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September 13, 2019

Sent via email

PNG KITIMAT REGULATING STATION
LDS#2 CPCN EXHIBIT A-2

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

Re: Pacific Northern Gas Ltd. – Application for a Certificate of Public Convenience and Necessity for the Construction of Kitimat Regulating Station LDS#2 – Project No. 1599034 – Staff Questions No. 1

Dear Ms. Kennedy:

Further to your application dated August 23, 2019, please find enclosed British Columbia Utilities Commission Staff Questions No. 1. Please file your response as soon as practicable, or by no later than **Friday, September 27, 2019.**

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/dc

cc: votto@png.ca



Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity
for Construction of Kitimat Regulating Station LDS#2

STAFF QUESTIONS NO. 1 TO PACIFIC NORTHERN GAS LTD.

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A. PROJECT NEED, ALTERNATIVES AND JUSTIFICATION

**1.0 Reference: CONTRACT DEMAND
Exhibit B-1, Section 2.1, 2.2.1 & 2.2.2, pp. 6-8.
Sizing of LDS#2**

On page 6 of Pacific Northern Gas Ltd.’s (PNG) application for a Certificate of Public Convenience and Necessity for construction of Kitimat Regulating Station LDS#2 (Application), PNG states:

In recent years, PNG has been providing natural gas service to LNGC primarily for the purpose of space heating for existing buildings on the site at PNG’s Small Commercial Sales Rate (RS2).

On page 7 of the Application, PNG states:

As noted in Schedule A to the GSA, firm annual contract demand at commencement date is approximately 385 GJ/day, ramping up to a firm annual contract demand of approximately 865 GJ/day effective November 1, 2020 and for the duration of the primary term.

On page 8 of the Application, PNG states:

Section 5.6 of the GSA also includes a provision for PNG to provide natural gas sales service to JFJV for demand that is in excess of the contracted firm demand on an interruptible basis, at PNG’s sole discretion, as may be required.

- 1.1 Please explain how PNG is currently providing service to the LNG Canada liquefied natural gas export facility (LNGC). In your response, please provide an overview of the service provided, the peak capacity of the station serving LNGC (GJ/day) and the buildings currently being served.
- 1.2 Please provide the design capacity and the maximum capacity of the proposed LDS#2 (GJ/day).
 - 1.2.1 Please provide details on the basis for selecting the design capacity of LDS#2, including a comparison of the design capacity with the expected demand from JGC Fluor BC LNG Joint Venture (JFJV) and any other customers that LDS#2 is expected to serve.

- 1.3 Please confirm whether regulating station LDS#2 is the only investment required to supply JFJV under the gas sales agreement (GSA). If not confirmed, please elaborate on any additional capital costs required.

**2.0 Reference: PROJECT ALTERNATIVES
Exhibit B-1, Section 2.3, p. 8.
Project Alternatives**

On page 8 of the Application, PNG states:

While LDS#2 will replace an existing regulating station, refurbishment of existing facilities is not an option due to insufficiency of existing infrastructure from a process-support perspective.

- 2.1 Please expand further on the refurbishment alternative, providing the following: (i) a description of the project scope, including the age of the infrastructure to be refurbished; (ii) costs; (iii) benefits; and (iv) associated risks.

**3.0 Reference: PROJECT JUSTIFICATION
Exhibit B-1, Section 2.4.1, pp. 8, 9.
Relocating LDS#2**

PNG states on page 8 of the Application that “[t]here is an initial primary service term of approximately 4.5 years, which is the projected time to complete construction of the first phase of the LNGC Project.”

On page 9 of the Application, PNG states “LDS#2 has been designed such that it can be used for future purposes at this site or can be relocated to meet needs elsewhere within the PNG system.”

- 3.1 Please describe the design elements included which allow LDS#2 to be repurposed in the future.
 - 3.1.1 Please provide the incremental costs of these design elements.
 - 3.1.2 Please describe which elements of LDS#2 PNG will be able to relocate
 - 3.1.3 Please provide the value of the LDS#2 system that can be relocated.
- 3.2 Please discuss how PNG anticipates relocating and reusing LDS#2, in the event that it is no longer used and useful at the project site.

**4.0 Reference: PROJECT NEED AND JUSTIFICATION
Exhibit B-1, Section 2.4.1, p.9
Weighted Average Cost of Capital**

On page 9 of the Application, PNG states the “pre-tax weighted-average cost of capital for the PNG-West service area of 8.96% has been applied to the NPV [net present value] analysis.”

- 4.1 Please confirm, or explain otherwise, that 8.96 percent is PNG-West’s most recent pre-tax weighted-average cost of capital (WACC).
 - 4.1.1 If not confirmed, please provide PNG-West’s most recent pre-tax WACC and provide reference and calculation supporting the pre-tax WACC.
 - 4.1.1.1 Please update the net present value (NPV) analysis, as necessary. If no update to the NPV analysis is necessary, please explain.
 - 4.1.2 If confirmed, please provide reference to the PNG filing where the cost of each capital source and the corresponding weight is included as well as the calculation supporting

the 8.96 percent pre-tax WACC.

**5.0 Reference: PROJECT NEED AND JUSTIFICATION
Exhibit B-1, Section 2.4.1, p. 10
NPV Analysis**

On page 10 of the Application, PNG presents in Exhibit 2-1 and 2-2, a summary of the NPV of incremental margin at a standard depreciation rate and at an accelerated depreciation rate, respectively.

- 5.1 Please identify all risks on the expected revenue over the term of the GSA as included in the NPV analysis, including but not limited to bankruptcy of either party to the GSA, termination of the LNGC project, etc.
 - 5.1.1 Please explain the potential impact(s) to ratepayers and quantify the maximum expected impact.
 - 5.1.2 Please estimate the likelihood that revenues provided in the NPV analysis may not be realized and discuss the efforts PNG is making to mitigate this risk, including specific references to the GSA if applicable.
- 5.2 Please provide the detailed NPV analysis for the Standard Depreciation scenario and the Accelerated Depreciation scenario in a functional excel spreadsheet (with formula). Please respond confidentially if necessary.

**6.0 Reference: BACKSTOP ARRANGEMENTS
Exhibit B-1, Executive Summary, p. 1.
Costs of Backstop Agreement**

PNG states on page 1 of the Application that

PNG has also entered into a backstop agreement with JFJV to cover the costs of preliminary engineering design, cost estimate, permitting, and planning for LDS#2, and to facilitate the ordering of long-lead materials for this service request.

- 6.1 Please explain whether the costs covered by the backstop agreement are included within the \$1.77 million cost estimate for the project or are they considered additional costs.
- 6.2 With respect to any costs incurred by PNG beyond the scope of the Backstop Agreement, please discuss the risks to PNG and its customers should JFJV decide not to proceed with the request for service.
- 6.3 Please discuss if there are any anticipated risks to JFJV's ability to backstop the preliminary costs for LDS#2.

On page 18 of the Application PNG states:

...the project does require British Columbia Oil and Gas Commission (OGC) approval for facility and pipeline works. These approvals are considered normal course in nature and are not expected to be contentious.

- 6.4 Should PNG not receive regulatory approval from the OGC and/or the British Columbia Utilities Commission (BCUC) for this project, please discuss whether the backstop agreement will be triggered and JFJV will be required to reimburse PNG for costs incurred under the terms of the backstop agreement.
 - 6.4.1 If not, please explain how these costs will be recovered.

6.4.2 If not, please explain whether ratepayers will potentially be impacted and quantify the maximum possible impact.

B. PROJECT DESCRIPTION

**7.0 Reference: PROJECT DESCRIPTION
Exhibit B-1, Section 3.1, p. 19; Appendix C
Layout and Location**

On page 19 of the Application, PNG states:

The existing station sits on a 12 metre by 12 metre plot of land leased by PNG from its owner, Rio Tinto. Based on the existing lands agreement with Rio Tinto, no new land will be required to construct LDS#2. Further, PNG notes that the site can be easily accessed using existing roads.

Within Appendix C, PNG provides an image of the regional overview for Kitimat and an image of the LNGC Overall Site Plan.

- 7.1 Please provide the term length for PNG’s lease agreement for the land.
- 7.2 Please confirm, or otherwise explain, whether PNG has a right-of-way to access LDS#2.
 - 7.2.1 If not confirmed, please provide details of PNG access arrangements for LDS#2.
- 7.3 Please explain whether PNG’s lease with Rio Tinto includes any requirements for the relocation of LDS#2.
 - 7.3.1 If confirmed, please provide details of any such requirements.
- 7.4 Please provide the annual cost of the leased land and explain whether the cost of the leased land is included in the rate base items or O&M costs of the NPV analysis.
- 7.5 Please provide the date that the lands agreement expires and/or can be terminated. If the date is prior to the end of the primary term please explain how this will impact the project, and, as applicable, describe the mitigation plan(s) in place.

**8.0 Reference: PROJECT DESCRIPTION
Exhibit B-1, Section 3.4, p. 20
Construction and Operation Schedule**

On page 20 of the Application, PNG states

Construction of LDS#2 is to commence during the third quarter of 2019 in anticipation of providing service to JFJV late November 2019 and no later than November 22, 2019. Exhibit 3-1 provides a schedule of key project milestones.

Exhibit 3-1 LDS#2 Project Milestone Schedule

Milestone	Date (2019)
Project Initiation	March 1
Order Long Leads	May 5
Submission of OGC Amendment	June 5
Contractor Bidder Conference	July 8
OGC Permit Approval	September 13
Construction Start	September 16
Construction Complete	November 18
In-service Date	November 22

- 8.1 Please explain the consequences if the In-Service Date is delayed beyond November 22, 2019.

- 8.1.1 Please explain whether there will be any impact to PNG existing ratepayers as a result of the above identified consequences.
- 8.1.2 Please discuss any plans and efforts in place to mitigate any consequences if the In-Service Date is delayed.

C. PROJECT COST ESTIMATE

**9.0 Reference: PROJECT COST ESTIMATE
Exhibit B-1, Section 3.1, p. 19; Section 4.1, p. 21; Section 4.1.1, p. 21
PNG Capital Cost Estimate**

Further on page 21 of the Application, PNG provides a summary of key capital components in Exhibit 4-1.

- 9.1 Please discuss whether any funds attributable to the project have been spent. If so, please describe and quantify the expenditure(s).

On page 19 of the Application, PNG states:

[...] LDS#2 will be constructed as a replacement for an existing deactivated regulating station. The existing station building structure, concrete pad foundations and yard piping will be demolished and discarded.

- 9.2 Please discuss whether the costs for the removal of the existing regulating station are included in Exhibit 4-1. If so, please provide the costs and explain how they were determined. If not, please explain why not and provide the estimated cost for these activities.
- 9.3 Please explain whether there are any gains or losses as a result of the demolishing, removing and discarding of the existing deactivated regulating station. If so, please provide the gain or loss and explain how it will be recorded and reflected in the next revenue requirements application.

**10.0 Reference: PROJECT COST ESTIMATE
Exhibit B-1, Section 4.2, pp. 21–22
Cost of Service Forecast**

On page 21 and 22 of the Application, PNG provides the rate base items included in the cost of service and annual operating costs.

- 10.1 Please provide the estimated annual maintenance costs associated with LSD#2 asset and explain whether these costs are included in the annual operating costs or cost of service forecast. If not included, please explain why not.
- 10.2 Please explain whether contingency costs or capital cost plans have been considered for potential major maintenance costs. If not, please explain how PNG will cover such costs.