bcuc
British Columbia
Utilities Commission

Patrick Wruck
Commission Secretary

Commission.Secretary@bcuc.com
bcuc.com

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

October 21, 2019

Sent via email/eFile

PNG CPCN FOR WATSON ISLAND CUSTOMER TIE-IN EXHIBIT A-4-1

Ms. Janet Kennedy
Vice President, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
Suite 750 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4
jkennedy@png.ca

Re: Pacific Northern Gas Ltd. – Certificate of Public Convenience and Necessity Application for Construction of the Watson Island Customer Tie-in – Project No. 1599041 – Reasons for Decision

Dear Ms. Kennedy:

Further to the British Columbia Utilities Commission Order C-4-19 released on October 9, 2019, enclosed please find the Reasons for Decision.

Sincerely,

Original signed by Ian Jarvis for:

Patrick Wruck
Commission Secretary

/aci
Enclosure
cc: votto@png.ca

bcuc
British Columbia
Utilities Commission

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
bcuc.com

P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

ORDER NUMBER
C-4-19

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.
Application for Approval of a Certificate of Public Convenience and Necessity
For the Construction of the Watson Island Customer Tie-In

BEFORE:
R. I. Mason, Panel Chair
T. A. Loski, Commissioner

on October 9, 2019

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

WHEREAS:

A. On September 5, 2019, pursuant to section 45 and 46 of the *Utilities Commission Act* (UCA), Pacific Northern Gas Ltd. (PNG) filed an application with the British Columbia Utilities Commission (BCUC) seeking approval for a Certificate of Public Convenience and Necessity (CPCN) to design and construct new natural gas service infrastructure, including a pipeline, a regulating station and meter site assets (collectively, the Watson Island Customer Tie-In [WICT] Project). The WICT Project is necessary to provide natural gas service to Pembina Pipeline Corporation (Pembina) for their proposed liquified petroleum gas export terminal to be constructed on Watson Island in Prince Rupert, British Columbia (Application);

B. In the Application, PNG also seeks approval under section 39 of the UCA to enter into a gas sales agreement to provide natural gas service to Pembina for an initial period of 20 years;

C. PNG requests to have BCUC approval of its Application by no later than September 30, 2019, and encourages the BCUC to consider expediting its review of this submission;

D. On September 24, 2019, the BCUC issued staff questions to PNG. PNG provided its responses to BCUC staff questions on October 4, 2019;

E. Section 56(2) of the UCA states that "[t]he commission must determine and, by order after a hearing, set proper and adequate rates of depreciation."; and

F. The BCUC has considered the Application and finds that the public convenience and necessity are served by the WICT Project and the establishment of a written public hearing process to review the appropriate depreciation rate for the WICT Project is warranted.

NOW THEREFORE, for reasons to follow, the BCUC orders as follows:

1. Pursuant to sections 45 and 46 of the UCA, a CPCN is granted to PNG to construct and operate new natural gas service infrastructure including pipeline, a regulating station and meter site assets for the WICT Project.

2. PNG is directed to file a final report within three months following the completion of the WICT Project. The final report is to include a complete breakdown of the final costs and provide an explanation of all material cost variances.

3. The gas sales agreement dated September 4, 2019 between PNG and Pembina is approved pursuant to sections 39 and 59 to 61 of the UCA.

4. PNG is to file the gas sales agreement along with the terms and conditions, in tariff supplement form, for endorsement by the BCUC within 30 days of the date of this Order.

5. A written hearing process is established for the review of the appropriate depreciation rates for the WICT Project assets in accordance with the regulatory timetable attached as Appendix A to this order.

6. As soon as reasonably possible, PNG must publish the public version of the Application, this order and the regulatory timetable, and reasons to follow on its website and, electronically where possible, to all registered intervenors in the PNG West 2018-2019 Revenue Requirements Application proceeding.

7. PNG must make the redacted version of the Application and non-confidential supporting material available for inspection at the head office of Pacific Northern Gas Ltd. at Suite 2550, 1066 West Hastings Street, Vancouver, BC, V6E 3X2.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of October 2019.

BY ORDER

Original signed by:

R. I. Mason
Commissioner

Attachment

Pacific Northern Gas Ltd.
Application for Approval of a Certificate of Public Convenience and Necessity For the Construction of the Watson Island Customer Tie-In

REGULATORY TIMETABLE ON DEPRECIATION RATE

Action	Date (2019)
PNG to publish Public Notice	Tuesday, November 5
BCUC Information Request (IR) No. 1 to PNG	Thursday, November 7
PNG responses to BCUC IR No. 1	Thursday, November 21
Deadline on Letters of Comment regarding depreciation rates	Monday, December 2
Further process	To be determined

Pacific Northern Gas Ltd.

Application for a Certificate of Public Convenience and Necessity for the Construction of the Watson Island Customer Tie-In

---

Reasons for Decision

October 21, 2019

Before:
R. I. Mason, Panel Chair
T. A. Loski, Commissioner

Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity
for the Construction of the Watson Island Customer Tie-In

REASONS FOR DECISION

Table of Contents

Page no.

1.0 Introduction 3
1.1 Background 3
1.2 The Applicant 3
1.3 Approvals Sought 3
1.4 Legislative Framework 4
1.5 Regulatory Process 4
2.0 Proposed Project 5
2.1 Project Background 5
2.2 Project Description 6
2.3 Project Need 6
2.4 Project Alternatives 7
2.5 Project Cost 7
2.6 Project Benefits 9
2.6.1 Revenue from GSA 9
2.7 Project Risk 10
2.7.1 Financial Risk 10
2.7.2 Operational Risk 10
2.8 Public Consultation and Support 11
2.9 Government Policy Considerations 12
3.0 Panel Determinations 12
3.1 CPCN 12
3.1.1 Reporting 12
3.2 Gas Sales Agreement 13
3.3 Depreciation Rates 13

1.0 Introduction

1.1 Background

On September 5, 2019, Pacific Northern Gas Ltd. (PNG) filed an application with the British Columbia Utilities Commission (BCUC) for a Certificate of Public Convenience and Necessity (CPCN) to construct new natural gas service infrastructure, including a pipeline, a regulating station and meter site assets (collectively, the Watson Island Customer Tie-In [WICT] Project or WICT) to provide natural gas service to Pembina Pipeline Corporation (Pembina) for their proposed liquified petroleum gas (LPG) export terminal to be constructed on Watson Island in Prince Rupert, British Columbia (Application).[1]

1.2 The Applicant

PNG owns and operates a natural gas transportation system and distributes gas to over 20,400 residential, commercial and industrial customers in communities in northwestern British Columbia via its PNG-West division. PNG is the parent company of Pacific Northern Gas (N.E.) Ltd. (PNG(NE)), also a natural gas distribution utility, providing sales and transportation services to approximately 21,000 residential, commercial and industrial customers in the northeastern British Columbia communities of Fort St. John, Dawson Creek and Tumbler Ridge. PNG and PNG(NE) are both regulated by the BCUC.[2] PNG is a wholly-owned subsidiary of AltaGas Canada Inc. (ACI).[3]

PNG states it has the technical capacity to oversee the design and construction of the WICT Project. PNG has many years of experience in constructing, operating and maintaining natural gas transmission and distribution systems, including regulating and meter stations, and in providing safe, secure and reliable gas service to its customers in northwestern British Columbia. Further, PNG has strong relationships with several engineering and construction firms and PNG will engage these firms to plan and execute the WICT Project.[4] PNG also states it can finance the design and construction of the WICT Project either directly, or indirectly through its association with the ACI group of companies.[5]

1.3 Approvals Sought

PNG seeks approval for a CPCN, pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA) for capital expenditures of approximately $2.55 million to design and construct new natural gas service infrastructure including pipeline, regulating station and meter site assets and the WICT Project, to provide natural gas service to Pembina for its LPG Project.[6]

PNG is also seeking approval under section 39 of the UCA to enter into a gas sales agreement (GSA) to provide natural gas service to Pembina for an initial period of 20 years.[7]

[1] Exhibit B-1, p. 3.
[2] Ibid.
[3] Ibid.
[4] Exhibit B-1, p.4.
[5] Exhibit B-1, p.3.
[6] Exhibit B-1, pp. 3, 5.
[7] Exhibit B-1, pp.5, 7.

1.4 Legislative Framework

Section 45 (1) of the UCA stipulates that, except as otherwise provided, after September 11, 1980, a person must not begin construction or operation of a public utility plant or system, or an extension of either, without first obtaining from the BCUC a certificate that public convenience and necessity require, or will require, the construction or operation of the plant or system.[8]

Section 46 (3.1) of the UCA requires the BCUC to consider the following in determining whether to issue a CPCN:

(a) the applicable of British Columbia's energy objectives, which are defined in the *Clean Energy Act*;

(b) PNG's most recent long-term resource plan filed with the BCUC; and

(c) the extent to which the Application is consistent with the applicable requirements under sections 6 and 19 of the *Clean Energy Act*.

The BCUC's CPCN Guidelines included as Appendix A to Order G-20-15 provide general guidance regarding the BCUC's expectation of the information that should be included in a CPCN application to reflect the specific circumstances of the applicant, the size and nature of the project and issues raised by the application.[9]

Pursuant to section 39 of the UCA, on reasonable notice, a public utility must provide suitable service without undue discrimination or undue delay to all persons who:

(a) apply for service;

(b) are reasonably entitled to it; and

(c) pay or agree to pay the rates established for that service under this Act.

Sections 59 to 61 of the UCA govern the approval of rates, including rates related to the GSA. Section 59(1) of the UCA states that "[a] public utility must not make, demand or receive (a) an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia, or (b) a rate that otherwise contravenes this Act, the regulations, orders of the commission or any other law." Under section 60(1)(b), it states "the commission must have due regard to the setting of a rate that:

i. is not unjust or unreasonable within the meaning of section 59,

ii. provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands, and

iii. encourages public utilities to increase efficiency, reduce costs and enhance performance."

1.5 Regulatory Process

PNG sought an expedited review process that will allow PNG to meet the WICT Project construction and operation schedule. As the WICT Project has a fixed construction start date of November 30, 2019, PNG states it is hopeful that it will have BCUC approval no later than September 30, 2019.[10]

[8] *Utilities Commission Act,* RSBC 1996, c. 473, s. 45(1).
[9] British Columbia Utilities Commission (BCUC) Order G-20-15, 2015, Certificate of Public Convenience and Necessity Application Guidelines, p. 1.
[10] Exhibit B-1, p. 4.

Under section 46(2) of the UCA, "[t]he commission has discretion whether or not to hold any hearing on the application." Further, the BCUC may determine its own process, pursuant to section 11 (1) of the *Administrative Tribunals Act*, which applies to the BCUC by virtue of section 2.1(d) of the UCA.

The review of the Application included one round of BCUC staff questions issued to PNG on September 24, 2019. PNG provided its response on October 4, 2019.

2.0 Proposed Project

2.1 Project Background

On November 29, 2017, Pembina announced it would proceed with the development of its proposed LPG project and export terminal on Watson Island in Prince Rupert, British Columbia.[11] The LPG project is viewed as a small-scale rail terminal, moving LPG from rail cars to handysize[12] marine vessels destined for international markets.[13] Watson Island is an industrial site owned by the City of Prince Rupert and is undergoing redevelopment. Pembina's LPG Project is Phase 1 of an anticipated multi-phase redevelopment of the Watson Island area.[14]

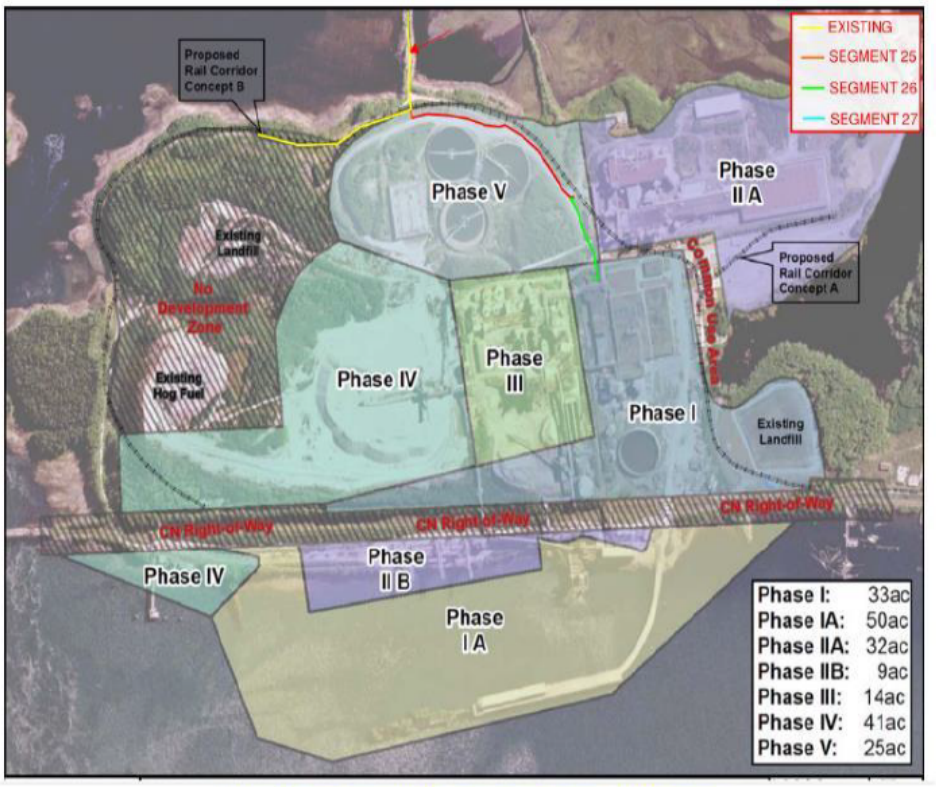
Pembina has requested that PNG provide natural gas sales service for the LPG Project once it becomes operational. [15]

[11] Exhibit B-1, p. 6.
[12] "Handysize" refers to a dry bulk carrier or tanker with a capacity between 15,000 and 35,000 DWT. http://maritime-connector.com/wiki/handysize/.
[13] Ibid.
[14] Exhibit B-1, p. 24.
[15] Exhibit B-1, p. 7.

Figure 1 – Watson Island Site Plan[16]

PNG006-005 - WATSON ISLAND CUSTOMER TIE-IN

PROPOSED PIPELINE ROUTING FROM EXISTING PNG PIPELINE TO PEMBINA LEASE



WATSON ISLAND TERMINALS BUSINESS DEVELOPMENT PLAN
(NOTE: CITY OF PRINCE RUPERT HAS UNOFFICIALLY CONFIRMED THIS PLAN IS HIGH LEVEL AND DOES NOT REFLECT FIRM DEVELOPMENT PLANS)

2.2 Project Description

The primary construction elements of the proposed WICT include 430m of 114mm outside diameter (OD) high pressure gas pipeline, a shop-fabricated regulating building package, approximately 100m of 60mm OD intermediate pressure gas pipeline, and the meter site.[17]

2.3 Project Need

Pembina has requested that PNG provide natural gas sales service for the LPG Project once it becomes operational. Natural gas supplied will be primarily used to pilot the LPG Project flare stack.[18] PNG will provide service under a GSA with Pembina commencing no later than August 1, 2020, for an initial term of 20 years. Pembina has asked PNG to have service in place no later than late-December 2019 to accommodate the timing of LPG Project construction activities.[19]

[16] Exhibit B-1, Appendix C.
[17] Exhibit B-1, p. 24.
[18] Exhibit B-1, p. 7.
[19] Ibid.

Panel Determination

The Panel accepts that Pembina requires natural gas service for the development of the Watson Island LPG Project. The natural gas service is needed to pilot the flare stack. **Therefore, the Panel finds that PNG has justified the need for the WICT.**

2.4 Project Alternatives

Pembina's LPG Project will be part of the redevelopment of a former industrial site. PNG states that while there is pre-existing infrastructure on Watson Island, there are no alternatives to the construction of a new pipeline and new regulating and meter stations required to meet Pembina's service request[20]. PNG engaged Lauren Services engineering consulting firm to study four possible routings and five possible station locations, considering future development planned for Watson Island[21]. The preferred pipeline routing presented in the Application, as studied by Lauren Services engineering consulting firm, was identified as having the lowest risk and best satisfies the criteria of PNG, Pembina and the City of Prince Rupert, while having a comparable cost to other alternatives.[22] In addition, PNG submits that the proposed siting provides the greatest opportunity to service new customers in future phases of the industrial development with both high pressure and intermediate pressure gas service.[23]

Panel Determination

The Panel is persuaded that there is no other reasonable alternative to constructing the WICT, in order to provide natural gas sales service to Pembina. **Accordingly, the Panel finds that constructing the WICT is the most reasonable alternative to providing the requested natural gas sales service to Pembina.**

2.5 Project Cost

PNG worked with engineering consulting firm Lauren Services to develop a cost estimate of $3.55 million for the WICT at a Class 3 level with expected accuracy of +30 percent / -20 percent, in compliance with the Association of Cost Engineering (AACE) Guidelines.[24]

PNG's consideration of requests for service includes an evaluation of the request parameters using PNG's Mains Extension Test (MX Test). The MX Test identifies the customer contribution required to make up any shortfall in ensuring that the benefits of the project exceed the costs. Applying the MX Test to Pembina's request for service identified a Contribution in Aid of Construction (CIAC) in the amount of $1.0 million would be required.[25] The GSA includes contract language to address the risk of cost overruns which would result in additional CIAC from Pembina to ensure these potential costs would not be borne by PNG ratepayers.[26] With Pembina's required CIAC of $1.0 million, the net cost to PNG is estimated at $2.55 million.

PNG states that as planning for the WICT has advanced, several complexities with the WICT Project site have been identified that have the potential to affect estimated project costs[27], including:

- Coactivity on the site;

[20] Exhibit B-1, p. 8.
[21] Exhibit B-1, p. 8. Confidential Exhibit B-2.
[22] Exhibit B-1, p. 8.
[23] Ibid.
[24] Exhibit B-1, p. 26.
[25] Exhibit B-1, p. 8.
[26] Ibid
[27] Exhibit B-3, PNG response to Staff Question 6.2.

- Buried foundations on the site;
- More abandoned underground infrastructure than originally identified;
- Fill sections containing mostly large rocks; and
- Based on site ground conditions, a high chance of encountering bedrock.

Therefore, PNG submits it would be appropriate to reallocate some of the budgeted overhead costs to contingency, increasing the Contingency provision from 15 percent to 30 percent and decreasing the overhead provision from 25 percent to 15 percent, keeping the overall project budget at $3.55 million.[28]

The following table outlines the modified capital cost components of the WICT:

Table 1: Capital Cost Components of WICT[29]

Capital Component	Original ($)	Revised ($)	Variance ($)
Materials – Equipment & Other	10,580	10,580	-
Materials – Pipe, Vales, Fittings	110,788	110,788	-
Materials – Regulating Station	65,552	65,552	-
Engineering, Design & Other	172,683	172,683	-
Permitting & Survey	80,115	80,115	-
Construction – General/Site Services	933,528	933,528	-
Construction – Hot Tap and Isolation	226,017	226,017	-
Construction – Pipeline	381,049	381,049	-
Construction – Regulating Station	205,134	205,134	-
Non-Destructive Examination	58,394	58,394	-
Construction Management & Inspection	72,960	72,960	-
	2,316,800	2,316,800	-
Overhead (from 25% to 15%)	772,000	410,000	(362,000)
	3,088,800	2,726,800	(362,000)
Contingency (from 15% to 30%)	463,320	825,320	362,000
Total Capital Cost	3,552,120	3,552,120	-

PNG states that the cost of service forecast for the WICT incorporates rate-base items and operating costs into the net present value (NPV) incremental margin analyses included in the Application. Rate-base items include provision for depreciation, taxes, capital cost allowance, interest and return on equity. These costs are estimated to be approximately $240,000 annually over the 20-year primary term of the GSA.[30] PNG anticipates that the operating costs will relate primarily to meter reading, billing activities, fuel gas costs and property taxes, and are estimated to be approximately $2,000 annually over the 20-year primary term of the GSA.[31]

PNG and Pembina have entered into backstop agreements to cover the costs for preliminary engineering design, cost estimate, permitting and planning for the WICT.[32]

[28] Ibid.
[29] Ibid.
[30] Exhibit B-1, p. 27.
[31] Exhibit B-1, p. 27.
[32] Exhibit B-1, p. 27.

Panel Determination

The Panel is satisfied that PNG has provided capital costs estimates in accordance with the CPCN Guidelines. PNG has provided capital costs estimates with a stated degree of accuracy consistent with AACE International Class 3 required by the CPCN Guidelines. The Panel notes that the capital cost estimate includes a reasonable provision for contingencies of 30 percent. **Accordingly, the Panel finds the estimated capital costs for the project to be reasonable.**

2.6 Project Benefits

PNG states that the construction of the WICT by PNG will result in moderate favourable rate impacts.[33] PNG further states that a secondary benefit of the construction of the WICT is that PNG will have an asset in place to serve other customers in the Watson Island redevelopment in future.[34]

2.6.1 Revenue from GSA

The GSA provides for firm natural gas sales service at PNG's Large Commercial Sales Rate (RS 3) on a take-or-pay basis, with an underlying contract demand that ensures the full recovery of the incremental capital and the operating costs of providing service to Pembina over the 20-year primary term of the agreement. The GSA includes allowance for extension.[35] The GSA includes provision for PNG to provide natural gas sales service to Pembina for demand that is in excess of the contracted firm demand on an interruptible basis. This interruptible service will be provided at a rate that has been benchmarked to the PNG-West Commercial Interruptible Service Rate (RS5).[36]

PNG will provide natural gas sales service to Pembina at the Large Commercial Sales Rate (RS 3) applicable to the PNG-West service area for the specified contract demand per Schedule A of the GSA. Service will be provided on a minimum monthly take-or-pay commitment, thereby providing PNG with a guaranteed revenue stream over the 20-year term of the GSA.[37] The NPV analyses submitted by PNG in the Application show positive incremental margin over the term of the GSA under all scenarios and incorporate the CIAC of $1.0 million to be paid by Pembina.[38] PNG submits that its existing customers will not be adversely impacted by the construction nor the operation of the WICT as the service arrangements recover the full cost of service for these assets from Pembina and there will be financial benefits to existing customers in the PNG-West service area.[39]

Panel Determination

The Panel is satisfied that the incremental margin realized from providing service to Pembina under the GSA will have a positive impact on rates. The Panel is also persuaded that the take-or-pay nature of the revenue stream ensures the full recovery of the incremental capital and operating costs of providing service to Pembina over the primary term of the agreement. **Therefore, the Panel finds that the Project will provide benefits to the customers of PNG.**

[33] Ibid., p. 8.
[34] Ibid.
[35] Exhibit B-1, p. 7
[36] Exhibit B-1, p. 7
[37] Exhibit B-1, p. 7.
[38] Exhibit B-1, p. 9.
[39] Exhibit B-1, p. 8.

2.7 Project Risk

2.7.1 Financial Risk

PNG submits that the financial risks associated with the construction and operation of the WICT are minimal and acceptable. PNG states that these risks are mitigated via development of detailed engineering, the Class 3 cost estimate, contractual arrangements and a competitive bidding process.[40] PNG states that a CIAC of $1.0 million, the tariff to be paid by Pembina and the minimum take-or-pay component to the contract demand recover all capital and operating costs. The GSA ensures that unlikely cost overruns will be covered by an additional CIAC from Pembina. These measures eliminate the risk of stranded assets and ensure that there is no risk of adverse rate impacts to PNG's other customers.[41]

Risks associated with the expected revenue are mitigated by the GSA; Article 8.2 of the GSA provides for an early termination payment equivalent to the NPV of the firm demand charge multiplied by the daily contract demand for the remainder of the primary term.[42] In addition, Article 14.1 of the GSA states that PNG may demand a guarantee from Pembina if PNG has reasonable grounds for insecurity regarding the payments for gas service.[43] PNG identifies the risks on the expected revenue over the term of the GSA to be: 1) Bankruptcy of either party; 2) Early termination of the Pembina Prince Rupert Terminal Project; and 3) Pembina's sustained failure to pay. [44] PNG submits that the possibility of any these events taking place is very low, as Pembina is a large company with an asset base of $27.6 billion and construction to advance the LPG facility is has taken place with an expected capital investment from Pembina in the range of $250-270 million.[45]

2.7.2 Operational Risk

PNG states that the WICT will be constructed and operated to PNG's existing standards for infrastructure of this nature. Further, PNG has insurance coverage that protects it against general business risks.[46] PNG also states that there are no identified risks with the ongoing operation and maintenance of the WICT.[47] PNG provides the following table summarizing the project construction risks and mitigating factors:

Table 2: Construction Risk Register[48]

[40] Ibid., p. 21
[41] Ibid, p. 21.
[42] Exhibit B-3, BCUC Staff Question 5.1.1.
[43] Exhibit B-3, BCUC Staff Question 5.1.1.
[44] Exhibit B-3, BCUC Staff Question 5.1.
[45] Exhibit B-3, BCUC Staff Questions 4.1, 5.1.
[46] Exhibit B-1, p. 21.
[47] Ibid.
[48] Ibid.

Risk	Mitigation
Paying above market rates due to contractor and material selection	Competitive bidding process
Civil construction affected by soil conditions	Geotechnical report provided by Pembina Planned routing focused to be within disturbed ground area
Site rework due to drawing discrepancies	Engineering and constructability reviews
Schedule slip and site inefficiencies	3rd party on-site full-time supervision
Underestimating of costs	Compiling information to a Class 3 Estimate with a liberal provision for contingency Protection provided under GSA
Control of quality and works	Designed to maximize shop fabrication for regulating station Full-time, on-site inspector 100% non-destructive evaluation on welds
Meeting in-service date	Conservative construction start date and a construction schedule that provides considerable flexibility in meeting customer requirements

Panel Determination

The Panel agrees with PNG that the financial risks associated with the construction and operation of the WICT are minimal and acceptable. The Panel acknowledges that the take-or-pay nature of the revenue stream ensures there is sufficient revenue to recover the incremental costs associated with the Project, mitigating risk. **The Panel finds that PNG's approach to risk management for the WICT project is appropriate.**

2.8 Public Consultation and Support

PNG states that the WICT will be constructed on industrial land owned by the City of Prince Rupert. The City of Prince Rupert submitted a letter of support filed as Appendix E to the Application.[49] As part of the environmental assessment approval process for its project, Pembina undertook consultation with multiple stakeholders in the region and has secured support from these stakeholders, including First Nations in the region.[50] PNG notes that it regularly updates First Nations on an informal basis of its activities, including operating, maintenance and capital projects.

On this basis, PNG submits that no formal public consultation is required for the WICT.[51] PNG will issue standard notifications to land owners within the radius specified as per the OGC permitting process.

[49] Exhibit B-1, Appendix E.
[50] Exhibit B-1, p. 28.
[51] Ibid., p. 28.

Panel Discussion

The Panel acknowledges that the proposed WICT will be constructed on industrial land owned by the City of Prince Rupert.[52] The Panel agrees with PNG that no formal public consultation is required for the WICT Project. The Panel notes that the City of Prince Rupert has expressed support for the Project.[53]

The Panel acknowledges that Pembina has undertaken consultation activities with multiple stakeholders.[54]

Given the efforts undertaken by Pembina and PNG, the Panel is satisfied that, to date, consultation on the Project is sufficient.

2.9 Government Policy Considerations

PNG's last long-term resource plan for the PNG-West transportation and distribution systems was filed with the BCUC in April 2014 and was approved under BCUC Order G-140-14 (2014 Resource Plan). PNG states that as the need for the WICT was not anticipated at that time, there was no consideration given to the WICT project in the 2014 Resource Plan.[55]

PNG states that its investment in the WICT does not provide direct support for the advancement of the provincial Government's energy objectives as set out in Part 1 of the *Clean Energy Act* that primarily pertain to the matters of generation, cost and conservation of electricity.[56] PNG states that the construction of the WICT does, however, indirectly support the provincial Government's desire to develop export markets for natural gas products and to have export facilities up and running in British Columbia. Further, the WICT also indirectly supports the provincial Government's goals of creating investment, jobs, and new economic opportunities not only for the Prince Rupert region, but for the province.[57]

Panel Discussion

The Panel agrees with PNG that the WICT Project does not provide direct support for the advancement of the Government's energy objectives, although it does indirectly support certain goals of the Government.

3.0 Panel Determinations

3.1 CPCN

Subject to and in accordance with the findings and determinations in this decision, the Panel finds that public convenience and necessity require that the WICT Project proceed. Accordingly, the Panel grants a CPCN to PNG authorizing the construction and operation of the WICT Project.

3.1.1 Reporting

PNG is directed to file a final report within three months following the completion of WICT. The final report is to include a complete breakdown of the final costs and provide an explanation of all material cost variances.

[52] Ibid.
[53] Exhibit B-1, Appendix E.
[54] Ibid.
[55] Ibid. p. 22.
[56] Ibid., p. 29.
[57] Ibid, p. 29.

3.2 Gas Sales Agreement

The Panel notes that under the GSA, PNG will provide natural gas sales service on a minimum monthly take-or-pay commitment, thereby providing PNG with a guaranteed revenue stream over the term of the GSA. Additionally, the Panel notes that the revenue stream is sufficient to ensure the full recovery of the incremental capital and operating costs of providing service to Pembina over the 20-year primary term of the agreement.

For these reasons, the GSA dated September 4, 2019 between PNG and Pembina[58], as set out in the Application, is approved pursuant to sections 39 and 59 to 61 of the UCA.

The Panel directs PNG to file the GSA, along with the terms and conditions, in Tariff Supplement form, for endorsement by the BCUC within 30 days of the date of this order.

3.3 Depreciation Rates

PNG presents net present value analyses of the positive incremental margin over the primary term of the GSA to illustrate the anticipated financial benefits from the proposed contractual arrangements in the Application.[59] PNG presents two alternative scenarios, varying the depreciation rates pertaining to the WICT assets. The first scenario uses the current depreciation rates applicable to the asset class, whereas the second alternative uses accelerated depreciation rates equal to the primary term of the GSA. The Panel notes that the NPV of net revenues is positive under each of the two depreciation rates scenarios.

Given that the GSA between PNG and Pembina is in place for a fixed primary term of 20 years, and that the WICT assets may not be needed to provide service to Pembina beyond that timeframe, the Panel is of the view that a public hearing process is warranted for the review and approval of the appropriate depreciation rates for the WICT assets. In addition to the BCUC's CPCN jurisdiction, the Application also engages the BCUC's jurisdiction to set rates of depreciation under section 56 of the UCA. The Panel notes that section 56(2) of the UCA states, "[t]he commission must determine and, by order after a hearing, set proper and adequate rates of depreciation." **Therefore, the Panel finds that a written hearing process and a regulatory timetable for the review of the appropriate depreciation rates of the WICT assets are warranted and are established, as set out in Appendix A to BCUC Order C-4-19.**

[58] Exhibit B-1, p. 5.
[59] Exhibit B-1, p. 9.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of October 2019.

Original signed by:

_____

R. I. Mason
Panel Chair/Commissioner

Original signed by:

_____

T. A. Loski
Commissioner