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May 19, 2020

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Regulatory Law Chambers
601, 888 Fourth Ave SW
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Attention: Rosa Twyman

Dear Sirs and Mesdames:

**Re: Pembina Kinder Morgan (Jet Fuel) Inc.
2019 Tariff Filing Application to the B.C. Utilities Commission (BCUC)
BCUC Project No. 1598984**

We are counsel to the intervener Parkland Refining (B.C.) Ltd. (**Parkland**) for the above-noted BCUC proceeding. In accordance with the regulatory timetable established by the BCUC, we enclose Parkland's Information Request No. 2 to the applicant Pembina Kinder Morgan (Jet Fuel) Inc.

Please contact the undersigned if you have any questions.

Yours very truly,

LAWSON LUNDELL LLP

A handwritten signature in black ink that reads "Ian Webb".

Ian Webb

IDW/ns1

Enc

cc: BCUC Secretary
Registered Intervenors

REQUESTOR NAME: **Parkland Refining (B.C.) Ltd.**
 INFORMATION REQUEST ROUND NO: **2**
 TO: **PKM Canada (Jet Fuel) Inc.**
 DATE: **May 19, 2020**
 PROJECT NO: **1598984**
 APPLICATION NAME: **Kinder Morgan Canada (Jet Fuel) Inc. (KMJF) /
 Pembina Kinder Morgan Canada (Jet Fuel) Inc.
 (PKMJF) 2019 Tariff Filing Application**

A. OPERATING COSTS, 2019 REVENUE REQUIREMENT

1. Reference: Exhibit B-11, Response to BCUC Information Request (IR)

In response 4.3 at page 17 of 72, PKMJF provides the following table which shows actual operating costs for 2009-2018 as follows:

Table 4.3: Jet Fuel Line 2009-2018 Actual Operating Expenses

Cost Category	Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(\$)									
Fuel & Power	157,188	194,991	203,580	228,439	218,476	245,380	240,988	287,781	344,220	337,279
Property Tax	149,726	149,768	154,831	161,464	167,896	177,785	173,978	171,996	158,243	148,270
Direct Field Expenses	691,003	752,949	714,081	907,953	985,616	1,010,889	718,863	988,965	1,432,769	1,454,554
A & G Allocation	919,577	1,076,967	1,327,924	1,507,182	1,949,026	2,316,124	2,033,551	2,727,243	2,999,867	1,970,120
Total	1,917,494	2,174,675	2,400,416	2,805,038	3,321,014	3,750,178	3,167,380	4,175,985	4,935,099	3,910,223

1.1. Please provide the accounting system generated trial balances and general ledgers showing the underlying transactions that make up these costs.

Note: this request is not requesting PKMJF to spend time ensuring all subcategories of the above costs match any analysis prepared, rather it is simply asking for the system generated trial balances and general ledgers that support the totals in the above table.

2. **Reference: Exhibit B-11, KMJF Response to BCUC Information Request**

In response 4.5 at page 20 of 72, PKMJF provides the following table which shows actual integrity costs for 2009-2018 as follows:

Table 4.5: KMJF Actual Integrity Spending Summary 2010-2018

	Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Description	(\$)									
ILI Inspection - Pipeline	-	-	78,000	157,158	-	56,257	-	160,200	286,245	30,544
Studies, Risk Assessments, Management Plans, FIMP	7,571	15,000	27,000	1,081	13,333	13,047	48,485	16,738	8,572	5,196
Field anomaly investigations (includes Capital Dig Estimate)	54,253	130,000	-	187,478	157,709	-	-	74,716	773,820	154,497
Natural Hazards, CP Program & Weld Re-certs - Field Work	31,866	106,000	65,000	60,946	297,867	171,358	129,501	154,242	95,693	60,038
Tank Inspection (includes Capital)	-	-	-	11,385	3,779	6,536	-	7,326	3,441	-
Total	93,690	251,000	170,000	418,048	472,688	247,198	177,986	413,222	1,167,771	250,275

- 2.1. Please provide the accounting system generated trial balances and general ledgers showing the underlying transactions that make up these costs.

Note: this request is not requesting PKMJF to spend time ensuring all subcategories of the above costs match any analysis prepared, rather it is simply asking for the system generated trial balances and general ledgers that support the totals in the above table.

3. **Reference: Exhibit B-25, Response to BCUC Order P-10-19 & Exhibit B-27, Appendix (Suppl.) VAFFC-KMJF 23.1.1 (conf.)**

In response 23.2(b) of Exhibit B-25 at pages 6 and 7 PKMJF states, inter alia, the following:

Kinder Morgan utilizes the Massachusetts Model ("Mass Model"), which is similar to the NEB allocation model used by Canadian entities to allocate General and Administrative type expenses. The Mass Model allocates General and Administrative expenses of the corporation to operating entities within the corporation. Costs incurred in departments that support the entire business operations are generally coded into an account on the parent company and allocated based on three factors. PP&E (plant in service), Revenue, and Direct Labor ratios are averaged and calculated as a percentage of the total for all operating entities and that average is used to allocate costs to the Jet Fuel Line each month.

- 3.1. In **Appendix (Suppl.) VAFFC-KMJF 23.1.1 (conf.)**, there is a percentage¹ shown. Please confirm whether the percentage shown is based on the description set out in response 23.2(b) above.

3.1.1. If the percentage is not based on the calculation described in responses 23.2(b), provide a description as to how it is calculated.

¹ The value of percentage not stated in this IR on the basis that it is shown on a confidential document.

- 3.2. Please provide a working paper showing how the percentage shown in **Appendix (Suppl.) VAFFC-KMJF 23.1.1 (conf.)** is calculated.
- 3.3. **Appendix (Suppl.) VAFFC-KMJF 23.1.1 (conf.)** is a general ledger which we assume belongs to the parent company of PKMJF at the time. Please confirm the name of the parent company.

B. RATE BASE

4. **Reference: B-14, KMJF Amended Application, Appendix A.1: 2019 Cost of Service Study for the Jet Fuel System (Appendix A.1)**

Schedule 2 of Appendix A.1 contains the following table:

Average Rate Base (\$000)	2019 Forecast	Sch. No.
Average plant in service	18,472	6
Average accumulated depreciation of plant in service	13,763	6
Average net book value of plant in service	4,710	
December 31, 2018 deferred income tax balance	-111	
Average working capital requirement	159	10
Average Rate Base	4,757	

Schedule 6 of Appendix A.1 contains the following table:

D. Forecast Plant Balances (\$)		TOTAL Closing Plant (Including Disallowed)		
30		Plant	Accum Dep	NBV
152	Land Rights	98,683.73	94,069.56	4,614.17
153	Line Pipe	6,107,724.24	4,408,535.75	1,699,188.49
156	Buildings	480,479.33	387,989.04	92,490.29
158	Pumping Equipment	1,138,930.25	980,012.23	158,918.02
159	Station Lines	1,931,570.82	1,692,494.38	239,076.44
160	Other Station Equipment	2,760,133.99	2,246,594.41	513,539.58
160C	Central Pipeline Control	329,325.99	329,325.99	-
161	Storage Tanks	1,878,251.02	1,445,348.23	432,902.79
163	Communications	239,200.52	228,639.17	10,561.35
185WE	Work Equipment	51,974.45	49,324.22	2,650.23
186HW	Computer Hardware	3,789.43	3,789.43	-
186SW	Computer Software	8,625.11	8,625.11	-
189D	AFUDC (Interest)	149,198.01	138,043.74	11,154.27
189E	AFUDC (Equity)	160,050.56	144,065.20	15,985.36
190	Construction Overhead	3,252,311.99	2,932,889.02	319,422.97
	Cost of Removal	-	(269,863.52)	269,863.52
	Total Plant Accounts	18,590,249.44	14,819,881.97	3,770,367.47
		(117,979.00)	(117,401.84)	(577.16)
	Total Regulated Assets	18,472,270.44	14,702,480.12	3,769,790.32

- 4.1. Schedule 2 states average plant in service as \$18,472,270 and this is shown in the column entitled "Plant" on Schedule 6. Schedule 2 also states average depreciation in service as

\$13,763,000. Please confirm where the \$13,763,000 is included in Schedule 6 of Appendix A.1 as it is not shown in the table above.

4.2. Please provide the accounting-system-generated account balances for all of the Plant accounts and associated accumulated depreciation accounts listed in Schedule 6 of Appendix A.1 above as at December 31, 2019.

4.2.1. If the balances in the above table are different from those shown on the system-generated account balances, please provide a reconciliation or explanation.

5. **Reference: B-14, PKMJF Amended Application, Appendix A.1: 2019 Cost of Service Study for the Jet Fuel System (Appendix A.1)**

Schedule 5 of Appendix A.1 contains the following table:

Account Number & Description	Original Cost 12/31/2018	Accumulated Depreciation 12/31/2018	Net Service Value 12/31/2018	2018 Depreciation Expense	Existing Depreciation Rates	Forecast Remaining Life	Proposed Recovery 3 Years w Exception		Revised Remaining Life
(a)	(b)	(c)	(d)	(e)	(f)	(g) = [d / e] [1]	(h)	(i) = [h / b]	(j) = [d / h]
152 Land Rights	98,683.73	91,762.48	6,921.25	1,746.70	1.77%	4.0	2,307.08	2.34%	3.0
153 Line Pipe [2]	6,107,724.24	3,558,941.50	2,548,782.74	282,472.58	4.86%	9.0	849,594.25	13.91%	3.0
156 Buildings	480,479.33	341,743.90	138,735.43	19,219.18	4.00%	7.2	46,245.14	9.62%	3.0
158 Pumping Equipment	1,138,930.25	900,553.22	238,377.03	52,390.80	4.60%	4.5	79,459.01	6.98%	3.0
159 Station Lines	1,931,570.82	1,572,956.16	358,614.66	81,898.61	4.24%	4.4	119,538.22	6.19%	3.0
160 Other Station Equipment	2,760,133.99	1,989,824.62	770,309.37	153,627.16	5.73%	5.0	256,769.79	9.30%	3.0
160C Central Pipeline Control	329,325.99	329,325.99	-	-	0.00%	na	-	0.00%	na
161 Storage Tanks	1,878,251.02	1,228,896.83	649,354.19	91,993.66	4.90%	7.1	216,451.40	11.52%	3.0
163 Communications	239,200.52	223,358.50	15,842.02	5,513.46	10.00%	2.9	5,280.67	2.21%	3.0
185WE Work Equipment	51,974.45	47,999.11	3,975.34	1,325.12	20.00%	3.0	1,325.11	2.55%	3.0
186HW Computer Hardware	3,789.43	3,789.43	-	-	20.00%	na	-	0.00%	na
186SW Computer Software	8,625.11	8,625.11	-	-	20.00%	na	-	0.00%	na
189D AFUDC (Interest)	149,198.01	132,466.61	16,731.40	4,819.10	3.23%	3.5	5,577.13	3.74%	3.0
189E AFUDC (Equity)	160,050.56	136,072.52	23,978.04	5,425.72	3.39%	4.4	7,992.68	4.99%	3.0
190 Construction Overhead	3,252,311.99	2,773,177.53	479,134.46	130,417.68	4.01%	3.7	159,711.49	4.91%	3.0
BS Cost of Removal	-	(404,795.28)	404,795.28	49,516.56	7.69%	8.2	134,931.76	33.33%	3.0
Total	18,590,249.44	12,934,698.23	5,655,551.21	880,366.33		6.4	1,885,183.74		

5.1. Please confirm whether PKMJF currently uses the depreciation rates shown for 2018 or 2019 in its own accounting records, i.e. in its general ledgers.

5.1.1. If PKMJF does not use either of the rates shown above, provide confirmation of the rates in force and the reasons, if any, why the depreciation rates are different.

C. PURCHASE OF KINDER MORGAN ASSETS BY PEMBINA

6. **Reference: Exhibit B-30, Letter from Regulatory Law Chambers to BCUC**

In Section A, the letter states: "On December 16, 2019, Pembina acquired Kinder Morgan Canada Limited, which included KMJF..."

6.1. This request focuses on Pembina Pipeline Corporation's (**Pembina**) considerations with respect to its acquisition of KMJF.² Please provide the following:

² In this series, we are using KMJF to refer to Kinder Morgan Canada (Jet Fuel) Inc. prior to acquisition by Pembina.

- 6.1.1. Working papers and analysis of KMJF by Pembina, or its advisors, as part of its due diligence process prior to the acquisition of Kinder Morgan Canada Limited.
- 6.1.2. Copies of internal reports relating to KMJF used by management of Pembina in consideration of the acquisition.
- 6.1.3. Pembina's deal model (or components thereof) showing details of the expected net cash flows related to KMJF.
- 6.1.4. Internal studies prepared on the abandonment costs relating to KMJF.
- 6.1.5. Purchase Price Allocation (**PPA**) analysis showing the amount of the total purchase price allocated to KMJF, including a breakdown of tangible and intangible assets. If a final PPA has not been prepared, provide a preliminary PPA together with estimated date the final PPA will be prepared.

D. UPDATED FORECASTS

7. Reference: B-14, KMJF Amended Application, Appendix A.1: 2019 Cost of Service Study for the Jet Fuel System (Appendix A.1)

- 7.1. Appendix A.1 includes calculations using 2019 forecast amounts. Please provide a revised Appendix A.1 using 2019 actual amounts. Where there is variance between forecast and actual 2019 amounts, provide a reconciliation of the two.
- 7.2. Please provide all accounting-system-generated trial balances and general ledgers supporting the actual balances used in the revised Appendix A.1 described above.

8. Reference: B-14, KMJF Amended Application, Appendix A.1: 2019 Cost of Service Study for the Jet Fuel System (Appendix A.1)

Schedule 17 of Appendix A.1 summarises A & G costs. Given the KMJF Amended Application was filed prior to Pembina's acquisition of Kinder Morgan Canada Limited, it is assumed the A & G costs relate to the parent company at the time, not Pembina.

- 8.1. Provide explain whether (or not) Appendix A.1 should be amended for 2020 and beyond in light of Pembina's acquisition of KMJF.
 - 8.1.1. Will the acquisition create synergies such that A & G would decrease? If not, why not?

9. Reference: B-22, Response to BCUC Order P-10-19

Appendix (Suppl.) VAFFC-KMJF 9.8 contains the following table:

Kinder Morgan Canada (Jet Fuel Line)
Executive Summary
Assumes 5-Year Depreciable Life / Abandonment Collection Period
(\$000)

	Modified Amount	As Filed Amount	Variance
Rate Base (2019 Forecast)	5,134	4,757	376
Rate of Return (2019 Forecast)	6.73%	6.73%	0.00%
Revenue Requirement (2019 Forecast)			
Operating Costs [1/]	4,265	4,322	-57
Return on Capital	346	320	25
Return of Capital	1,127	1,880	-753
Provision for Income Taxes	353	628	-274
Total	6,092	7,150	-1,058
Revenue Requirement (2020 Forecast) [2/]	6,213	7,293	-1,079
Revenue Requirement (2021 Forecast) [2/]	6,338	7,439	-1,101
Revenue Requirement (2022 Forecast) [2/]	6,464	na	na
Revenue Requirement (2023 Forecast) [2/]	6,594	na	na
Annual Contribution for Abandonment Costs (2019)	2,503	4,102	-1,599
Annual Contribution for Abandonment Costs (2020)	2,503	4,102	-1,599
Annual Contribution for Abandonment Costs (2021)	2,503	4,102	-1,599
Annual Contribution for Abandonment Costs (2022)	2,503	4,102	-1,599
Annual Contribution for Abandonment Costs (2023)	2,503	4,102	-1,599

1/ Decrease due to amortizing projected rate case costs over 5 years (instead of 3 years).

2/ Reflects 2.0% escalation factor.

- 9.1. Please provide the underlying calculations to support the amounts shown in the “Modified Amount” column, i.e. Appendix A.1 as modified, together with Excel version of the calculations.

10. **Reference: Exhibit B-22, Response to BCUC Order P-10-19**

Appendix (Suppl.) VAFFC-KMJF 5.3 contains the following table:

Account Number & Description	Original Cost 12/31/2018	Accumulated Depreciation 12/31/2018	Net Service Value 12/31/2018	2018 Depreciation Expense	Existing Depreciation Rates	Forecast 2019 Depreciation Expense
(a)	(b)	(c)	(d)	(e)	(f)	(g)
152 Land Rights	98,683.73	91,762.48	6,921.25	1,746.70	1.77%	1,746.70
153 Line Pipe	6,107,724.24	3,558,941.50	2,548,782.74	282,472.58	4.86%	296,835.40
156 Buildings	480,479.33	341,743.90	138,735.43	19,219.18	4.00%	19,219.17
158 Pumping Equipment	1,138,930.25	900,553.22	238,377.03	52,390.80	4.60%	52,390.79
159 Station Lines	1,931,570.82	1,572,956.16	358,614.66	81,898.61	4.24%	81,898.60
160 Other Station Equipment	2,760,133.99	1,989,824.62	770,309.37	153,627.16	5.73%	158,155.68
160C Central Pipeline Control	329,325.99	329,325.99	-	-	0.00%	-
161 Storage Tanks	1,878,251.02	1,228,896.83	649,354.19	91,993.66	4.90%	92,034.30
163 Communications	239,200.52	223,358.50	15,842.02	5,513.46	10.00%	15,842.02
185WE Work Equipment	51,974.45	47,999.11	3,975.34	1,325.12	20.00%	3,975.34
186HW Computer Hardware	3,789.43	3,789.43	-	-	20.00%	-
186SW Computer Software	8,625.11	8,625.11	-	-	20.00%	-
189D AFUDC (Interest)	149,198.01	132,466.61	16,731.40	4,819.10	3.23%	4,819.10
189E AFUDC (Equity)	160,050.56	136,072.52	23,978.04	5,425.72	3.39%	5,425.71
190 Construction Overhead	3,252,311.99	2,773,177.53	479,134.46	130,417.68	4.01%	130,417.71
BS Cost of Removal	-	(404,795.28)	404,795.28	49,516.56	7.69%	49,516.56
Total	18,590,249.44	12,934,698.23	5,655,551.21	880,366.33		912,277.09

- 10.1. In this table, in most cases, the “Forecast 2019 Depreciation Expense” (Column g) is calculated as the “Original Cost 12/31/2018” (Column b) multiplied by “Existing Depreciation Rates” (Column e). As can be seen, this is not true for all cases (i.e. Column e values are not the same as Column g values). Please provide the underlying calculations used and explain any differences.

11. **Reference: Canada Broadcasting Company and Business in Vancouver news articles**

On May 15, 2020, the Canadian Broadcasting Corporation reported that due to the impact of COVID 19, Air Canada would be cutting approximately 20,000 staff, or approximately 50%-60% of its staff³.

On May 11, 2020, Business in Vancouver that Vancouver Airport Authority would be cutting 25% of the workforce⁴.

Both Air Canada and Vancouver Airport Authority expect a significant decline in passengers for at least 3 years.

- 11.1. Given the anticipate decline in passengers by Air Canada and Vancouver Airport Authority, provide the following:

³ <https://www.cbc.ca/news/business/air-canada-flight-attendants-1.5572596>

⁴ https://biv.com/article/2020/05/yvr-airport-authority-issues-layoff-notice?utm_source=BIV+Newsletters%2C+effective+July+1%2C+2017&utm_campaign=94efea8787-EMAIL_CAMPAIGN_2020_05_11_05_58&utm_medium=email&utm_term=0_c5e00a74ef-94efea8787-211138022

11.1.1. Confirmation whether PKMJF has prepared revised forecasts reflecting a post pandemic world, i.e. for 2020 and beyond.

11.1.2. An updated Cost of Service Study for 2020 and beyond.

11.1.3. Any analysis prepared with respect to projected throughput for 2020 and beyond.

11.1.4. If any of the above have not been prepared, please explain why.

E. ASSET RETIREMENT OBLIGATION

12. Reference: Exhibit B-11, Response to BCUC IR No. 2

In response 11.10, at page 72 of 72, PKMJF confirms it does not have an Asset Retirement Obligation (**ARO**) on its balance sheet.

12.1. Given that PKMJF seeks to recover abandonment costs, provide confirmation whether in the current and most recent fiscal year (if not the year referred to in response 11.10), PKMJF recognizes an ARO in its accounting records.

12.1.1. If an ARO is not recorded, please provide a detailed explanation as to why it is not recorded.

12.2. Where an ARO is being accounted for on the balance sheet of PKMJF, provide working papers showing the calculation of the ARO and the discount rate applied. Also provide journal entries showing initial recognition of the ARO, journal entries for the accretion expense and general ledger accounts that have been impacted by the journal entries.

F. OTHER

13. B-14, KMJF Amended Application, Appendix A.1: 2019 Cost of Service Study for the Jet Fuel System (Appendix A.1) & Exhibit B-18, KMJF Supplemental responses to VAFFC IR No.1, Appendix 13.1-1 to 13.1-10 (Appendix 13.1)

13.1. Provide the Excel version of Appendix A.1 and Appendix 13.1 (excluding confidential documents).