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

Sent via eFile and E-Mail

August 9, 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
PNG Information Request No. 1 to Western LNG on Western LNG Evidence Submission

Further to Western LNG LLC's filing of evidence dated July 31, 2018, regarding the referenced application, and in accordance with the Regulatory Timetable established in Order G-134-18, please find enclosed Pacific Northern Gas Ltd. Information Request No. 1.

Please direct any questions regarding the application to my attention.

Yours truly,

J.P. Kennedy

Enclosure
cc: Western LNG – Davis Thames
Western LNG – Keith Bergner (Lawson Lundell)
BCOAPO – Leigha Worth

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

PNG INFORMATION REQUEST NO. 1 TO WESTERN LNG ON EVIDENCE SUBMISSION

A. DIRECT EVIDENCE OF DAVIS THAMES ON BEHALF OF WESTERN LNG LLC

1.0 Reference: PROJECT DESCRIPTION
Exhibit C1-5, Page 7
Proposed project

In the evidence of Davis Thames, Western stated that:

> Western is prepared to share a full status report on those issues with the Commission on a confidential basis. Western would only be prepared to share full information relating to these issues with PNG if more robust and specific arrangements were established to ensure commercially sensitive information could not be shared with PNG's affiliate AltaGas and/or with Triton.

1.1 Please confirm that the Mutual Non-Disclosure Agreement (NDA) dated November 9, 2017 remains in place between PNG and Western.

1.2 Please provide the date at which each of the following project elements were completed in relation to the Western project, if at all.

- (i) Pre-FEED Design
- (ii) Risk Analysis
- (iii) Cost Estimate
- (iv) Environmental Plan
- (v) Stakeholder & First Nations Plan
- (vi) Project Schedule
- (vii) Design Basis Memorandum
- (viii) Project Economic Analysis

1.3 Please confirm that the Western management team's past experience does not include project development in the British Columbia environment. If its experience does include project development in the British Columbia environment, please provide detail of that experience.

1.4 Western describes its proposed project as an "initial development opportunity". Is Western considering potential alternatives to the project described in its evidence?

1.5 Please confirm the date when Mr. Thames made his first visit to British Columbia and the date when he made his first visit to the proposed project area.

1.6 Does Western agree that successful First Nations and other stakeholder engagement are critical factors in determining the success of a project?

1.7 Please outline the level of support that Western has secured for its project from interested stakeholders, including Indigenous groups that may be impacted by the project as well as provincial and federal authorities.

1.8 Please summarize the discussion that took place at Mr. Thames' first meeting with Haisla representatives which occurred in January 2018, and provide the requirements that were requested by the Haisla of Western to move its project forward.

1.9 Please provide an update on Western's subsequent and recent interactions with First Nations groups with whom Western would have to work to ensure a successful project.

1.10 Does Western agree that successful site/land acquisition is a critical factor in determining the success of a project?

1.11 Please confirm whether all of the sites being considered by Western for its project are on Haisla First Nations' territory and, if so, to what extent have the Haisla been engaged in the development of the project and what commitments, if any, have been made by the Haisla to Western in respect to the project.

1.12 Western has indicated that it has identified sites on the Douglas Channel for its proposed project and that all sites could be served by a "modest" extension of PNG's system from its terminus in Kitimat. Please provide the following details for each site under consideration:

(i) The distance from the terminus of PNG's service line in Kitimat to the site.

(ii) Western's estimate of the cost to construct an interconnecting pipeline from the terminus of PNG's service line in Kitimat to the site.

1.13 What other factors are critical in determining the success of the Western project?

1.14 Please outline the capital commitments Western has made to its project to date.

2.0 Reference: PROJECT DESCRIPTION
Exhibit C1-5, Page 9
Project financing

Mr. Thames provides the following information in his testimony:

> The timeline and discussion above makes it clear that from late 2017 or, at the latest, January 8, 2018, PNG had "two birds in the bush." Both Triton and Western were seeking an option on capacity (and Western was seeking substantially more capacity than Triton). With respect, Triton only became a "bird in the hand" after PNG chose to pursue and conclude an agreement with it first. PNG cannot unilaterally make this choice, and then invoke it as the reason the Commission should approve their option with Triton. PNG did not try to find out more about Western, the background of Western's management, or the financial capacity of Western's sponsor, prior to deciding to move forward with Triton. Western respects the impressive histories of Triton's owners and notes the substantial asset bases of both companies involved. But neither apparently controls Triton, and neither has apparently made a capital commitment to the project. With a little more due diligence, PNG would have discovered that Western's financial sponsor (Apollo) is a substantially larger company than both of Triton's sponsors combined and has access to much greater financial liquidity than either of them. In addition, Apollo is a long time investor in operating companies in Canada in various industries including the upstream sector. Western's President & CEO is well known in the LNG industry and has extensive experience in bringing an innovative LNG project to market successfully, considering the unusual aspect of integrating it into the liberalized North American gas market as opposed to the conventional "upstream monetization play". Western also could have introduced PNG to our relationship with Wison Offshore & Marine, the company that will build the liquefaction equipment for the project, and its business plan, which we think will allow Western to successfully address the unique needs of buyers in today's LNG market.

2.1 Please describe the relationship between Western and Apollo Global Capital Management (Apollo).

2.2 On what date did Western close its arrangements for financial sponsorship from Apollo?

2.3 What assurances has Western provided to Apollo regarding the viability of Western's proposed project?

2.4 What degree of confidence does Western have that Apollo is prepared to make to capital commitment necessary to fund construction of the project?

2.5 Please provide the terms under which Western would receive a capital commitment to fully fund construction of the project and what milestones must be met by Western to obtain funding for the project?

2.6 Would the capital commitment be binding such that Apollo cannot decide prior to the completion of the project to eliminate funding if the LNG market changes and the project is no longer determined to be viable?

2.7 With Apollo's sponsorship, is Western able to meet the credit requirements reproduced below, as stipulated per Exhibit A to the PNG-Triton Letter Agreement filed as Appendix A to Exhibit B-1 of this proceeding?

> "Credit Requirements: [•] (or affiliate or third party guarantor(s) which guarantee [•]'s obligations under the Transportation Agreement) has an investment grade rating for its unenhanced long term senior unsecured debt from any two recognized rating agencies. The minimum acceptable rating from each of the identified rating agencies is:
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> | | |
> |---|---|
> | Moody's | Baa3 or better |
> | S&P | BBB- or better |
> | DBRS | BBB (low) or better |
>
> or other equivalent rating from recognized rating agencies as reasonably determined by PNG, provided that, if [•]'s long term senior unsecured debt is not rated, [•] can be accepted as creditworthy if PNG determines in its reasonable judgment that, notwithstanding the absence of a rating, the financial position of [•] (or an affiliate or third party guarantor which guarantees [•]'s obligations under the Transportation Agreement) is equivalent to investment grade."

3.0 Reference: OPTION PAYMENTS
Exhibit C1-5
Option fees / option payments

Western states its understanding that PNG would both evaluate a proposed project to assess its feasibility and use the willingness of a project to pay option fees as criteria to identify the most likely potential customers for the capacity.

3.1 On December 15, 2017, Western advised that it was willing to negotiate an option agreement in connection with 70MMcf/d of capacity. Does Western consider being "willing to negotiate" the same as committing to enter into an agreement with an option payment to be made in advance of the final agreement?

3.2 Why was Western willing to bilaterally negotiate an option agreement with PNG if it is now of the view that such a process for negotiating an option agreement was not appropriate?

4.0 Reference: TRANSPORTATION CONTRACT TERMS
Exhibit C1-5, Page 6
Contract terms

In the evidence of Davis Thames, Western stated that:

> To confirm, Western would still be willing to enter into an agreement that is substantially similar to the agreement that this Commission approved between PNG and EDFT.

In response to BCUC IR 1.1.6, PNG states that "should a new customer require more capacity than is available on PNG's system at that time, PNG would review alternatives and prepare a proposal to provide service which may or may not require a contribution from the new customer. In this scenario, PNG expects that there would be no impact on Triton as their toll would be contractually fixed. For the potential new customer, either an existing rate or a new rate would be proposed, depending on the results of PNG's analysis."

In response to Western LNG IR 1.8.2, PNG states that "Given the increased interest in the expansion capacity on the mainline and PNG's current view of the complexity of the mainline expansion, PNG may need to consider other customer requests for future project expansion, not just the request of Western alone."

4.1 Does Western consider the toll approved for PNG and EDFT to be reasonable even though it was not developed via an open season process?

5.0 Reference: OPEN SEASON
Exhibit C1-5, Page 12
Open season process

The evidence of Mr. Thames included the following:

> “Q. Would Western be willing to participate in an open season for an option to determine the extent of interest in both the existing capacity on the PNG system and the potential demand for expanded capacity?
>
> A. Yes. Western believes that an open season process should be held that (i) enables PNG to gather greater market information and (ii) provides all market participants with an equal opportunity to vie for an option on PNG existing and/or expansion capacity.”

5.1 Based on the referenced evidence provided by Western, can it please confirm whether it is in a position to participate in a binding open season for existing transportation capacity at a Commission approved rate (in the same manner that, for example, TransCanada has open seasons for existing capacity at NEB approved transportation rates), or if it is only prepared to participate in an open season for an <u>option</u> on PNG’s capacity?

5.2 If the situation had been reversed, and PNG had been working with Western on contractual arrangements for a period of months and a third party like Triton came to PNG with an expression of interest in service, would Western have expected PNG to go to an open season for the available and expansion capacity?

B. DIRECT EVIDENCE OF DR. JEFFREY CHURCH

6.0 Reference: OPTION VALUE
Exhibit C1-5, Page 18
Determination of option value

In his evidence, Dr. Church provides the following example:

> PNG could be encouraged to explore flexible iterative processes that reveal the value of the option. For instance, a market indication of the value and risk of accessing the existing capacity could be created by having an auction for the option. If it is the case that project development is too costly and risky without access to transportation, as PNG claims, then allocation of the rights to "reserve uncontracted capacity" through an auction process would contribute to ensuring that the shippers with the highest value are identified and the value of both the option rights and some of the value of the capacity captured for existing shippers. It does not seem inconceivable or unworkable that PNG have an auction for the option of entering into a firm service transportation agreement where the auction involves establishing the price for an option on, for instance, 10 MMcf/day tranches of capacity, with 10 such tranches available. The length of the options and other conditions for each of the tranches would be standardized. This would allow for the existing 100 MMcf/day or so of capacity to be allocated efficiently across shippers: PNG would choose the allocation of the 100 MMcf/day that maximized its option revenues.

6.1 In the scenario provided, where an open season process is held for options on existing capacity, does Dr. Church agree that the transportation toll for the capacity that is being reserved should be known by the bidders?

6.1.1 If not, how does Dr. Church envision that the process would result in the greatest value being received for the existing capacity and how can the Commission be comfortable that the resulting transportation contracts, if any, would be in the public interest?

6.2 In Dr. Church's scenario where project developers bid for options on the transportation service, how would you ensure that the process would not be subject to a bait and switch tactic? That is, could a developer reserve capacity under an option for a period of time and then, after unsuccessful bidders have halted their development efforts, the successful bidder attempts to renegotiate the toll it has reserved?

6.2.1 Could this tactic result in discounts to the toll or significant delays in commencement of transportation service if the option process was reinitiated; either way resulting in a reduction of the value of the transportation capacity?

6.3 Does Dr. Church agree that one aspect of his proposed iterative process for allocating capacity should be to offer options on the existing capacity where:

(i) The first round of bids on options for transportation service has the transportation toll set at a non-discounted level (i.e. set using the Commission's normal rate making principles on a rolled-in basis); and

(ii) Only following the failure to receive binding bids on options for transportation service at the non-discounted toll should bids be sought for options on transportation service at discounted tolls?

6.4 As part of Dr. Church's iterative process, should the options be issued for relatively short periods of time (e.g. 6 months), with a new open season if the option is not exercised? Would this allow the capture of the greatest economic value?

6.5 Does Dr. Church agree that when evaluating long-term transportation contracts PNG and the Commission must take into account, as best possible, the ability of the shipper to pay its transportation tolls over the full term of the contract?

6.5.1 If yes, should unconditional guarantees be sought for both the option fee obligations and for the transportation service arrangements from creditworthy parties as part of the open season process?

6.5.2 If not, why not?