proceeding, PNG became aware of a credible bid that was better than

the instant proposal – from the perspective of PNG alone – for the subject capacity?

4.0 Reference: Exhibit B1, Application, Stranded Costs

- 4.1 Has PNG ever applied for the recovery of stranded costs from ratepayers? If so, please provide a summary of all such instances.
- 4.2 To PNG's knowledge have either of the parties in the counterparty partnership ever entered into an agreement with a gas utility that subsequently resulted in utility stranded assets whose costs were attempted to be recovered from ratepayers? If so, please elaborate.