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Janet P. Kennedy
Vice President, Regulatory Affairs & Gas Supply

Via Web Upload and Courier

July 24, 2018

B.C. Utilities Commission
Suite 410 - 900 Howe Street
Vancouver, BC V6Z 2N3

File No.: 4.2.7 (2018)

Attention: Patrick Wruck
Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: Pacific Northern Gas Ltd.
Application for Approval of Letter Agreement between
Pacific Northern Gas Ltd. and Triton LNG Limited Partnership
Responses to BCOAPO Information Request No. 1

Accompanying, please find Pacific Northern Gas Ltd.'s responses to the referenced information requests uploaded to the Commission's website earlier today.

Ten printed copies of the responses will be distributed to the Commission's office by courier. Printed copies will be provided to other parties upon request only.

Please direct any questions regarding the application to my attention.

Yours truly,

J.P. Kennedy

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?

Response:

PNG submits that it prudently incurred the $32,000 in 2017 (which were included in PNG's 2017 operating expenses) to gather up to date information on the costs required to activate assets to provide the maximum available capacity to the Prince Rupert area in anticipation of future potential customer requests. PNG also submits that the proposed unit demand charge will recover all costs related to the instant proposal, including the $32,000 incurred in 2017, and still provide a reduction in the rates of existing customers. There are no "other previously incurred developmental costs" outside of time spent by internal resources.

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?

Response:

Confirmed. Given some uptick in market conditions for large industrial projects, PNG carried out very preliminary studies to update costs and schedules so that it could be in a position to be responsive to customer requests on system recommissioning to hubs on its system. PNG notes that for more specific requests that require new infrastructure at specific site locations, PNG would require a backstop agreement with the customers to fund any pre-FEED studies.

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?

Response:

PNG notes that prior to December 20, 2011, when PNG was a public company, PNG disclosed in its public documents (such as Annual Information Forms and Management's Discussion and Analysis) the availability of pipeline capacity on PNG's Western system as well as the status of projects that could potentially utilize the unutilized capacity. Subsequent to PNG's acquisition by AltaGas Ltd. in 2011, PNG became a non-public company and was not required to separately file public documents. However, PNG notes that information on PNG's unutilized capacity continues to be disclosed in AltaGas Ltd.'s public documents as evidenced in the following extract from page 46 of the AltaGas Ltd. 2017 Annual Information Form filed on SEDAR.

> In the Western System service area, there are few remaining candidates for conversion to natural gas in the existing building stock and limited opportunity remains to extend gas distribution into un-serviced rural areas. In previous years, PNG had a Gas Transportation Service Agreement with a customer to contract for 80 Mmcf/d of its existing capacity for a LNG project. The project was subsequently halted and this agreement was terminated in March 2016. PNG continues to seek potential new customers to take over the released capacity in its Western System.

PNG has not invited expressions of interest, binding or otherwise, from all potential takers nor conducted an open season for bids on its excess capacity nor 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?

Response:

As a public utility, PNG submits that customer rates are subject to a thorough regulatory review process and require Commission approval in accordance with the *Utilities Commission Act*. PNG also notes that the majority of requests for gas transportation service on PNG's system from potential new customers are addressed through currently approved tariffs. Any special contracts and tariff supplements may be negotiated by PNG and the customer and then submitted to the Commission for approval. PNG adheres to established rate principles and ensures that any proposed rates are just and reasonable.

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.

Response:

As noted in its Application, PNG had been collaborating with its parent company, AltaGas Ltd., to develop plans to utilize its excess capacity. Since July 2017, PNG and AltaGas (on behalf of Triton) formally commenced working on the current proposal for the utilization of PNG's excess capacity. Both parties worked in good faith to come up with a fair proposal that would also provide value to all PNG ratepayers. PNG also notes that at that time, there had been no other credible parties in communication with PNG 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.

Response:

PNG notes that it is contractually obligated to provide the subject capacity to Triton following months of working with Triton on a good faith basis and arriving at terms and conditions that were agreed upon by the two parties while ensuring that it would be beneficial to existing customers. PNG cannot definitively state that no other party would be willing to accept the same or better terms and conditions for the subject capacity. At the same time, PNG is very optimistic that the Triton project will be successful while PNG cannot make a determination if other parties have the ability to successfully complete their project.

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?

Response:

PNG submits that it would not be willing to revise or abandon this Application as PNG is under a legal contractual obligation to pursue this Application and to provide the noted capacity subject to Commission approval.

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.

Response:

PNG is only aware of one such instance of recovery of stranded costs and notes that in the 2005 Revenue Requirements Application, which underwent a Negotiated Settlement Process (and was approved under Commission Order G-120-05), the parties agreed that the costs of a propane air plant that was no longer utilized, less an amount of $165,000, would be recorded in an interest bearing deferral account to be amortized over ten years commencing in 2005.

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.

Response:

PNG has no knowledge of such a situation as described.