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September 5, 2019

Sent via email/eFile

PNG RECAP AND LARGE VOLUME INDUSTRIAL TRANSPORTATION RATE EXHIBIT A-4

Ms. Janet 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. – Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate – Project No. 1599023 – BCUC IR No. 1

Dear Ms. Kennedy:

Further to the above-noted application, enclosed please find British Columbia Utilities Commission Information Request No. 1. Please file your responses by no later than Thursday, October 17, 2019.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/jo
Enclosure
cc: votto@png.ca

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Pacific Northern Gas Ltd.
Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate

INFORMATION REQUEST NO. 1 TO PACIFIC NORTHERN GAS LTD.

Table of Contents

A. APPLICATION OVERVIEW

1.0 Reference: APPLICATION OVERVIEW
Exhibit 1, Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate (Application), p. 8
Multi-lateral process (MLP)

On page 8 of its Application, Pacific Northern Gas Ltd. (PNG) states the following with respect to the MLP launched in 2018:

> The Binding Letter Agreement process resulted in 6 parties participating and executing binding bids to reserve capacity on PNG's existing and proposed expansion pipeline totaling over 300 **MMCFD**. While PNG was encouraged by these results, PNG determined that it had not received sufficient requests for capacity to support the commencement of the Pre-FEED development work on a major expansion of its pipeline and therefore, on March 12, 2019, PNG terminated all the Binding Letter Agreements received from participants and thereby terminated the MLP. [emphasis added]

1.1 Please confirm if the term "MMCFD", emphasized in the preamble, is correct or explain otherwise.

1.2 Please elaborate on why the binding bids resulting from the MLP of 300 MMCFD were not considered adequate to continue with the MLP in relation to the firm capacity sought as part of the Reactivated Capacity Allocation Process (RECAP).

1.3 Please discuss if PNG sought BCUC approval for any component of the MLP. If not, please discuss why not, considering the approvals sought in the current Application.

2.0 Reference: APPLICATION OVERVIEW
Exhibit 1, pp. 1, 8, 10, 14; Appendix B
Capital

On page 1 of the Application's Executive Summary, PNG states:

> This demand could be in excess of the volume that can be accommodated with PNG's existing facilities, thereby indicating that PNG's capacity may need to be allocated and/or increased to the extent supported by market demand.

Further, PNG states that following the completion of the RECAP it plans to "… commence its project to reactivate transmission assets and recommission compressor stations required to return its transmission system to full design capacity (Reactivation Project)."

On page 8 of the Application, PNG states that the RECAP "… will not include capacity that would need to be developed by way of a major expansion. When the market conditions are right, PNG would reassess its plans to loop PNG's pipeline system."

Further on page 10, PNG states that it may seek further approvals pending the outcome of the RECAP, including:

> Certificates of Public Convenience and Necessity (CPCNs) for capital expenditures for reactivation, recommissioning and reinforcement of existing facilities or construction of new facilities required to provide service under the executed TSAs [Transportation Service Agreements]

On page 14 of the Application, PNG states that "In the event firm TSA's are executed, PNG will promptly file a CPCN for the required system upgrades necessary to deliver service."

The draft form Transportation Reservation Agreement (TRA) in Appendix B of the Application defines the Reactivation Project as follows:

> the reactivation of Transporter's existing deactivated facilities or expansion of Transporter's existing facilities, such expansion to consist of looping pipeline and additions and/or modifications to the existing pipeline's compression facilities, to increase Gas transportation capacity as required to provide incremental firm transportation service to the Delivery Point, as approved by the BCUC.

The draft form TSA defines the Reactivation Project to mean:

> The reactivation of Transporter's existing deactivated facilities or expansion of Transporter's existing facilities, such expansion to consist of looping pipeline and additions and/or modifications to the existing pipeline's compression facilities, to increase Gas transportation capacity as required to provide incremental firm transportation service to the Delivery Point, as approved by the BCUC;

2.1 Please reconcile the definition of the Reactivation Project that is included in the draft form TSA with the statement on page 8 of the Application that the RECAP "…will not include capacity that would need to be developed by way of a major expansion."

2.2 Please clarify if the potential capital requirements that may result from the RECAP only include reactivating, recommissioning and reinforcement of existing facilities or if new facilities may be required.

2.2.1 Please describe the circumstances under which new facilities may be required following

the RECAP process.

2.2.2 If new facilities are required as a result of the RECAP process, please discuss if PNG considers that the proposed Base Toll of $1.00/GJ will still be appropriate and why.

2.3 Please clarify if PNG will file a CPCN for all capital expenditures resulting from the RECAP under all possible scenarios. If there are certain scenarios resulting from the RECAP process whereby PNG would not file a CPCN before providing service to Shippers, please provide details.

On page 9 of the Application, PNG states that the current process "…will not include capacity that would need to be developed by way of a major expansion. When the market conditions are right, PNG would reassess its plans to loop PNG's pipeline system."

2.4 If PNG determines that an expansion of its existing facilities is required, please discuss the process that would be undertaken, including the required BCUC approvals, to achieve the expansion and the related timelines.

3.0 Reference: APPLICATION OVERVIEW
Exhibit 1, p. 5
Decommissioning costs

On page 5 of the Application, PNG describes the history of its unutilized capacity, including:

> With the closure of Methanex's methanol/ammonia facility in Kitimat in November 2005, PNG deactivated its compressor stations at Vanderhoof, Burns Lake, and Telkwa, as well as 85 kilometres of 10 inch pipeline. Since then, PNG also experienced the closure of West Fraser's paper mill in January 2010 and the loss of other industrial customers, and further de-activated 53 kilometres of 6 inch pipeline. These deactivated facilities have been partially maintained for potential future use and will be refurbished and reactivated as necessary to provide service after executing TSAs for the proposed Large Volume Industrial Transportation Service.

3.1 Please identify any costs that were incurred when the existing facilities were deactivated in 2005 and 2010, as described in the preamble.

3.1.1 Please describe how these costs are currently being treated in PNG's revenue requirements.

3.1.2 Please describe the impact of any changes to the treatment to these costs in PNG's revenue requirements following the RECAP process.

4.0 Reference: APPLICATION OVERVIEW
Exhibit B-1, Section 1.6, p. 9;
Application for Approval of Letter Agreement between Pacific Northern Gas Ltd. and Triton LNG Limited Partnership, Exhibit B-1, Section 2, p. 4.
Existing pipeline capacity

On Page 9 of the Application, PNG states:

> PNG expects the RECAP will result in binding TSAs or Transportation Reservation Agreements (TRA) for all the firm transportation capacity available to fully utilize PNG's existing facilities.

Further on the same page of the Application, PNG states:

> The estimated capital investment is expected to provide up to approximately 88

MMSCFD of contractible capacity, and roughly double the portion of contractible capacity deliverable to Prince Rupert to 50 MMSCFD.

On page 4 of the Application for Approval of Letter Agreement between PNG and Triton LNG Limited Partnership, PNG lists several new capital infrastructure investments that would be required to achieve a capacity of 50 MMSCFD from Terrace to Prince Rupert. These new capital infrastructure investments include a new compressor site at Salvus Camp. On the same page of the above-referenced application, PNG states, "A pre-FEED study and Class III cost estimate to assist in determining the feasibility of the project [increased capacity to Prince Rupert] will be developed."

4.1 Please clarify whether new infrastructure is required to meet the 50 MMSCFD capacity to Prince Rupert.

4.1.1 If so, please list and describe the new infrastructure which is required.

4.1.2 If not, please list and describe the reactivation and recommissioning activities that are required at existing facilities.

4.2 Please provide the current existing transmission capacity to each delivery point by completing the table below.

Table 1 - Transmission Capacity

Delivery Point	Current total pipeline transmission capacity (MMSCFD)	Natural gas firm demand in 2018 (MMSCFD)	Natural gas interruptible demand in 2018 (MMSCFD)	Available excess pipeline transmission capacity in 2018 (MMSCFD)
Summit Lake to Terrace				
Terrace to Kitimat				
Terrace to Prince Rupert				

4.3 Has the Pre Front-End Engineering and Design (FEED) study related to increasing the transmission capacity between Terrace and Prince Rupert been completed? If so, please provide.

5.0 Reference: APPLICATION OVERVIEW
Exhibit B-1, Section 1.6, p. 9
RECAP capital cost estimate and toll premiums

On page 9 of the Application, PNG states:

> Depending on the RECAP demands, and the requested delivery points, PNG has modeled the full extent of the capital costs for the reactivation recommissioning, and system reinforcement to be up to approximately $120 million. The activities include compressor rehabilitation, pipeline reactivation and system reinforcement.

Further on the same page of the Application, PNG states that "the size and specifics of the capital investment will be dependent on the RECAP demands and the toll premiums."

5.1 Please provide a breakdown of the capital costs for the various RECAP scenarios PNG has modeled.

5.2 Please list and describe the capital investments which are reliant on the value of toll premiums submitted by bidders.

5.2.1 If, following the conclusion of the proposed RECAP bidding process, the demand for capacity on PNG's transmission system is high and the value of the toll premiums submitted is low, are there some capital investments which may not proceed or be

considered cost effective?

5.3 Please provide additional details regarding the specific activities and costs that may be required to reinforce the pipeline system.

5.3.1 Please describe the factors that would determine the requirement for system reinforcement.

5.3.2 Under which potential RECAP scenarios are pipeline system reinforcements required? Please discuss.

6.0 Reference: APPLICATION OVERVIEW
Exhibit B-1, Section 1, pp. 3, 9, 31
Benefits and risks

Further on page 9 of the Application, PNG states, "In addition to reducing pipeline capacity constraints, investment in system reinforcement has the benefit of improving the reliability and resiliency of the overall pipeline system."

6.1 Please elaborate on how various RECAP scenarios will improve the reliability and resiliency of the overall pipeline system.

6.1.1 Are there any cost savings achieved because of improved reliability and resiliency?

6.1.1.1 If so, please provide additional details regarding the cost savings.

6.1.1.2 If so, please confirm whether these cost savings have been included in PNG's supporting financial analysis provided in confidential Exhibit B-2.

On page 31 of the Application, PNG states:

> PNG also submits that there is no identifiable financial risk to PNG and its existing ratepayers in undertaking the Reactivation Project as the Base Toll (new Rate Schedule 80 – Large Volume Industrial Transportation Tariff) has been designed so that all capital and operating costs are recovered from prospective shippers, thereby eliminating the risk of asset stranding and ensuring that there are negligible rate impacts on PNG's other ratepayers. In fact, PNG expects significant rate reductions to existing ratepayers.

6.2 Please clarify if the rate impact to PNG's existing ratepayer following the RECAP is expected to be negligible or significant.

6.3 Are there any financial risks to PNG and its existing ratepayers resulting from project schedule delays? If so, please describe.

B. REACTIVATED CAPACITY ALLOCATION PROCESS

7.0 Reference: REACTIVATED CAPACITY ALLOCATION PROCESS
Exhibit B-1, pp. 13–14
Evaluation of bids

On page 13 of the Application PNG states, "PNG intends to evaluate bids using a net present value (NPV) approach. The criteria outlined in Section 2.2 will be used as the basis for determining each bid's NPV."

Further on page 13, PNG states, "The NPV will also be adjusted for the bidder's credit quality. Bids seeking a TRA will be further discounted by a constant factor to account for the uncertainty of revenue from parties entering into TRAs relative to parties making a firm commitment under TSAs."

7.1 Please provide an example of a bid evaluation NPV analysis that will be performed in an excel spreadsheet and provide details of all inputs and assumptions used.

7.2 Please describe the methodology by which PNG plans to adjust the NPV analysis for each of the bidders' credit quality and TRAs and provide an example of each.

7.3 Please discuss any risks associated with accepting bids for reservation capacity (i.e. TRAs) and how PNG plans to mitigate those risks.

On page 14 of the Application, PNG states that "If volumes and Toll Premiums justify a system reinforcement project, PNG will notify bidders of the requirement to post security (either through its credit rating or Letter of Credit) for their pro rata share of the total capital costs of the project."

7.1 Please clarify if PNG will require the security requirements to be met regardless of whether the requested capacity and toll premiums justify a system reinforcement project. If not, please discuss the differences between the security requirements under the two scenarios (i.e. system reinforcement project required versus not required).

7.2 Please clarify how the credit rating and letter of credit will be connected to the amount of the Shipper's pro rata share of the total capital costs.

7.2.1 Specifically, will the amount of the letter of credit or the minimum acceptable rating change based on the amount of the pro rata share of the total capital costs? Please discuss.

On page 14 of its Application, PNG states:

> There are ranges of potential capital cost and operating expense outcomes depending on the amount of contracted capacity and the delivery point (whether at Terrace, Prince Rupert or Kitimat). The Bid Value methodology distinguishes between projects that, on a stand-alone basis, require PNG to incur different levels of capital investment and operating costs. PNG will incorporate the capital costs and operating expenses associated with the bid in the determination of the Bid Value.

7.3 Please describe how PNG will determine the amount of capital costs attributable to each bid, both for those bids that require capital expenditures on a stand-alone basis and those that require capital expenditures to satisfy demand from multiple bidders.

7.4 If the RECAP results in executed TRAs and there are required capital costs associated with providing service to those Shippers, please discuss if PNG would be required to incur the related capital costs prior to those Shippers exercising their option under the TRA and entering an executed TSA.

7.4.1 If the answer to the preceding Information Request (IR) is yes, please describe how PNG plans to account for such capital costs in its revenue requirements and how they would be recovered if the related TRA does not result in an executed TSA.

On page 14 of its Application, PNG describes the process for ranking of bids and determining the winning bids.

7.5 Please discuss if there are any other factors that PNG will consider in determining the ranking of bids and the winning bids, beyond the Bid Value, security requirements and timelines. Specifically, will PNG consider the compatibility of the capital requirements for different bids in relation to each other? Please discuss.

8.0 Reference: REACTIVATED CAPACITY ALLOCATION PROCESS

Exhibit B-1, pp. 11, 14, 29
Timelines and consultation

On page 14 of its Application, PNG states that following the selecting of winning bidder(s), "PNG will then apply to the BCUC for approval of the executed TSAs and TRAs. In the event firm TSA's are executed, PNG will promptly file a CPCN for the required system upgrades necessary to deliver service."

On page 29 of the Application, PNG states:

> The Reactivation Project will entail significant work on engineering, permitting, and First Nations and stakeholder engagement and consultation prior to construction and recommissioning. PNG plans to seek BCUC approval for its Reactivation Project through a CPCN Application following the execution of TSAs.

8.1 Has PNG canvassed potential shippers to discuss the timelines for the approvals and consultation that may be required in relation to the capital facilities following from the RECAP process? If so, please discuss the impact that any delays or lengthy processes are expected to have on the outcome of the RECAP.

On page 11 of the Application, PNG states that the expected completion date for the RECAP is during the first quarter (Q1) of 2020.

8.2 Please provide an updated timeline for the commencement and completion of the RECAP.

8.3 Please discuss PNG's plan and timeline for engagement and consultation with potentially affected communities and indigenous nations regarding the Reactivation Project.

8.3.1 For any consultation that has taken place to date, please describe the position taken by the parties and identify any issues that have been raised.

8.3.2 Please discuss if there are the risks to the Reactivation Project and PNG's ratepayers if an affected community and/or indigenous nation were to oppose part, or all, of the Reactivation Project.

8.3.2.1 If so, please describe the risks and how they could be mitigated.

8.4 Please provide an updated timeline for the Reactivation Project.

9.0 Reference: REACTIVATED CAPACITY ALLOCATION PROCESS
Exhibit B-1, Appendix A, p. 4
Bid document and bid form

Page 4 of the draft RECAP Bid Document and Bid Form states:

> Differences in Bid Values for firm transportation service and Bid Values for reservation capacity will likely reflect a marked advantage to parties with projects of greater certainty who are prepared to enter into firm TSAs. However, an investment grade party seeking reservation capacity and submitting a substantial Toll Premium has an opportunity to generate a higher Bid Value than a noninvestment grade party seeking firm transportation service with no Toll Premium.

9.1 Please discuss the circumstances under which PNG would accept a bid from a non-investment grade party, the risks associated with this and how PNG would propose to mitigate such a risk.

C. TRANSPORTATION SERVICE AGREEMENT

10.0 Reference: TRANSPORTATION SERVICE AGREEMENT
Exhibit B-1, Appendix B, Section 1.1, p. 2
Definitions

The draft form TSA defines, "General Terms and Conditions" to mean "Transporter's General Terms and Conditions – Industrial Transportation Service, as filed with or otherwise approved by the BCUC and in effect **from time** and initially to be in the form of the General Terms and Conditions attached hereto as Schedule "C". [emphasis added]

10.1 Please clarify if the definition included in the preamble should be amended as follows:

> "General Terms and Conditions" means Transporter's General Terms and Conditions – Industrial Transportation Service, as filed with or otherwise approved by the BCUC and in effect from time to time and initially to be in the form of the General Terms and Conditions attached hereto as Schedule "C"

The draft form TSA defines the Commencement Date to mean "the later of: (i) the first day after PNG has completed the Reactivation Project, as required to provide firm transportation service for the Shipper Contracted Capacity; or (ii) the Shipper Service Request Date."

10.2 Please discuss any issues and risks if the completion date of the Reactivation Project is delayed beyond the Shipper Service Request date and how PNG plans to mitigate these issues/risks.

11.0 Reference: TRANSPORTATION SERVICE AGREEMENT
Exhibit B-1, Appendix B, p. 2, Sections 4.4, 4.5; Appendix I, p. 11
Conditions precedent

11.1 Please elaborate on the reasons for the changes to the Conditions Precedent Section as compared to previously approved TSAs.

Section 4.4 and 4.5 of the draft form TSA relates to Conditions Precedent. Section 4.4 (a) (i) reads as follows:

> a) Transporter may advance, in its reasonable discretion, the Reactivation Project from the Effective Date, but shall have no obligation to complete the Reactivation Project, or perform the Service, until satisfaction, or waiver in Transporter's sole discretion, of the conditions precedent set out below:
>
> (i) approval by the BCUC of the terms of this Agreement, on terms, including conditions, if any, satisfactory to Transporter, acting reasonably, on or before [date TBD];
>
> (ii) receipt by Transporter of all Permits on terms acceptable to Transporter, acting reasonably, on or before [date TBD]; and
>
> (iii) execution by Transporter, in its sole discretion, of all necessary agreements, including right-of-way and related land access agreements, required for construction and operation of the Reactivation Project, on terms acceptable to Transporter, acting reasonably, on or before [date TBD].

Page 11 of Appendix I sets out an indicative timeline for the Reactivation Project.

11.2 Please discuss how and when the dates to be inserted in section 4.4 will be determined.

11.3 Please discuss if PNG intends on consulting with the British Columbia Utilities Commission (BCUC) regarding the date by which approval of any TSAs is required, pursuant to section 4.4 (a) (i) of the draft form TRA.

11.4 Please discuss if there would be any issues with excluding the date in Condition Precedent (i) in Section 4.4 (a) of the draft form TRA.

Page 2 of the draft form TSA states that "Permits" means "all licences, permits, approvals and authorizations granted or issued by any Authorities as are necessary or may be desirable to construct, own, commission, and operate the Reactivation Project, and perform the Service;"

11.5 Please discuss the permits that will be required for the Reactivation Project and their associated lead times.

11.5.1 Please explain whether the timeline on page 11 of Appendix I takes into consideration all the permits required for the Reactivation Project.

11.5.2 When does PNG plan to apply for these permits, and when does PNG anticipate that these permits might be granted? Please discuss.

11.5.3 If any permit approvals are delayed or denied, please describe the risks to PNG and its existing ratepayers and how PNG plans to mitigate these risks.

11.6 Please confirm, or explain otherwise, that Permits would include a CPCN approval, if required.

11.6.1 If confirmed, please discuss if PNG intends on consulting with the BCUC regarding the date by which approval of a CPCN is required.

11.6.2 Please discuss if there would be any issues with excluding the date in Condition Precedent (ii) in section 4.4 (a) of the draft form TRA.

11.7 What are PNG's expected timelines to achieve the Conditions Precedent?

11.7.1 Please discuss if there are any risks associated with delays in achieving the Conditions Precedent and how PNG intends on mitigating these risks.

Section 4.5 of the draft form TSA relates to Failure to Achieve Conditions Precedent and states that, in the event that the Conditions Precedent outlined in Section 4.4 of the draft form TRA is not satisfied or waived, "…as the sole and exclusive remedy of Shipper therefor, Transporter shall be responsible for all costs incurred by Transporter with respect to the Reactivation Project, which costs Transporter would intend to recover from existing customers subject to requisite approvals from the BCUC, and there shall be no further obligations between the Parties."

11.8 Please identify when PNG would expect to seek approval to recover any costs associated with the Reactivation Project from existing customers, pursuant to section 4.5 of the TRA draft form.

11.9 Please explain why PNG considers it appropriate to recover any costs incurred in relation to the Reactivation Project that are incurred before the Conditions Precedents are satisfied from its existing customers, pursuant to section 4.5 of the draft form TRA.

11.10 Does PNG have a potential range of costs that it may seek to recover from existing ratepayers under section 4.5 of the draft form TSA? If yes, please provide details. If not, please explain why not.

12.0 Reference: TRANSPORTATION SERVICE AGREEMENT
Exhibit B-1, Appendix B, Section 6.1
Confidentiality

12.1 Please elaborate on the reasons for the additions to the Confidentiality section of the draft form TSA, as compared to previously approved TSAs.

Section 6.1 of the draft form TRA addresses No Disclosure Without Consent and states that the no disclosure period is as follows:

> …at any time during the period commencing on the Effective Date and expiring on the 5th anniversary of the Effective Date in connection with the transaction contemplated herein and clearly designated at the time of such communications as confidential or proprietary, without the Non-disclosing Party's prior written consent to such disclosure.

12.2 Please clarify if the toll premiums will be held confidential in accordance with the terms of Section 6.1 of the draft form TRA or if this information will be publicly available.

12.2.1 If toll premiums become public and there are a variety of different toll premiums for different shippers taking the same or similar service under Rate Schedule (RS) 80, please discuss if there are any issues or risk associated with this and how PNG proposes to mitigate these issues/risks.

13.0 Reference: TRANSPORTATION SERVICE AGREEMENT
Exhibit B-1, Appendix B, Section 8.2, p. 10; Appendix E, Article 19.1, p. 19
Permitted assignments

Section 8.2 of the draft TSA states:

> 8.2 Permitted Assignments -
>
> (a) By Transporter - Transporter, without obtaining any approvals or consents from Shipper, shall have the right to assign its rights and obligations, or parts thereof, under this Agreement to any Person, provided that such Person owns and operates the Pipeline and agrees in writing to be bound by all of the terms and conditions of this Agreement.
>
> (b) By Shipper - Notwithstanding the provisions of Section 8.1, Shipper may assign all, but not less than all, of its rights and obligations under this Agreement to an Affiliate, provided however, Shipper shall not be released of its obligations under this Agreement, unless: (i) prior to such assignment such Affiliate enters into an agreement directly with the Transporter under this Agreement under which such Affiliate agrees to assume, perform and observe the Shipper's obligations under this Agreement; (ii) such Affiliate is at least equal to the creditworthiness of the Shipper, in Transporter's reasonable determination; and (iii) any Credit Support or
>
> Guarantee currently provided by or on behalf of the Shipper is also provided by or on behalf of such Affiliate.

Article 19.1 of the General Terms and Conditions states:

> 19.1 Each Service Agreement that adopts these General Terms and Conditions shall also agree to or have articles such that:
>
> […]
>
> (b) Either party may assign its rights under a Service Agreement subject to the written consent of the nonassigning party, such consent not to be unreasonably withheld.

13.1 Will the Transporter and/or Shipper be required to seek approval from the BCUC prior to assigning rights under Section 8.2 of the TSA and/or Article 19.1 of the General Terms and

Conditions? If not, why not?

14.0 Reference: TRANSPORTATION SERVICE AGREEMENT
Exhibit B-1, Appendix B, Article 9.2, p. 12; Appendix D, Article 8.2, p. 9; Appendix E, Schedule A, Section 15, p. 23.
Dispute resolution

Article 9.2 of the Draft TSA, Article 8.2 of the Draft TRA, and section 15 of Schedule A of the General Terms and Conditions (GTC) essentially state that all disputes arising out of the Draft TSA, Draft TRA and Guarantees shall be resolved by legal proceedings through the British Columbia courts system, and that such courts shall be the exclusive forum for resolving any dispute or controversy.

14.1 Please discuss why PNG has not included any arbitration and alternate dispute resolution processes in the Draft TSA, Draft TRA and Draft GTCs.

D. TRANSPORTATION RESERVATION AGREEMENT

15.0 Reference: TRANSPORTATION RESERVATION AGREEMENT
Exhibit B-1, p. 14
Reservation fee

On page 14 of the Application, PNG states "…TRAs will be required to make a cash payment of the first year's reservation fee. The reservation fee is a minimum of $25,000 per MMSCFD and will increase by a factor linked to the Toll Premium submitted."

15.1 Please discuss how PNG determined that the reservation fee of a minimum of $25,000 per MMSCFD is appropriate.

15.1.1 Please clarify how the reservation fee will increase by a factor linked to the toll premium.

16.0 Reference: TRANSPORTATION RESERVATION AGREEMENT
Exhibit B-1, Appendix D, Article 3.3, p. 4
Option period

Article 3.3 of the Draft TRA states:

> 3.3 Option Period – Subject to early termination of this Agreement in accordance with its terms, the "Option Period" shall commence on the Effective Date and expire on the date that is twelve (12) months following the Effective Date; provided that, Shipper may elect to extend the Option Period by extension periods of six months each, provided further that the relevant extension period expires by a date that is not less than twenty-four (24) months prior to the Shipper Service Request Date, by notifying Transporter of such extension prior to expiration of the initial Option Period, or each permitted six months extension thereof, as applicable, and paying Transporter of $ a fee equal to half of the Initial Reservation Fee for each such permitted six-months extension (each a "Reservation Extension Fee").

16.1 Please clarify if the phrase taken from Section 3.3 should be re-worded as follows:

"and paying Transporter ~~of $~~ a fee equal to half of the Initial Reservation Fee."

E. GENERAL TERMS AND CONDITIONS

17.0 Reference: GENERAL TERMS AND CONDITIONS

Exhibit B-1, Appendix B; Appendix E
Applicability

17.1 Please clarify if the GTCs for Industrial Transportation Service apply to any current or future PNG customers other than those taking service under Rate Schedule 80 (RS 80) and if any changes to the GTCs proposed in the Application will be applicable to those customers.

18.0 Reference: GENERAL TERMS AND CONDITIONS
Exhibit B-1, Appendix B; Appendix E
Termination

Section 4.1 of the draft form TRA (Appendix B) defines the Term as follows:

> The term of this Agreement shall be from the Effective Date until the end of the Primary Term, plus any extension effected pursuant to Section 4.2, unless this Agreement is terminated earlier in accordance with Section 4.5 or the General Terms and Conditions.

The GTCs for Industrial Transportation Service (Appendix E) define the Early Termination Charge as follows:

> An amount equal to the net present value of all future Demand Charges multiplied by the Shipper's Contracted Capacity from the date of termination until the end of the Primary Term using a discount rate equal to the Transporter's Weighted Average Cost of Capital as at the date of termination

Article 16 of the GTCs include Article 16 related to Default and Termination.

18.1 Please discuss why the termination provisions are included in the GTCs rather than the draft form TRA and identify any risks associated with this.

18.2 Please clarify the difference between a Shipper Default and a Critical Shipper Default under the GTCs, provide an example of each and summarize the remedies that PNG would have under each scenario.

19.0 Reference: GENERAL TERMS AND CONDITIONS
Exhibit B-1, Appendix E, p. 2, Section 17.2, 17.6, 17.7, 17.8; Exhibit B-1, p. 18
Credit requirements

Section 17.2 of the GTCs states:

> Shipper understands and agrees that at any time after the Effective Date, Shipper or, if applicable, its Guarantor ceases to be Creditworthy, Shipper shall provide to Transporter the requisite additional Credit Support within five (5) Business Days of the Shipper or, if applicable its Guarantor, ceasing to be Creditworthy.

On page 18 of the Application, PNG states:

> PNG has made a few modifications to the previously approved GTCs. Many of the changes have been made to provide clarity or are administrative in nature. PNG provides a summary of key changes below.
>
> i. Article 1 – Definition of Credit Support: this has been simplified to require an approved Letter of Credit for an amount equal to 3 months of the Shipper's anticipated monthly toll charges as credit support in the event that the Shipper has a Minimum Acceptable Rating or 12 months in the event that the Shipper

does not have the Minimum Acceptable Rating.

ii. Article 1 – Definition of Minimum Acceptable Rating – has been modified from "Baa2" to "Baa3" for Moody's ratings and from "BBB" to "BBB(low)" for DBRS ratings to reflect a lower acceptable credit rating.

iii. Article 1 – Definition of Transporter's Weighted Average Cost of Capital (WACC) – the formula has been adjusted from an after-tax WACC to a pre-tax WACC to correct for the proper discount rate to be used in determining the Early Termination Charge.

19.1 Please explain the rationale for reducing the minimum acceptable rating and credit support requirements in the GTCs.

19.2 Please discuss if there are any risks associated with a party that is not Creditworthy providing 12 months of monthly toll charges as credit support, for an agreement that spans a minimum of 20 years. Further, please explain how PNG proposes to mitigate these risks.

19.3 Please discuss how PNG will ensure that existing ratepayers are protected from any increased credit risk exposure due to changes highlighted in the preamble above.

19.4 Please discuss the rationale for changing the definition of the Transporter's Weighted Average Cost of Capital (WACC) from after-tax WACC to a pre-tax WACC and implications of the same.

Section 17.6 of the GTCs states:

> Shipper and, if applicable, Guarantor shall furnish to Transporter, as soon as available, and, in any event, within one hundred and twenty (120) days after the end of each fiscal year of both of Shipper and guarantor, its audited consolidated financial statements setting forth in comparative form the corresponding figures of the preceding fiscal year together with an auditor's report thereon. In the event no audited consolidated financial statements are available, Shipper and, if applicable, Guarantor shall furnish unaudited consolidated financial statements certified by an authorized officer of Shipper and, if applicable, Guarantor.

19.5 Please discuss if there are any risks associated with accepting unaudited financial statements under Section 17.6 of the GTCs and how PNG proposes to mitigate these risks.

Section 17.7 of the GTCs states:

> Shipper and, if applicable, Shipper's Guarantor shall give immediate notice to Transporter of the occurrence of any of the following events: (i) a credit rating downgrade; (ii) a negative change in credit outlook; or (iii) notification from a recognized rating agency that Shipper or Shipper's Guarantor will be placed on credit watch status. For the purposes of this Section 17.7, "change" shall include a pending or threatened change

19.6 Please describe any activities PNG will undertake itself to monitor the creditworthiness of the Shippers.

Section 17.8 of the revised GTCs reads as follows:

> Notwithstanding the provisions of this Article 17, the credit requirements may be subject to more extensive conditions to support the development and construction, by Transporter, of required additional facilities for Transporter to meet its obligations to provide Service to Shipper under the Service Agreement. Such more extensive credit

requirements, if any, will be specified by Transporter to Shipper following either agreement between Shipper and Transporter, or as directed by the BCUC. Such credit requirements may include the requirement for an Approved Letter of Credit not to exceed Shipper's pro rata share of the cost of the required additional facilities.

19.7 Please discuss the specific circumstances under which PNG would require an Approved Letter of Credit up to the amount of the Shipper's pro rata share of the cost of the required additional facilities.

19.8 Section 17.8 of the revised GTCs state that the more extensive conditions may be "as directed by the BCUC." Please discuss if there are any issues associated with the BCUC directing the parties to provide an Approved Letter of Credit up to the amount of the pro rata share of the cost of the required facilities. Specifically, please discuss if PNG expects that this would result in any impact on the outcome of the RECAP.

Page 2 of the GTCs, states:

> **"Credit Support"** means an Approved Letter of Credit for an amount equal to twelve (12), or if the Shipper or its Guarantor is Creditworthy three (3), times the Shipper's anticipated monthly toll charges, as determined by Transporter in its reasonable discretion, **<u>or alternate forms of credit enhancement</u>**, determined by Transporter in its sole discretion, providing at least an equivalent level of security to Transporter hereunder; [emphasis added]

19.9 Please discuss what other alternative forms of credit enhancement can be considered as equivalent level of security as highlighted in the preamble above.

19.10 Please explain under what conditions will PNG accept alternative forms of credit support/enhancement from the Shippers or its Guarantor.

F. NEW LARGE VOLUME INDUSTRIAL TRANSPORTATION RATE

20.0 Reference: RATE SCHEDULE 80
Exhibit B-1, p. 20; Appendix G
Rate setting methodology

On page 20 of its Application PNG submits that:

> …fixing the initial rate for a defined term provides Rate Schedule 80 customers a fair toll for service, regardless of their commencement date. This approach will minimize any advantage or disadvantage related to the timing of a bidder's project. Under PNG's current methodology of allocating revenue deficits and surpluses on the basis of normalized margins, not fixing Rate Schedule 80 during the period described could result in an unfair outcome by allocating a portion of revenues from new RECAP TSA and thereby reducing the margin requirements from shippers in this customer classification.

20.1 Please elaborate on why PNG considers it appropriate to minimize any advantage or disadvantage related to the timing of a bidder's project, considering that PNG's rates for other existing or new customers may increase or decrease during the same timeframe.

20.2 Given PNG's current rate setting methodology described above, please describe how the rate benefits resulting from the RECAP process will impact different classes of service, depending on their relative margins.

20.3 Please elaborate on how not fixing RS 80 (Appendix G) before the last service commencement

date may result in an unfair outcome and provide an illustrative example.

20.4 The proposed RS 80 (Appendix G) does not include a fixed charge. Please discuss why PNG has not proposed a fixed charge for RS 80.

21.0 Reference: RATE SCHEDULE 80
Exhibit B-1, pp. 20, 22, 23
Historical rates for industrial transportation customers

On page 22 of the Application PNG states the following with respect to historical rates:

> Historically, each of PNG's industrial transportation customers had a different negotiated rate for firm service. Looking back at 2002, prior to PNG and Methanex negotiating a load retention rate, there were four large industrial customers with contract demands ranging from 1.1 MMSCFD to 57 MMSCFD and with firm transportation rates, at that time, ranging from $1.1447/GJ to $1.2642/GJ. PNG also had approximately 6 small industrial firm transportation customers with delivery rates ranging from $1.2850/GJ to $1.4254/GJ, and the interruptible transportation rate at that time was $1.3826/GJ.
>
> In the decision on PNG's 2002 Revenue Requirements Application, the BCUC approved the negotiated load retention rate of $0.50/GJ for Methanex for a contract demand of 57 MMSCFD following years of negotiations between the parties. The BCUC also approved that the revenue reduction from Methanex be borne by all other ratepayers.

21.1 Please provide the following information for each of 2002, 2004 and 2019: residential delivery rates, total cost of service and industrial transportation rates (for those not already provided on page 22 of the Application).

21.2 Please clarify the meaning of a "load retention rate" in the context of the rate negotiated for Methanex and approved by the BCUC in 2002.

On page 23 of the Application PNG states that "Under the previously approved TSAs for its unutilized capacity of approximately 80 MMSCFD, the toll was negotiated and approved at $0.50/GJ and subject to certain provisions for inflation adjustments (see Section 1.3)."

21.3 Please confirm, or explain otherwise, that the $0.50/GJ toll referenced in the above preamble relates to the LNG Partners LLC Term Sheet approved by Order G-174-08.

21.4 For each of Methanex, West Fraser and LNG Partners LLC, please provide the actual or forecast capital expenditures, if any, that were required to provide service to these parties.

On page 20 of the Application PNG states "To support the RECAP, PNG proposes a single common toll (referred to as the Base Toll in the RECAP) so that parties participating in the process pay a rate that is fair, reasonable, and not unduly discriminatory nor unduly preferential for the service provided and that is also considered to be economically viable and competitive for shippers."

Further on page 22 of the Application, PNG states that currently, it has "only one firm large industrial transportation customer, Rio Tinto Alcan, as well as one interruptible large industrial transportation customers, BC Hydro."

21.5 Please provide the rate schedule and existing rates for the service provided to PNG's other large industrial customers, British Columbia Hydro and Power Authority (BC Hydro) and Rio Tinto Alcan.

21.5.1 Please elaborate on why the proposed RS 80 Base Toll of $1.00/GJ is just, reasonable, and not unduly discriminatory nor unduly preferential for the service provided, with consideration of the existing rates charged to PNG's other large industrial customers.

21.6 Please discuss both the similarities and differences between the service that will be provided to Shippers under RS 80 and the service provided to PNG's other industrial transportation customers, BC Hydro and Rio Tinto Alcan.

21.6.1 Please provide the annual volume for each of PNG's existing industrial transportation customers and explain if these customers also have long-term transportation service agreements with PNG.

21.7 Please discuss if PNG's existing large industrial customers could request service under RS 80.

On page 20 of its Application, PNG states it "… does not have an existing common large industrial transportation rate schedule for industrial customers since, historically, industrial transportation customers have negotiated different rates with PNG under their respective TSAs. These industrial customers' TSAs have all been approved by the BCUC."

21.8 Please elaborate on why PNG considers a common Base Toll to be appropriate for the current RECAP process as opposed to negotiating different rates for each Shipper.

22.0 Reference: RATE SCHEDULE 80
Exhibit B-1, pp. 1, 20, 21, 27
Fixed rate

On page 20 of its Application PNG states:

> Due to the uncertainty of the outcome of the RECAP, and due to the various in-service dates expected for bidder's projects, PNG is proposing that the initial rate of $1.00/GJ remain fixed until the calendar year following the last Service Commencement Date of all the bidders that have or could receive capacity via the RECAP. PNG expects that in the calendar year following the last Service Commencement Date of such bidders, the Rate Schedule 80 toll would become a rolled-in toll that would then be subject to periodic changes following the BCUC's review and approval.

Further on page 1 of the Application, PNG states:

> Parties with an advanced project may submit binding bids for firm transportation service and parties with projects at an earlier stage of its development lifecycle will be able to bid for reservation of capacity.

22.1 Please discuss any potential risks associated with PNG's proposal to fix the Base Toll of $1.00/GJ until the last Service Commencement Date of all Shippers.

22.2 Please provide details regarding how the incremental revenue and costs associated with providing service under RS 80 will be treated in PNG's annual revenue requirements before RS 80 becomes a rolled-in toll.

22.2.1 Please describe any alternative treatments to account for the revenue and incremental costs before the last service commencement date that were considered by PNG and why these alternatives were ultimately not selected.

22.3 Please clarify or otherwise explain if the last Service Commencement Date for all bidders (i.e. parties with an advanced project and parties with projects at an earlier stage of its development

lifecycle that reserve transportation capacity) will be considered to determine the date when RS 80 toll would become a rolled-in toll.

22.3.1 If yes, please confirm how far into the future a party that has a project in early stages of development can reserve transportation capacity.

22.3.2 Please provide an estimate of the maximum amount of time between the RECAP process and the last Service Commencement Date.

On page 27 of the Application, PNG describes several circumstances under which the Large Volume Industrial Deferral Account (LVIDA) may be applied, including the following:

> If unexpected capital expenses (e.g. for system reliability) are incurred in the initial years of new shipper contracts when Schedule 80 rates are fixed and are not on a rolled-in basis, the LVIDA could be applied to alleviate the impact of this unexpected capital requirement.

22.4 Please clarify the impact that the scenario outlined above would have on PNG's revenue and cost of service as they factor into its revenue requirements.

On page 21 of the Application, PNG states that in setting the Base Toll it has taken into consideration the following, amongst other things:

> The capital requirements to reactivate PNG's pipeline assets and to recommission its compressor stations to operate the pipeline at full capacity, as well as the potential requirement to incur costs to reinforce the pipeline systems when it is at full capacity.

22.5 If the actual capital or other costs required to provide service to Shippers under RS 80 exceed those currently forecast, would PNG consider it appropriate to increase the Base Toll of $1.00/GJ by an amount more than the general rate increases as determined in the revenue requirements applications? Please discuss why or why not.

23.0 Reference: RATE SCHEDULE 80
Exhibit B-1, p. 21
Justification of proposed new toll

On page 21 of the Application PNG states that it has considered several factors in setting the Base Toll, including the following principles set out in the *Utilities Commission Act* (UCA):

- Not demand or receive an unjust, unreasonable, unduly discriminatory or unduly preferential rate. (s. 59)
- Segregate the various kinds of service into distinct classes of service. (s. 60)
- Set rates that are just and reasonable so they are not:
  - More than a fair and reasonable charge for service of the nature and quality provided by the utility,
  - Insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or
  - Unjust and unreasonable for any other reason. (s. 59)

23.1 Please discuss how PNG's rate setting principles for large industrial customers, including the

proposed treatment for Shippers taking service under RS 80, is aligned with the principle to segregate various kinds of service into distinct classes of service.

23.2 Please discuss how the proposed RS 80 Base Toll of $1.00/GJ, as compared to the rates paid by PNG's other customers, is aligned with the principles outlined in section 59 of the UCA.

24.0 Reference: RATE SCHEDULE 80
Exhibit B-1, p. 23
Competitive rate

On page 23 of the Application, PNG states the following with respect to the MLP process:

> During the MLP, PNG held various meetings and discussions and provided a list of common questions and answers to interested parties. PNG also indicated that the combined single toll would be in the range of $1.25/GJ to $1.50/GJ… At the time, PNG did not receive indications that this combined reactivation and expansion toll would be uneconomical for the prospective bidder's projects. Based on the outcome of the MLP, PNG submits that the proposed Base Toll of $1.00/GJ for large volume industrial transportation customers represents a competitive and economic toll that is not considered excessive by bidders for the service to be provided.

24.1 Please elaborate on why PNG has proposed a Base Toll of $1.00/GJ for RS 80, given that the prospective Shippers did not indicate that a toll in the range of $1.25/GJ to $1.50/GJ would be uneconomical.

24.2 From a quantitative perspective, please discuss how PNG arrived at the specific rate of $1.00/GJ as opposed to some other figure.

24.3 Did PNG consider any alternatives to the proposed $1.00/GJ Base Toll? If yes, please provide details of the alternatives considered and ultimately why they were not selected. If no, please discuss why not.

25.0 Reference: RATE SCHEDULE 80
Exhibit B-1, pp. 25, 29
Interruptible charge

On page 29 of the Application, PNG states:

> PNG will offer interruptible service in excess of the Shipper's Contracted Capacity when available and subject to interruption and curtailment at PNG's discretion. PNG is proposing a Large Volume Industrial Transportation Interruptible rate that is set at the 100% load factor toll proposed for Rate Schedule 80.

On page 25 of the Application PNG states it "… will consider amending this interruptible charge in the future once it has the benefit of operating experience following the RECAP."

Both the RS 80 demand charge (i.e. Base Toll) of $1.00/GJ and the interruptible charge are included in Schedule B Form of Toll Schedule of the draft form TSA.

25.1 Please describe the basis for the interruptible rate and how it was determined.

25.2 Please explain how PNG proposes to account for the interruptible rate in its revenue requirements.

25.3 Please discuss if PNG would also consider amending the RS 80 demand charge of $1.00/GJ once it has the benefit of operating experience following the RECAP, similar to the proposal for the

interruptible charge. If yes, please explain the circumstances under which PNG would consider this. If no, please explain why not.

25.4 Please clarify if PNG is requesting approval of a separate rate schedule for the Large Volume Industrial Transportation Interruptible Rate or if this rate is only found in the draft form TSA.

25.5 Please discuss if any of PNG's existing large industrial customers taking service under existing rate schedules could request a similar Large Volume Industrial Transportation Rate of $1.00/GJ.

26.0 Reference: TOLL PREMIUM
Exhibit B-1, Section 8, p. 26
Toll premium

On page 26 of the Application, PNG states:

> In the RECAP, parties will have the option and opportunity to bid a Toll Premium over the Base Toll for firm transportation service or to reserve for capacity on PNG's pipeline system. Taking this option to bid a Toll Premium would enhance a bidder's opportunity to be selected as one of the winning bidders in the RECAP. PNG proposes that the Toll Premium remain fixed for the duration of the contract term and any contract renewals.

Section 59 (1)(a) of the UCA states, "A public utility must not make, demand or receive an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia."

26.1 Please explain how the toll premium, if any, will be accounted for in PNG's revenue requirements.

26.2 Please clarify and explain if the toll premium will be included in the proposed LVIDA deferral account.

26.3 Under a scenario where the RECAP process results in Shippers paying different rates for the same service because of the Toll Premiums, please explain or clarify why the proposed toll premium methodology does not lead to rates that are unduly discriminatory or unduly preferential.

26.4 Please clarify whether there could be a situation where different toll premiums for different shippers taking the same or similar service under RS 80 are selected.

G. LARGE VOLUME INDUSTRIAL DEFERRAL ACCOUNT

27.0 Reference: LARGE VOLUME INDUSTRIAL DEFERRAL ACCOUNT
Exhibit B-1, pp. 1, 17, 27–28
Description and justification

PNG is seeking approval in the Application to create a new deferral account, the LVIDA, as described on pages 27 and 28.

27.1 Please explain why PNG is seeking approval of the LVIDA at this time rather than after the outcome of the RECAP is known.

27.2 Please clarify if PNG would continue with the Reactivation Project if the proposed deferral account is not approved and discuss why or why not.

27.3 Please discuss if there are any issues with intergenerational equity over the long term, resulting from the proposed deferral account treatment.

On page 1 of the Application, PNG describes one of the objectives of the RECAP on page to be "Benefit existing ratepayers through lower rates."

27.4 Please discuss if there are any circumstances under which the LVIDA would eliminate the benefit of lower rates to existing ratepayers for a period of time.

On page 27 of the Application, PNG states, "Pending the outcome of the RECAP, PNG plans to record a portion of the revenues to be received from the contracted shippers executing TSAs as well as all the reservation fees to be received from potential shippers that execute TRAs into [the LVIDA]."

On page 17 of the Application, PNG states, "If the option is exercised during the option period, [reservation] fees will be credited to the demand charges payable under the TSA in equal pro-rated amounts over the first 24 full calendar months following the Service Commencement Date under the TSA."

27.5 Please clarify what revenues will be received from the contracted shippers executing TSAs pending the outcome of the RECAP.

27.6 Please discuss if there are any administrative issues with recording the reservation fees in the same account as a portion of the revenues, given that the reservation fees will be credited to demand charges if an option under a TRA is exercised.

On page 27 of the Application, PNG describes the intent of the LVIDA, as follows:

- manage the inherent uncertainty related to the RECAP outcome
- avoid volatility in customer rates by systematically managing expected rate decreases
- have the ability to avoid rate shock as contracts eventually expire, and
- provide flexibility to manage any unforeseen circumstances that may arise in the future.

27.7 Please describe the uncertainties related to the RECAP outcome that are referred to on page 27 of the Application and discuss on how the LVIDA will manage these uncertainties.

27.8 With respect to avoiding volatility in customer rates as referenced on page 27 of the Application, please clarify if this refers to volatility related to Shippers taking service under RS 80 or volatility under any circumstances.

27.9 With respect to the flexibility to manage unforeseen circumstances as referenced on page 27 of the Application, please clarify if this refers to unforeseen circumstances related to Shippers taking service under RS 80 or any unforeseen circumstances that may impact PNG and its rates.

On page 27 of the Application, PNG states, "The contract term will likely be shorter (ranging between 20 and approximately 40 years) than the depreciable life of the assets (approximately 60 years) which will misalign the timing between the collection of revenues from the contracts and the associated cost of service."

27.10 Please provide the useful life for the Reactivation Project Assets.

27.11 Please clarify if PNG proposes to use a depreciation rate for the Reactivation Project assets in its revenue requirement based on the contract term, the useful life of the assets or some other method and explain why.

27.11.1 Please provide the depreciation rate that PNG proposes to use in its revenue requirements for the Reactivation Project assets.

27.12 Please discuss if PNG would consider using a depreciation rate for the Reactivation Project assets in its revenue requirement based on the contract term and explain why or why not.

27.13 Please discuss if PNG uses a depreciation rate based on agreement terms for any other assets in its revenue requirements.

27.14 Please confirm if PNG is seeking approval of any depreciation rates in the Application.

On page 27 of the Application, PNG states, "If unexpected capital expenses (e.g. for system reliability) are incurred in the initial years of new shipper contracts when Schedule 80 rates are fixed and are not on a rolled-in basis, the LVIDA could be applied to alleviate the impact of this unexpected capital requirement."

27.15 Please describe the unexpected capital expenses that may be required and the likelihood that they will be incurred.

28.0 Reference: LARGE VOLUME INDUSTRIAL DEFERRAL ACCOUNT
Exhibit B-1, p. 28
Amortization

On page 28 of the Application, PNG states the following with respect to the amortization of the LVIDA:

- The amortization of this account would be to the benefit of existing ratepayers and would not apply to Rate Schedule 80 customers.

- Dependent on the outcome of the RECAP, PNG will propose a methodology for amortizing the LVIDA, taking into account the benefits of rate smoothing and the length of time where there is direct value related to the item being amortized. PNG will amortize the LVIDA to the benefit of ratepayers.

28.1 Please clarify if PNG expects to set an amortization methodology for the life of the LVIDA or if the proposal is for an amortization method that may change over time depending on the circumstances.

29.0 Reference: LARGE VOLUME INDUSTRIAL DEFERRAL ACCOUNT
Exhibit B-1, pp. 27–28
Alternatives

On page 27 of the Application, PNG describes several examples of how the LVIDA may be applied, including:

> Capital requirements to allow PNG to have sufficient capacity to meet RECAP demand will depend on the outcome of the allocation process. The contract term will likely be shorter (ranging between 20 and approximately 40 years) than the depreciable life of the assets (approximately 60 years) which will misalign the timing between the collection of revenues from the contracts and the associated cost of service. This misalignment could result in future rate shock if the financial contribution from Rate Schedule 80 shipper(s) ceases at the end of their contract before the related rate base is fully recovered. In other words, the remaining customer classes will be adversely affected by the departure of Rate Schedule 80 shipper(s) at the end of their contract life. The LVIDA would be applied for the benefit of ratepayers to help smooth rates and mitigate the likely potential of rate shock.

On page 28 of the Application, PNG states:

> PNG plans to record a portion of the revenues to be collected from Rate Schedule 80 shippers, which includes both the Base Toll as well as the Toll Premium, in the LVIDA. At this time, PNG cannot state what portion of the revenues would be included in the LVIDA. Following the completion of the RECAP, PNG will assess the expected net benefits that can be attributed to existing ratepayers. PNG will design the resultant rate decreases in a manner that does not create future rate volatility.

29.1 Please identify any alternatives to the proposed deferral account treatment that were considered by PNG to reduce rate volatility resulting from the RECAP and discuss why these alternatives were not selected.

29.1.1 Specifically, please discuss if PNG considered amortizing the assets related to the RECAP over the contract term (i.e. 20–40 years) as an alternative to the LVIDA.

H. REACTIVATION PROJECT DEVELOPMENT COSTS

30.0 Reference: REACTIVATION PROJECT DEVELOPMENT COSTS
Exhibit B-1, p. 29
Timeline

On page 29 of the Application, PNG states, "… for PNG to be ready to reactivate its pipeline system on expedited timelines to meet expected customers' Commercial Operations Dates (CODs), it is prudent to begin the engineering, permitting and consultation processes for the initial works in late 2019 or early 2020 (post-RECAP and prior to obtaining CPCN approval)."

30.1 Please provide an updated timeline for engineering, permitting and consultation processes work with a breakdown of the expected commencement date for each activity.

31.0 Reference: REACTIVATION PROJECT DEVELOPMENT COSTS
Exhibit B-1, Section 10.2, p. 29
Scope of front-end engineering and design work

On page 29 of the Application, PNG states:

> PNG submits that it is prudent to maintain progress on the engineering, permitting, and First Nations relations for its Reactivation Project. PNG is therefore seeking approval to establish a rate base deferral account to record Front-End Engineering and Design work for the initial works (estimated at $1 million) which will be required to deliver capacity for the early stage projects.

31.1 Please provide a breakdown of the $1 million in costs for each activity: 1) FEED work, 2) Permitting, and 3) First Nations relations and any other relevant cost categories.

31.1.1 Please provide a description of the scope of work to be undertaken as part of the FEED work.

31.1.2 Please explain whether the $1 million estimate is enough to complete the FEED work.

32.0 Reference: REACTIVATION PROJECT DEVELOPMENT COSTS
Exhibit B-1, Section 10.2, p. 29
Deferral account for preliminary engineering and permitting

On page 29 of the Application, PNG states:

> PNG submits that it is prudent to maintain progress on the engineering, permitting, and First Nations relations for its Reactivation Project. PNG is therefore seeking approval to establish a rate base deferral account to record Front-End Engineering and Design work for the initial works (estimated at $1 million) which will be required to deliver capacity for the early stage projects. If projects have delayed COD's or prospective shippers do not sign TSA's following the RECAP, PNG submits that this work will be used and useful for several years for future projects and reactivation scenarios. By initiating expenditures in late 2019, PNG believes it could save six to nine months on the schedule for the Reactivation Project.

32.1 Please provide the term (i.e. length of time) of the proposed deferral account including the rationale for the term.

32.2 In the absence of the proposed deferral account under the current scenario, please discuss how PNG would typically account for the $1 million in costs related to the initial works.

32.2.1 Please clarify if PNG would continue with the Reactivation Project if the proposed deferral account is not approved and discuss why or why not.

32.3 Please clarify whether the proposed deferral account is intended to capture additions for a specific period of time or an ongoing basis.

32.4 Please discuss how the balance in the proposed deferral account will be recovered if the RECAP is successful. In your response, please provide details of the timeline of the recovery and the rationale for the proposed recovery mechanism.

32.4.1 If the RECAP is not successful, how does PNG propose to recover these costs? In the response, please provide details of the timeline of the recovery and the rationale for the proposed recovery mechanism.

On page 29 of its Application, PNG states, "[i]f projects have delayed COD's or prospective shippers do not sign TSA's following the RECAP, PNG submits that this work will be used and useful for several years for future projects and reactivation scenarios."

32.5 Please clarify the expected number of years that the work described in Section 10 of the Application will be used and useful for.

32.6 Please discuss the likelihood that future projects will have the same specifications (i.e. number of customers, delivery points etc.) as the Reactivation Project and the initial works will therefore be used and useful for future projects.