

December 5, 2019

VIA E-FILING

Patrick Wruck
Commission Secretary
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Our File: 7400.211

Dear Mr. Wruck,

**Re: Pacific Northern Gas Ltd. Certificate of Public Convenience and Necessity (CPCN)
Application for Construction of Watson Island Customer Tie-in
BCOAPO Letter of Comment Regarding Depreciation Rates**

In this process, we represent the BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Centre, known collectively in regulatory processes as "BCOAPO et al." ("BCOAPO").

We provide this submission in accordance with the British Columbia Utilities Commission (BCUC) Order C-4-19 (Exhibit A-4) establishing a written hearing process for the review of the appropriate depreciation rates of the Watson Island Customer Tie-In (WICT) Project assets, and Order G-266-19 (Exhibit A-5) establishing the regulatory timetable for Letters of Comment regarding depreciation rates.

BACKGROUND

By Order C-4-19 dated October 9, 2019, the BCUC granted a Certificate of Public Convenience and Necessity (CPCN) to Pacific Northern Gas Ltd. (PNG). This CPCN authorized the construction of new natural gas service infrastructure, including a pipeline, a regulating station and meter site assets (the WICT Project) 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.

By the same order, the Commission approved a gas sales agreement (GSA) with Pembina to provide natural gas service for an initial period of 20 years with provisions allowing for an

extension of the GSA's term. PNG will provide service under a GSA with Pembina commencing no later than August 1, 2020.

In its Application (Exhibit B-1), PNG presents two alternative scenarios for the depreciation rates pertaining to the WICT Project assets: the first is a standard depreciation scenario and the second is an accelerated depreciation one. Under the standard depreciation scenario, the WICT Project assets are depreciated at the depreciation rates applicable to distribution pipeline and regulating assets (base case). This scenario assumes that the assets will continue to be used beyond the initial GSA term. Under an accelerated depreciation alternative, the WICT Project assets are depreciated evenly over the 20-year term of the GSA at a flat rate of 5% per year (test case, depreciate capital cost over 20 years).

By Order C-4-19, the BCUC established a written public hearing process to review the appropriate depreciation rate of the WICT Project assets. In its Reasons for Decision, the Commission noted that the WICT Project assets may not be needed to provide service to Pembina beyond the GSA's fixed primary term of 20 years.

COMMENTS REGARDING DEPRECIATION RATES

BCOAPO submits that standard regulatory practices should generally be maintained and deviated from only when there is strong evidence showing such deviation(s) are justifiable.

In BCOAPO's view, the greatest risk factor for ratepayers is that of stranding assets to the account of the ratepayer. In this respect, BCOAPO notes that on page 21 of Exhibit B-1 of the redacted application filed publicly, under Section 2.5.1 PNG asserts that the contractual provisions eliminate the risk of asset stranding.

Notwithstanding that an unlikely and adverse scenario may arise in the future, given PNG's assertion referenced above, BCOAPO does not view the evidence as supporting a deviation from standard regulatory practice.

All of which is respectfully submitted.

Sincerely,

BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by:

Leigha Worth
Executive Director | General Counsel

Original on file signed by:

Irina Mis
Barrister & Solicitor