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British Columbia
Utilities Commission

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January 25, 2021

Sent via email/eFile

Kinder Morgan Canada (Jet Fuel) Inc.
2019 Tariff Filing Exhibit A-48

Mr. Matthew Keen
Partner
Norton Rose Fulbright Canada LLP
510 West Georgia Street, Suite 1800
Vancouver, BC V6B 0M3
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Re: Kinder Morgan Canada (Jet Fuel) Inc. – 2019 Tariff Filing Application – Project No. 1598984 – BCUC Information Request No. 1 to Vancouver Airport Fuel Facilities Corporation

Dear Mr. Shaw:

Further to the above-noted proceeding, please find enclosed British Columbia Utilities Commission (BCUC) Information Request No. 1 to Vancouver Airport Fuel Facilities Corporation. Pursuant to BCUC Order P-7-20, please file your responses on or before Monday February 8, 2021.

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

/cmv

Attachment

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Kinder Morgan Canada (Jet Fuel) Inc.
2019 Tariff Filing

INFORMATION REQUEST NO. 1 TO VANCOUVER AIRPORT FUEL FACILITIES CORPORATION

Table of Contents

A. THE JET FUEL SYSTEM

1.0 Reference: THE JET FUEL SYSTEM
Exhibit C2-36-2, VAFFC Direct Evidence, p. 5; InterGroup Report, p. 8; Exhibit B-13, VAFFC IR 6.1
Forecast Volumes

On page 5 of Exhibit C2-36-1, the Vancouver Airport Fuel Facilities Corporation's (VAFFC) Direct Evidence, VAFFC states:

> Over the past 30 days, in light of the effects of the pandemic on air travel and hence aircraft fuel demand, YVR has averaged about 20 daily fuel tanker truck deliveries. Nominations on PKMJF's [PKM Canada (Jet Fuel) Inc.'s] system are approximately 20% of pre-pandemic levels. VAFFC and its members expect that air travel and fuel demand at YVR will ultimately return to pre-pandemic levels, but the pace and timing of that return is uncertain.

On page 8 of the InterGroup Report of Exhibit C2-36-1, VAFFC further states that "PKMJF should be expected to work with its shippers to develop sound prospective forecasts of volumes, and to set tolls accordingly, to permit customers to plan their operations based on fixed unit costing for the shipping service."

In response to VAFFC Information Request (IR) 6.1, PKMJF indicates that a total of 703,386 cubic meters (m^3) of jet fuel was shipped from the Westridge Marine Terminal in 2018 and that it "…expects the 2018 volumes and allocation between the shippers to continue until the VAFD [Vancouver Airport Fuel Delivery] project is in-service…"

1.1 Please discuss whether PKMJF has requested input from VAFFC regarding forecast shipping volumes over the test period and, if so, describe any input VAFFC provided.

1.1.1 Please describe how VAFFC prepares its volume forecasts and how often these forecasts are updated.

1.2 Please provide the actual volumes VAFFC shipped on PKMJF's jet fuel system (the Jet Fuel Line or JFL) in 2018, 2019, and 2020 (where known) and VAFFC's forecast for shipping volumes in

2020/2021.

1.2.1 Absent the effects of COVID-19 on air travel, did PKMJF forecast 2020 volumes to be in line with recent historical actuals? Please discuss.

1.2.2 If VAFFC's forecast for 2021 differs significantly from the actual volume shipped in 2018, please discuss the reason(s) for the difference.

1.3 Please explain why, over the 30-day period described above, Vancouver International Airport (YVR) received an average of 20 tanker truck deliveries of jet fuel per day while nominations on the JFL decreased to approximately 20 percent of pre-pandemic levels.

1.3.1 Please provide a comparison of the cost of trucking and the effective toll for shipping on the JFL on a dollars per barrel basis.

2.0 Reference: THE JET FUEL SYSTEM
Exhibit C2-36-2, VAFFC Direct Evidence, pp. 9–10; InterGroup Report, Appendix C, p. C-11
Forecast Volumes – Throughput Volumes Following Completion of the VAFD Project

On page 10 VAFFC's Direct Evidence, VAFFC states:

> Once the VAFD becomes operational, VAFFC does not expect its members to cease all shipments of jet fuel on the Jet Fuel Line. Rather, VAFFC expects members will ship on the Jet Fuel Line opportunistically, when it makes economic sense to do so, taking into account different jet fuel source prices and overall transportation cost options.

2.1 Please describe the specific circumstances under which VAFFC envisions its members electing to ship on the JFL following completion of the VAFD project.

2.2 Please provide VAFFC's expectations for the frequency of shipments and forecast annual volumes on the JFL by its members following completion of the VAFD project.

2.2.1 How does VAFFC's expectation for future throughput volumes on the JFL compare to the volumes VAFFC shipped in 2018?

2.3 Please describe the process VAFFC envisions being in place that would allow its members to ship opportunistically on the JFL following completion of the VAFD project. In your response, please discuss how VAFFC members would nominate volumes and how VAFFC expects tolls would be calculated.

2.4 Please explain how PKMJF would be compensated under the "opportunistic" shipping scenario.

2.4.1 Does VAFFC believe operations of the JFL would remain economical under such a scenario? Please explain why or why not.

2.5 Please describe any regulatory obligations governing PKMJF's activities as a common carrier that would necessitate continued operation of the JFL by PKMJF under the "opportunistic" shipping scenario described.

2.5.1 In addition to any regulatory obligations, please discuss any economic rational for PKMJF to continue operating the JFL under the "opportunistic" shipping scenario.

On page C-11 of the InterGroup Report, VAFFC states:

> VAFFC filed an application for an Environmental Assessment Certificate (EAC) with the BC Environmental Assessment Office (EAO) in February 2011 wherein it stated the need for the VAFD Project (Project) and expectations that PKMJF would abandon the JFL facilities soon after the Project became operational. The EAC was issued in 2013. Thus, it

was clearly evident in 2009 and certainly by 2011 and 2013, at the latest, that VAFFC had made more than a tentative decision to proceed with the VAFD Project.

2.6 Please discuss whether VAFFC's 2011 application for an EAC for the VAFD project and/or the 2013 issuance of the EAC was publicly available information.

2.6.1 Please explain why it is or is not reasonable to expect that PKMJF would have been aware of VAFFC's EAC application and/or the subsequent EAC issuance.

2.7 Please list any permits or approvals required for construction and operation of the VAFD project that were outstanding at the time the EAC was issued in 2013.

2.7.1 For each permit/approval identified please indicate (i) when VAFFC applied for the permit/approval, and (ii) when VAFFC received the permit/approval.

On page 9 VAFFC's Direct Evidence, VAFFC states:

> In January 2009, as toll negotiations with PKMJF were continuing, VAFFC submitted its Project Description ("PD") for the VAFD Project to the BC Environmental Assessment Office ("EAO"). The PD reflected VAFFC stakeholder consultation efforts since 2007, including the City of Richmond, the Vancouver Airport Authority, and the Greater Vancouver Regional District, among others. VAFFC launched its dedicated project website in February 2009. It continued and expanded upon these efforts over the following years, engaging in consultation with numerous individuals and organizations. By 2012, VAFFC had held seven public open houses in the City of Richmond, in addition to two open houses hosted by the BC EAO as part of the environmental review process. [footnotes omitted]

2.8 Was PKMJF included in VAFFC's consultation process for the VAFD project? Please discuss.

2.8.1 If yes, please describe the nature of the information VAFFC provided to PKMJF and the date(s) when this information was shared. Please provide copies of any relevant correspondence between VAFFC and PKMJF in your response.

2.8.2 If not, why not?

3.0 Reference: THE JET FUEL SYSTEM
Exhibit C2-36-2, InterGroup Report, p. 8
Throughput Volumes – Use of 2018 Throughput Volumes

On page 8 of the InterGroup Report VAFFC states that "For the purposes of setting tolls for the Test Years, the respective 2019, 2020 and 2021 Revenue Requirements should be divided by this 2018 Throughout Volume to derive tolls, which are then applied to the actual volumes shipped by the respective shippers."

3.1 Please confirm, or otherwise explain, that "2018 Throughout Volume" refers to actual volumes shipped in 2018.

3.2 Please explain why use of the 2018 throughput volume – rather than 2019 and/or 2020 actual throughput volumes – is reasonable and appropriate for setting tolls for the Test Years.

3.2.1 Please provide the effective toll for each of the Test Years based on: (i) the methodology proposed; (ii) 2019 actuals; and (iii) 2020 actuals (if available).

4.0 Reference: THE JET FUEL SYSTEM
Exhibit C2-36-2, VAFFC Direct Evidence, p. 5; VAFFC Fuel Delivery Project Website – Project Overview
VAFD Project

On VAFFC's VAFD project website[1], VAFFC states that "Construction of the new system is currently underway. The system is currently scheduled to be fully operational by mid-2022."

On page 5 of VAFFC's Direct Evidence, VAFFC states that "VAFFC has continued to proceed with the construction of the VAFD pipeline throughout 2020. It now expects the project to be operational in 2023."

4.1 Please explain the discrepancy between the anticipated in-service dates reported on VAFFC's project website and in VAFFC's Direct Evidence.

4.2 Please provide any project schedules or other documentation supporting VAFFC's anticipated in-service date for the VAFD project.

4.3 Please discuss the likelihood of the VAFD project being operational in advance of or later than 2023.

4.4 Will VAFFC be a "common carrier" as defined in the *Utilities Commission Act* following completion of the VAFD project? Please explain why or why not.

B. COST OF SERVICE

5.0 Reference: COST OF SERVICE
Exhibit B-11, BCUC IR 4.1; Exhibit C2-36-2, InterGroup Report, Appendix A, Section 5.0, p. A-32; Appendix C, Section 4.0, p. C-14; RH-2-2008 Reasons for Decision, LMCI Stream 3, Pipeline Abandonment – Financial Issues, Technical Conference, Revisions to Preliminary Base Case Assumptions, dated March 4, 2010, Section 2, p. 4
Annual Escalation Factor

On page A-32 of the InterGroup Report, VAFFC states:

> **Reject Escalation:** No escalator of any type should be used to calculate tolls in 2020 and 2021, as proposed by PKMJF. The proper approach would have been a fully tested revenue requirement for each test year, with supporting justification. However, at this late date, and with the limited information provided by PKMJF regarding 2020 and 2021, such a review is not possible. Instead, it should be recognized that only a portion of PKMJF's costs are affected by inflation, and others ought be offset by appropriate productivity factors. Depreciation, for example, does not increase each year, and Rate Base would decline over time along with associated returns. For this reason, the only practical approach to balance some potentially increasing categories with others that decrease is to approve a flat revenue requirement, maintaining the same 2019 revenue requirement across 2020 and 2021.

In response to British Columbia Utility Commission (BCUC) Information Request (IR) 4.1, PKMJF states:

> The 2.00% annual escalation factor is an estimate of overall cost increases. It is not intended to suggest that each individual revenue requirement component will increase precisely by 2.00% annually, but rather, that the total revenue requirement will increase

[1] https://www.vancouverairportfuel.ca/projectOverview.

by approximately 2.00% annually.

5.1 Please explain which cost categories should be subject to inflation. In your response, please provide the proposed inflation rate, the rationale and external source for the proposed inflation rate.

5.2 Please discuss why an inflationary increase is not a reasonable approach when inflation is a general measure of the increase in the level of prices of goods and services, including replacement parts for the JFL, to which PKMJF is exposed.

5.3 Please clarify the "productivity factors" that should offset an inflationary increase.

In a letter dated March 4, 2010, the National Energy Board (NEB, now the Canadian Energy Regulator, CER) the NEB clarified specific items established RH-2-2008 Reasons for Decision with respect to the base case assumptions to facilitate the filing of preliminary estimates of future abandonment costs, including the application of inflation. The NEB stated:

> In the Board's view, there may be a role for two types of inflation assumptions: an industry-specific inflation for cost escalation and a general economy-wide inflation. However, at this time, the same value can be used for each type of inflation.
>
> The Board currently sees value in relying on the Bank of Canada's inflation target to establish the long-term inflation to be used in the Base Case. To the extent that the Bank of Canada inflation target continues to meet the Board's needs as an external benchmark, the Board will continue to give considerable weight to it in setting the inflation component of the Base Case. The Board will revise the inflation estimate when warranted, as discussed later in this report.
>
> For the Base Case, the Board has determined that the current inflation target set by the Bank of Canada of two per cent per year for expected long-term, inflation is appropriate. The Board notes that actual inflation may fall below or rise above two per cent in the short-term, but would be expected to trend towards two per cent over the long-term.

5.4 Please comment on the reasonableness of applying the Bank of Canada inflation target to each of the components for PKMJF's revenue requirement (i.e., operating expenses, integrity costs, plant depreciation and amortization, rate base, etc.).

5.5 From VAFFC's perspective, please discuss whether an industry-specific inflation rate would be appropriate for PKMJF's revenue requirement. If so, please indicate: (i) the components of the revenue requirement an industry-specific rate should apply to; (ii) an applicable rate for each component; and (iii) the basis for VAFFC's proposed rate. If not, please explain why not.

On page C-14 of the InterGroup Report, in reference to the economic life of the JFL it states, "[i]t is conceivable that Parkland and some other shippers (airline and non-airline) may use the JFL even if it had higher tolls."

5.6 Considering it is conceivable the JFL may continue operating for an indefinite period, and capital additions may occur, please explain why depreciation would "not increase each year" and rate base would "decline over time".

5.7 In a scenario where the JFL continues operation for an indefinite period, please comment on whether there is a potential risk of intergenerational inequities by not accounting for inflation.

6.0 Reference: COST OF SERVICE
Exhibit C2-36-2, Section III (a) (iii), p. 9; InterGroup Report, Section 3.0, p. 8; Appendix B, Section 2.0, p. B-11, B-12; Application by Trans Mountain (Jet Fuel) Inc. for Approval of 2010 Tariff Filing and Toll Setting Agreement for the term 2010 - 2018, dated December 7, 2009 (2010 Tariff Filing), Section IV, p. 2; Order P-5-09; Change in Risk Profile

On pages B-11 and B-12 to the InterGroup Report, VAFFC states:

> From 1998 to 2008 the Commission's decision with respect to the Jet Fuel pipeline set final tolls on a dollar per cubic metre basis. Starting in 2009 (retroactively) to 2018, the negotiated settlement applied a total revenue requirement, with tolls back calculated from actual load. This *fundamentally* changed the risk profile such that tollpayer charges no longer varied based on volume. Instead shippers paid a pre-calculated amount, consistent month over month, increasing on average 2.5% each year from 2010 – 2018. At the same time, the utility no longer bore any risk to revenues as a result of volume fluctuations.

6.1 Please elaborate on the toll methodology(ies) that was(were) applied to shippers from 1998 to 2008 and provide the formula(s) used to calculate the toll(s), as applicable.

6.1.1 For each methodology, please comment on the allocation of risks between the owner and shippers.

6.2 Please elaborate on how the risk profile changed for shippers commencing in 2009 as a result of the change in toll methodology.

6.3 Please clarify, from VAFFC's perspective, the risks PKMJF bore before and after the change in toll methodology.

6.4 Please explain whether any concessions were made by PKMJF as a result of the change in toll methodology.

Page 2 of Trans Mountain (Jet Fuel) Inc. (TJM) 2010 Tariff Filing states:

> Throughout 2009, TMJ has been in discussions with a shipper to set fixed annual revenue amounts for use of the pipeline that span the tolling periods commencing 2009 through to the end of 2018. Such discussions have resulted in an agreement for the annual revenues to be shared monthly on a volumetric basis by all shippers.

6.5 Please explain why VAFFC was satisfied with the modifications to the risk profile and assuming volume risk at the time of the 2009 discussions.

By Order P-5-09 the BCUC approved Trans Mountain (Jet Fuel) Inc. Turbine Fuel Tariff No. 39 which calculates the annual revenues and gather line fee using the same methodology proposed by PKMJF in its current application. Directives 2 and 3 of Order P-5-09 state:

> 2. The approved tolls are permanent and subject to review by the Commission in the event of a complaint by one or more Shippers on the pipeline within 60 days of this Order. <u>If a complaint is received by the Commission after 60 days of this Order, any adjustments in tolls will be on a prospective basis</u>.
>
> 3. <u>TMJ is to provide all Shippers on the pipeline with a copy of this Order</u> along with confirmation to the Commission.
>
> [*Emphasis added*]

6.6 Please confirm that VAFFC received a copy of Order P-5-09.

6.7 Please explain whether VAFCC registered any complaints with the BCUC with respect to the tolls approved by Order P-5-09.

6.7.1 If yes, please provide the date(s) and nature of the complaint(s), as well as the BCUC's response.

6.7.2 If not, please explain why concerns with respect to the risk profile were not raised between 2009 and 2018 (the negotiated settlement period).

With respect to the tolls established for the 2009-2018 period, on page 9 of VAFFC's Direct Evidence, VAFFC indicates that, pursuant to a negotiated settlement, "…rates were guaranteed to generate certain annual revenues, rather than being specified in terms of dollars per unit shipped. This placed all the throughput forecasting risk on the shippers…"

6.8 Please explain why during the negotiated settlement period, VAFFC considered it to be acceptable for shippers to bear risks associated with throughput variance and why VAFFC does not consider such an arrangement to be appropriate for the test period.

6.9 Please discuss why risks associated with throughput variance should be assumed by PKMJF.

6.10 Please discuss alternative toll methodologies VAFFC recommends, and the pros and cons of each alternative.

6.11 Please separately explain how the entitlements and obligations for revenue requirements differ between a common carrier and a public utility.

Regarding PKMJF's current toll application, on page 8 of the InterGroup Report, VAFFC states that "…like basically any other purchased commodity or service, the entrepreneur who sells the service should be at risk for variances in the volumes consumed or demanded by the market". VAFFC further states that "For the purposes of setting tolls for the Test Years, the respective 2019, 2020 and 2021 Revenue Requirements should be divided by this 2018 Throughout Volume to derive tolls, which are then applied to the actual volumes shipped by the respective shippers."

6.12 Please discuss the pros and cons associated with relying on forecast throughput volumes for the purposes of establishing tolls in instances where actual throughput volumes are available.

7.0 Reference: COST OF SERVICE
Exhibit B-25, VAFFC IR 22.1, pp. 2, 4, 6; Exhibit C2-36-2, InterGroup Report, Appendix B, Section 3.1.1, p. B-21; Section 3.1.2, pp. B-21, B-22, B-23, Table 8; Section 3.1.2, pp. B-24, B-29
Operating Costs – Direct Field Expenses

Page B-21 of the InterGroup Report includes a breakdown of PKMJF's direct field forecast expenditures compared to actuals.

Table 8: Direct Field Expenses ($000s)[32]

	2019 Forecast	2019 Actuals	*Variance*
Field Payroll	562	587	*(25)*
Field Non-Payroll			
Employee Expenses	93	180	*(87)*
Materials/Supplies/Parts/etc.	121	42	*79*
Outside Services	420	647	*(227)*
Vehicle Expenses	45	0	*45*
Rents	162	162	*0*
DOT Fees	7	8	*(1)*
Other	60	135	*(75)*
Field Major Maintenance	340	0	*340*
Tank Major Maintenance	15	0	*15*
Subtotal	1,263	1,174	*89*
Direct Field Expenses	1,825	1,761	*64*

On page 2 of the further and better response to VAFFC IR 22.1, PKMJF states, "Regarding comparing year over year fluctuations in operating expenses, KMJF took into account that certain costs are often normalized over a longer period of time."

7.1 Please discuss whether some of the variances between forecast and actual costs can be attributed to the fact that certain operating costs are normalized over a specific period of time (i.e., 3 years).

Further on page 2 of the further and better response to VAFFC IR 22.1, PKMJF states, "prior to September 2018, the previous operator of the Jet Fuel Line maintained accounting in a different manner than as is currently used by KMJF and as is reflected in the Application."

7.2 Considering the difference in the manner in which the accounting was maintained by PKMJF's predecessor, please discuss if a review of total direct field expenditures would be of greater value. If not, why not?

On pages B-22 and B-23 of the InterGroup Report, VAFFC states:

> It is unclear why A&G Direct Staff costs significantly increased over the 10 year period 2009 – 2018. However, relative to prior year, 2018 A&G Direct Staff costs, the 2019 Field Payroll and Employee Expenses appear reasonable – as long as they are fully replacing A&G Direct Staff costs (i.e. resulting in direct cost efficiencies). While total A&G costs have been reduced for 2019 compared to past years, it is clear total A&G has not decreased by corresponding 2018 Direct Staff levels (approximately $1 million).
>
> **Recommendation: For Field Payroll, actual expenditures of $587,000 should be approved in the revenue requirement as long as the A&G cost allocations are reduced by the corresponding level of Direct staffing as a result. At present, it appears**

considerable overlap between these two cost components exists (as forecast A&G spending through shared allocations is increasing from previous year allocations). [*Emphasis retained*]

7.3 Considering the financial statements of PKMJF and its predecessor have been audited annually by an independent third party, and the revenue requirement for the test period is calculated based on prior year actuals, please provide the basis for asserting the existence of considerable overlap between field payroll and administrative and general costs. Please provide any evidence in support of VAFFC's position.

On page B-24 of the InterGroup Report, VAFFC states:

> For Field and Tank Major Maintenance costs, there is no supporting detail for these forecast costs despite the fact that there exists potential for considerable overlap with Integrity and even A&G Costs. Plus, there were no actual expenditures in this category for 2019. These costs (totalling $355,000) should not be approved in revenue requirement, and instead removed as a subcomponent of Direct Field Expense (including forecast costs). <u>These costs are provided for elsewhere</u>. Further, unless PKMJF can provide detailed and specific known expenditures for 2020 or 2021 and can prove these costs are different than those included in Integrity costs, the BCUC should not include any costs in 2020 or 2021 either. [*Bold removed; underline added*]

7.4 Considering the financial statements of PKMJF and its predecessor have been audited annually by an independent third party, and the revenue requirement for the test period is calculated based on prior year actuals, please provide the basis for asserting Field and Tank Major Maintenance costs overlap with Integrity and/or administrative and general costs. Please provide any evidence in support of VAFFC's position.

On page 6 of the further and better response to VAFFC IR 22.1, PKMJF states:

> Schedule 16 of the Application, "Tank Major Maintenance" includes the following costs: (a) two to three annual tank inspections; and (b) API 653 inspections for each tank every 10 years. For 2019, KMJF anticipates inspecting Tanks A-3, A-4 and A-5. API 653 inspections, which are more extensive and expensive, occur at least once every 10 years per tank. Schedule 16 "Tank Major Maintenance" includes the estimated 2019 costs of inspecting 3 tanks but does not at this time include any amounts related to API 653 inspection costs. Prior to 2019, costs associated with this type of work were allocated in a different manner than in KMJF's current Application. Furthermore, KMJF submits that this type of work is a cost necessary for the operation of the Jet Fuel Line.

7.5 Please explain whether from VAFFC's perspective the above response from PKMJF provides clarity on the forecast tank major maintenance costs. If not, please explain why not.

On page B-29 of the InterGroup Report, VAFFC states:

> RECOMMENDATION: PKMJF claims "Outside Services" spending in Direct Field Expense ($420k in 2019), that on its face appears to overlap with Direct Field Payroll and Integrity costs, exceeds previous years, and conflicts with a claimed 2021 retirement. Despite this context, PKMJF has not provided support for this level of spending in its forecast, although it was repeatedly asked.
>
> Also, actual expenditures raise substantial questions related to the ability of PKMJF to

control costs and prudently manage spending to that which is needed to safely operate the pipeline given the overlap with Integrity cost reporting and lack of supporting detail.

Unless PKMJF can provide evidence that these services are outside of the abilities of its Direct Field Payroll and can show a management plan for how Outside Service spending is minimized and any spending that has occurred is necessary and different in application than Integrity cost spending, these costs should be disallowed from revenue requirement within Direct Field Expense. [*Bold removed*]

7.6 Considering the financial statements of PKMJF and its predecessor have been audited annually by an independent third party, and the revenue requirement for the test period is calculated based on prior year actuals, please provide the basis for asserting outside service costs overlap with direct field payroll and/or integrity costs. Please provide any evidence in support of VAFFC's position.

7.7 Please elaborate on the basis for stating that "actual expenditures raise substantial questions related to the ability of PKMJF to control costs and prudently manage spending". In the response please (i) address whether there may be a reasonable rationale for actual costs exceeding forecast, and if not why not; and (ii) provide supporting evidence for any costs that in VAFFC's opinion are not prudent.

On page 4 of the further and better response to VAFFC IR 22.1, PKMJF states:

Please see the attached Appendix (Suppl.) VAFFC-KMJF 22.1.5. The Appendix (Suppl.) VAFFC-KMJF 22.1.5 lists the outside services of KMJF related to the Jet Fuel Line. Some of the contracts are confidential. KMJF will further review which contracts require being provided subject to confidentiality terms.

7.8 Please explain whether the above referenced response, including the referenced appendix from PKMJF, provides clarity on the forecast outside services costs. If not, please explain why not.

8.0 Reference: COST OF SERVICE
Exhibit C2-36-2, InterGroup Report, Appendix B, Section 3.1.3, pp. B-30, B-31, B-32
Operating Costs – Integrity Costs

On page B-30 of the InterGroup Report, VAFFC states:

PKMJF's revenue requirement proposes to average Integrity Costs over three years 2019 – 2021 given the fluctuations of these types of expenses. PKMJF does not provide justification for why the three year time period was appropriate over another period of time.

On page B-32 of the InterGroup Report, VAFFC states:

PKMJF just spent similarly high levels in 2017 and it would appear that most if not all pipes have already been assessed within PKMJF's standard five year timeframe. Averaging PKMJF's forecast expenditures over five years instead of three would align with the user pay / cost causation principle, previously paced levels of spending and previously approved cost treatment. This results in normalized Integrity Costs of $336,200 in revenue requirement. [*Bold removed*]

8.1 Please explain whether a five-year timeframe is standard industry practice for assessing the integrity of the pipeline assets. Include references as appropriate.

8.1.1 If a five-year timeframe is not standard practice, please explain how a five-year

timeframe was established for PKMJF and whether, in VAFFC's opinion, a five-year period is reasonable for the JFL.

8.2 Considering the test period spans three years, please elaborate on why VAFFC does not consider use of a three-year period for averaging integrity costs to be appropriate.

8.3 Please explain why averaging PKMJF's forecast expenditures over three years is not consistent with the principle of cost causation principle.

8.4 Please provide the supporting calculation for the normalized Integrity costs of $336,200.

8.5 Please discuss how a five-year normalization period would be implemented in the context of the three-year test period.

8.6 Please discuss the pros and cons of (i) a five-year average and (ii) a three-year average under a scenario where the JFL were to cease operation following completion of the VAFD project.

On page B-31 of the InterGroup Report, VAFFC states:

> Given PKMJF's explanation for its forecast Integrity Costs above, that pipelines need to be assessed every five years, it follows that proper cost control and pacing would include assessment of 20% of pipelines each year, which would result in quite consistent costs year over year. At the very least, costs should be quite predictable within a five year period following planned inspections.

8.7 Please explain why VAFFC considers the integrity costs to be predictable given that necessary work to maintain the pipeline may only be known once the inspection work is competed?

8.8 Please discuss if the age of the pipeline in any way impacts integrity costs (e.g., it may cost more to maintain an older pipeline). If not, please explain why not.

8.9 Please elaborate on why five years is an appropriate timeframe for reviewing integrity costs considering changes to codes, standards or regulations may warrant a more frequent review.

8.10 Please discuss any potential consequences and risks associated with deferring integrity work.

On page B-32 of the InterGroup Report, VAFFC states:

> Even assuming that PKMJF's recent integrity spending has been appropriate from an engineering perspective, the BCUC should reject the level of Integrity Costs proposed by PKMJF for tolls. [*Bold removed*]…
>
> The levels of spending and activity that PKMJF has undertaken in the past few years is not what would be expected from a utility preparing for pipeline abandonment.

8.11 Please elaborate on the basis for rejecting the proposed integrity costs and provide any evidence in support of VAFFC's position, including cites to any similar circumstances where the recovery of integrity costs have been denied by the BCUC.

8.12 Please clarify the level of pipeline integrity work, and the associated costs, VAFFC would expect for a pipeline that is planned to be abandoned in the near term.

8.13 In VAFFC's view, are PKMJF's proposed integrity costs reasonable given the age of the JFL? Please explain why or why not.

9.0 Reference: COST OF SERVICE
Exhibit B-25, VAFFC IR 22.1, p. 2; Exhibit C2-36-2, InterGroup Report, Appendix A p. A-32; Appendix B, p. B-13
Operating Costs

On page A-32 of the InterGroup Report, VAFFC states, "[n]o escalator of any type should be used to calculate tolls in 2020 and 2021, as proposed by PKMJF. The proper approach would have been a fully tested revenue requirement for each test year, with supporting justification." [*Emphasis added*]

On page B-13 of the InterGroup Report, VAFFC states:

> A typical method to assess the appropriateness of test year operating forecasts is to compare to actual operating expenditures in past years. As PKMJF's operating expenditures have not been reviewed in over ten years, its not adequate to merely confirm that 2019 forecast expenditures are reasonable compared to the previous year actuals. [*Emphasis added*]

9.1 Please reconcile the two statements underlined above.

9.2 Please confirm, or explain otherwise, that VAFFC is referring to the BCUC when it states PKMJF's operating costs have not been reviewed in over ten years.

9.2.1 If confirmed, please explain why VAFFC considers operating costs reviewed by the BCUC as a reasonable basis for comparing the forecast costs in the Kinder Morgan Canada (Jet Fuel) Inc. – 2019 Tariff Filing Application (Application).

9.3 Please confirm, or otherwise explain, that as a public reporting entity PKMJF's parent company Pembina Pipeline Corporation, and its predecessors, are required to have its financial statements annually audited by a qualified, independent third party.

9.4 Please discuss why more recent actual costs are not a reasonable basis for comparing the forecast operating costs in the Application.

9.5 Does VAFFC consider an evaluation of the individual components of the proposed revenue requirement on a standalone basis to be sufficient? Please explain why or why not.

9.6 Please discuss the value of incorporating a comparison to costs that were incurred over ten years ago.

9.6.1 Please discuss the regulatory efficiencies of comparing to costs over ten years ago.

9.6.2 Please explain how inflation and other market adjustments would be addressed in comparing the forecast operating costs in the Application to costs from over 10 years ago.

On page 2 of the further and better response to VAFFC IR 22.1, PKMJF states:

> KMJF has compared forecast 2019 operating expenses to levels incurred over the past five and three year periods and submits such a comparison is appropriate to determine the prudence of its applied for operating expenses, compared to operating expenses incurred over a historic period more than 5 years ago. … demonstrates that KMJF's forecast 2019 operating expenses are 3.7% lower than the average level for the three-year period 2016-2018. Even looking back to the past five years, KMJF's forecast 2019 operating expenses are less than 5% greater than the average level for the five-year period 2016-2018. [*Emphasis added*]

9.7 Considering the financial statements of PKMJF and its predecessor have been audited annually by an independent third party, please elaborate on why VAFFC does not consider a comparison

of forecast operating costs in the Application against actual costs incurred over the last three-year and five-year periods to be appropriate.

Further on page 2 of the further and better response to VAFFC IR 22.1, PKMJF states, "Regarding comparing year over year fluctuations in operating expenses, KMJF took into account that certain costs are often normalized over a longer period of time."

9.8 Please discuss whether PKMJF's normalization of operating costs may impact the percentage increases being reported in VAFFC's evidence. If so, please quantify the impact.

9.9 Considering certain costs are normalized, please comment on the appropriateness and relevance of comparing total operating costs from one specific year to another.

10.0 Reference: COST OF SERVICE
Exhibit B-12, Parkland Refining (B.C.) Ltd. (Parkland) IR 7.2; Exhibit C2-36-2, InterGroup Report, Appendix B, pp. B-35, B-36, B-38
Operating Costs – Administrative & General Allocation

On page B-35 of the InterGroup Report, VAFFC states:

> The "Mass Model", has not been approved by the BCUC or other regulator for use in rate setting. As well, PKMJF's explanation above could not be verified from the supporting information provided. Nevertheless the apparent model outcome results in ... of all general and administrative overhead costs accrued from the period January – April 2019 allocated to the jet fuel pipeline, regardless of whether operation of the jet fuel pipeline requires such activity or if the allocation weightings used are appropriate cost driver weightings. [redacted text omitted]

In response to Parkland IR 7.2, PKMJF states:

> With respect to general and administrative ("A&G") costs from September 1, 2018 onwards, there are no administrative staff directly employed by KMJF. A&G costs are allocated by Kinder Morgan and KMC Services to KMJF using the Massachusetts Model ("Mass Model"), which is similar to the NEB [National Energy Board, now the Canada Energy Regulator] allocation model used by Canadian entities to allocate general and administrative type costs.

10.1 Please explain whether VAFFC considers the Massachusetts Model used by PKMJF to be a reasonable method for allocating administrative and general costs.

10.2 Please discuss the pros and cons of the NEB allocation model used by Canadian entities to allocate general and administrative costs, and whether VAFFC considers this a reasonable methodology.

10.2.1 In VAFFC's view, is the NEB allocation model preferred over the Massachusetts model for allocating general and administrative costs? If yes, please explain why and specify the preferred characteristics of the NEB allocation model.

10.3 Please discuss if the Massachusetts Model is a reasonable proxy for the allocation of general and administrative costs.

10.4 Please comment on the differences between the Massachusetts Model used by PKMJF for the allocation of administrative and general costs in the proposed revenue requirement and the NEB allocation model.

On page B-36 of the InterGroup Report, VAFFC states:

> Specifically, for the detailed A&G activities that the jet fuel pipeline is allocated costs for, there are many activities where it is not straightforward how these types of activities are used by the jet fuel pipeline. On its face there seems to be double counting between A&G allocated costs and directly assigned costs to the jet fuel pipeline in revenue requirement. Especially as revenue requirement for the pipeline includes salaries for five full-time employees, costs should not be allocated unless it is demonstrated that there is no overlap.

10.5 Considering the financial statements of PKMJF and its predecessor have been audited annually by an independent third party, and the revenue requirement for the test period is calculated based on prior years' actuals, please provide the basis for VAFFC's assertion that there is double counting or overlap in the proposed revenue requirement.

On page B-38 of the InterGroup Report, VAFFC states:

> While it is hard to estimate the exact extent to which of the A&G allocations should be included in revenue requirement, it is clear that PKMJF's proposed A&G allocation is overstated. Further, the BCUC cannot include some or all of these costs without detailed and supported cost drivers given the overlap of some cost categories with Direct Field Expenses cost components and time that has elapsed since the last thorough review. Based on the list provided above, it is reasonable to exclude the costs that do not appear to apply to the jet fuel pipeline and/or may be double counted through direct cost assignments, reducing the A&G allocation by $250,255 for 2019.

10.6 Please provide the basis for reducing administrative and general allocations by $250,255. In your response, please include any relevant evidence and calculations to support the proposed reduction.

11.0 Reference: COST OF SERVICE

Exhibit C2-36-2, InterGroup Report, p. 13; Appendix C, pp. C-2, C-11, C-12, C-14; Financial Accounting Standards Board, Accounting Standards Codification, Master Glossary, ASC 360-10-35-4

Depreciation – Remaining Life of the Jet Fuel Line

On page C-2 of the InterGroup Report, VAFFC states, "…PKMJF's now assumed final retirement date January 1, 2022 is contradicted by… the 25-year life expectancy used in the calculation of the Asset Retirement Obligation [ARO] reported in the PKMJF 2019 financial reports." [*footnotes omitted*]

On pages C-11 and C-12 of the InterGroup Report, VAFFC states:

> Even though 2010-2018 was a negotiated toll settlement period, there was sufficient evidence by 2009, 2011, and incontestably by 2013 that the VAFD project was proceeding. It was PKMJF's responsibility to either apply its practice of recalculating depreciation rates in response to a fixed date, or otherwise seek additional depreciation recovery. By not booking the appropriate depreciation expense needed to achieve full recovery by 2022 as designed, PKMJF received increased earnings and only now requests increased depreciation rates to make up for the shortfall. [*footnotes omitted*]

On page 13 of VAFFC's Direct Evidence, VAFFC states:

> …PKMJF has misconstrued the effect of the depreciation rates established by PKMJF's

> 2010 depreciation study. The 2010 depreciation study established rates that should have allowed PKMJF to recover its net investment in the Jet Fuel Line (including any capital additions during the 2009-2018 negotiated settlement period) by the end of 2022. [*footnotes omitted*]

11.1 Please reconcile VAFFC's reference to the 25-year life expectancy of the JFL to VAFFC's assertion that by 2013 PKMJF should have known about the VAFD project and re-calculated depreciation rates to reflect a 2022 end-of-life.

On page C-14 of the InterGroup Report, VAFFC states:

> …there is no clear retirement date of the JFL other than PKMJF's estimate of the VAFD Project in service date. **No prospect of continuing JFL operation has even been considered by PKMJF.** It is conceivable that Parkland and some other shippers (airline and non-airline) may use the JFL even if it had higher tolls. The JFL has a physical 25-year remaining life and PKMJF acknowledges that it connects to a myriad of supply sources: marine delivery options, the Parkland refinery, and the Trans Mountain pipeline. None of these factors have been fully considered to date. Regardless of which *longer* depreciation period might be best applied, the existing depreciation rates would provide full recovery of the remaining service value of the JFL assets by 2022, which is too short. Therefore, PKMJF's proposal for the depreciation rates in the current application is not supported and should be rejected. [*Emphasis retained*]

11.2 Please discuss from VAFFC's perspective the differences, if any, between an asset's physical life, useful life, remaining life, service life, and economic life.

11.3 Given VAFFC asserts PKMJF's proposed depreciation rates are not supported and should be rejected, please comment on the depreciation rates VAFFC considers reasonable for the test period.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Master Glossary defines Useful Life as "The period over which an asset is expected to contribute directly or indirectly to future cash flows."

Further, ASC 360-10-35-4 states:

> The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) required that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.

11.4 Please identify the relevant factors from VAFFC's perspective that should be considered in determining the useful life of an asset for the purpose of setting depreciation rates in accordance with US GAAP.

11.5 Would VAFFC agree that depreciation is intended to allocate an asset's cost as equitably as possible to the periods during which the reporting entity benefits from the use of the asset? If not, please explain why not

12.0 Reference: COST OF SERVICE
Exhibit C2-36-2, InterGroup Report, Appendix B, pp. B-2, B-13; *Utilities Commission Act*, Section 65(3.1)
Net Returns

On page B-2 of the InterGroup Report, VAFFC states:

> For the past decade, PKMJF's tolls were set based on a negotiated settlement, where revenue requirement was not established based on a pure cost of service framework. …. As a result, PKMJF booked substantial net returns in this period in excess of … of rate base. [redacted text omitted]

12.1 Please discuss whether VAFFC considers a comparison of net returns relative to rate base relevant to PKMJF as a common carrier. Please explain why or why not.

12.2 In VAFF's view, is PKMJF entitled to a certain rate of return on rate base? Please explain why or why not.

12.2.1 If yes, please specify what VAFFC considers to be an acceptable rate of return for PKMJF and provide reasoning.

12.2.2 Would the rate of return proposed by VAFFC provide PKMJF's investors with confidence in the company's financial integrity and allow PKMJF to maintain its credit worthiness and attract capital? Please discuss why or why not.

12.2.2.1 If not, what rate of return does VAFFC consider necessary to achieve such an outcome?

On page B-13 of the InterGroup Report, VAFFC states:

> ….from the 10-year period 2009 – 2018, which represents the negotiated settlement period, the cumulative net return (or overall return overall capital) was ..., averaging … per year or approximately ... of total revenue. This level of return is excessive relative to any awarded in a cost of service based toll, in Canada or elsewhere. [redacted text omitted]

12.3 Please provide evidence to support VAFFC's submission that "This level of return is excessive relative to any awarded in a cost of service based toll, in Canada or elsewhere".

13.0 Reference: COST OF SERVICE
Exhibit A2-1, p. 2; Exhibit B-13, VAFFC IR 12.1, 12.12; Exhibit C2-36-2, VAFFC Direct Evidence, Section III(b)(i), p. 9; InterGroup Report, Appendix C, Section 1.0, p. C-2; Section 2.2, pp. C-5, C-6; Section 3.3, pp. C-10, C-11; Trans Mountain (Jet Fuel) Inc. 2007 Application for Approval of Tolls and Accelerated Depreciation (2007 Application), Exhibit B-5, BCUC IR 6.1; Order P-3-08
Depreciation – Revised Depreciation Rates

On page C-2 of the InterGroup Report, VAFFC states:

> A review of PKMJF's 2019 Depreciation Study indicates that the proposed depreciation rates are excessive and not justified. First, the 2010 negotiated depreciation rates were designed to fully recover the JFL assets by a retirement date of December 31, 2022. By PKMJF's own submission, those rates should have been revised, but were not, each year of the contract period to reflect the impact of additions and retirements. <u>It was PKMJF's responsibility to regularly review the depreciation rates and underlying life components</u>

which, from all appearances, it did not. This would have reduced the reported undepreciated costs as of December 31, 2018. [*Emphasis added*]

13.1 With respect to the statement identified in the preamble above, please provide any evidence VAFFC may have showing PKMJF did not regularly review depreciation rates.

Exhibit A-2-1 provides the schedule for depreciation and amortization rates for the JFL to be effective January 1, 2010. Note 1 from the schedule states:

> The proposed reduction in useful life is based on amortizing the net book value as January 1, 2010 of the remaining assets over the contract term plus 1/2. Reduction of the useful life to align with the contract term, reduces some of the risk to TMJ for not recovering the full asset value over the term of the negotiated agreement. TMJ further expects that a shipper may continue using the pipeline services after the term of the agreement expires.

13.2 Please confirm that the depreciation schedule agreed to during the negotiated settlement period established a 13-year useful life for the JFL and any future capital additions (i.e., all future capital additions would also have a 13-year useful life from the in-service date).

13.2.1 If confirmed, please explain the basis for VAFFC's concern regarding depreciation.

13.2.2 If not confirmed, please (i) provide documentation showing parties had agreed to a 2022 end of life for the JFL and any future capital additions, and (ii) explain how any capital additions would be treated for accounting purposes.

13.3 Please provide reference to the documents supporting that the JFL's asset retirement date is December 31, 2022.

13.4 Please provide reference to the documents supporting that the depreciation rates during the negotiated settlement period were designed to achieve full recovery of the JFL, including any capital asset additions, by 2022.

13.5 Considering TMJ expected that a shipper may continue using the pipeline services after the term of the agreement expires, please explain why PKMJF would not apply the rates as agreed by the schedule to capital additions made during the negotiated settlement period.

Pages C-5 and C-6 of the InterGroup Report reference a response PKMJF made to BCUC IR 6.1 from the TJM 2007 Application for Approval of Tolls and Accelerated Depreciation (2007 Application)[2], to support VAFFC's position that the depreciation rates were based on a 2022 retirement date and that the depreciation rates should have been recalculated each year to adjust for the impact of any incurred interim additions or retirements. VAFFC notes that applying this approach would likely require future additions and retirements to be expensed. BCUR IR 6.1 from the 2007 Application is reproduced below:

> **If the proposed 5-year remaining life is accepted, should the annual depreciation rate (Opening Net Book Value cost less accumulated depreciation) be updated in the remaining life (years 4-1) of the assets to reflect additions, retirements and more accurate retirement cost estimates?**
>
> **Response:**
>
> TMJ will respond to this question in two parts: Depreciation rates on invested capital (i.e. assets) and Depreciation rate on the retirement cost estimate (i.e. cost of net salvage / removal):

[2] https://www.bcuc.com/ApplicationView.aspx?ApplicationId=154.

- Depreciation rates on invested capital (i.e. assets): The depreciation rates as calculated for the invested capital are based on forecast 2007 closing balances. To the extent that the 2007 additions, retirements and proceeds differ from that provided for in the application, the depreciation rates should be recalculated. It is unlikely that these annual depreciation rates would need to be recalculated to reflect post 2007 additions and/or retirements as all capital improvements would be curtailed to the extent possible and if the expenditures are required, the costs would likely be expensed into the operations and maintenance accounts.

- Depreciation rate on the retirement cost estimate (i.e. cost of net salvage / removal): There is always some degree of uncertainty in developing a future retirement or abandonment cost estimate and to the degree that this cost can be better refined over time as better information becomes available it is recommended that these costs be reviewed annually and the depreciation expense on these costs adjusted accordingly.

By Order P-3-08 the BCUC denied TMJ's request to recover depreciation of the JFL over the proposed five years.

13.6 Given the BCUC denied TMJ's request for accelerated deprecation in 2008, please clarify why VAFFC would expect depreciated rates to have been recalculated each year during the negotiated settlement period.

On page C-6 of the InterGroup Report, VAFFC states:

> In keeping with the above, PKMJF should have either expensed spending during the negotiated settlement period (totaling $3,354,000 as outlined below) or, if capitalized, PKMJF should have recalculated the remaining life and resultant depreciation rate each year during the 2010-2018 period for each account.

In response to VAFFC IR 12.1, PKMJF confirms it applies the United States Generally Accepted Accounting Principles (US GAAP).

13.7 Please provide reference to the relevant US GAAP accounting standard that permits expensing of capital additions.

13.8 Please provide the relevant US GAAP accounting standard that permits calculating depreciation expense for a capital asset on a basis other than the asset's useful life.

In response to VAFFC IR 12.12, PKMJF states:

> It has only recently become apparent with a reasonable level of certainty that the Jet Fuel Line's economic life will end by 2021. As noted, only within the last year has the in-service date for the VAFD project become reasonably certain, including the Government of British Columbia's September 17, 2018 determination that the VAFD Project had been substantially started, the VAFD project receiving its final outstanding approval from the City of Richmond during the period these IR responses were being prepared (July 22, 2019), and recent confirmation on the VAFD website that its expected in-service date remains at the end of 2021.

13.9 Under a scenario where PKMJF were only notified of the VAFD project in September 2018, please clarify why PKMJF would have reason to request approval from the BCUC to re-calculate the remaining life and deprecation rates prior to that date.

On pages C-11 and C-12 of the InterGroup Report, VAFFC states:

> Even though 2010-2018 was a negotiated toll settlement period, there was sufficient evidence by 2009, 2011, and incontestably by 2013 that the VAFD project was proceeding. It was PKMJF's responsibility to either apply its practice of recalculating depreciation rates in response to a fixed date, or otherwise seek additional depreciation recovery. By not booking the appropriate depreciation expense needed to achieve full recovery by 2022 as designed, PKMJF received increased earnings and only now requests increased depreciation rates to make up for the shortfall. In other words, it benefitted financially by not implementing the 2010 depreciation rate design in a manner consistent with its own procedures. Shippers have already paid the funds that should be directed toward depreciation balances and should not have to pay twice.

13.10 Please discuss whether a common carrier is expected to react to or change operations based on speculation.

13.11 With reference to the appliable US GAAP standard, please provide the basis for PKMJF to seek approval for accelerated depreciation in 2013.

13.12 Please explain where it was agreed depreciation for the JFL capital assets, including any capital additions made during the negotiated settlement period, were to be fully recovered by 2022.

13.12.1 If no evidence of such an agreement exists, please discuss why VAFFC considers that (i) depreciation expense was not appropriately recorded during the negotiated settlement period, and (ii) the depreciation during the test period is making up for the "shortfall".

13.13 Is it reasonable to conclude that PKMJF is revising the depreciation rates because it is only now aware of the status of the VAFD Project and impact the VAFD Project will have on the economic viability of the JFL? If so, please explain how the depreciation rates could be making up for a "shortfall". If not, please explain why not.

13.14 Under a scenario where PKMJF sought BCUC approval for accelerated depreciation during the negotiated settlement period to achieve full recovery of the JFL and forecast capital additions by 2022, please comment on whether VAFFC would have been willing to absorb the incremental cost increase at that time. If yes, please explain why circumstances have changed. If not, please explain why not.

13.15 Please explain how recording depreciation at a rate that achieves full recovery of the JFL is consistent with depreciation rates the BCUC directed and provided in Exhibit A2-1.

13.15.1 In VAFFC's view, did Order P-3-08 and the accompanying decision, in any way restrict PKMJF's ability to use accelerated depreciation rates in subsequent negotiated settlement periods? Please explain.

13.15.2 Please elaborate on how PKMJF received "increased earnings" during the negotiated settlement period by recording depreciation as directed by the BCUC. Please provide supporting calculations.

13.16 Please elaborate on how PKMJF benefitted financially by not implementing the proposed 2010 depreciation rate.

13.16.1 Please quantify the test period depreciation costs that shippers have "already paid". Provide supporting calculations and references to the source figures used for the comparison.

On page 10 of VAFFC's Direct Evidence, VAFFC states that "[t]he VAFD Project received its conditional EAC on December 11, 2013, and the EAO determined that the VAFD Project had been substantially

started on September 18, 2018. PKMJF sought accelerated depreciation and abandonment costs on June 7, 2019."

13.17 Given the above, please explain how it was "incontestable" by 2013 that the VAFD project was proceeding.

14.0 Reference: COST OF SERVICE
Exhibit B-38, VAFFC IR 10.7; Exhibit C2-36-2, InterGroup Report, Appendix C, Section 3.1, pp. C-8, C-9
Depreciation – Misapplication of Group Depreciation

On pages C-8 and C-9 of the InterGroup Report, VAFFC states PKMJF misapplied the Group Depreciation procedure in calculating depreciation expenses which has understated annual depreciation expenses and artificially overstated earnings, the effect of which could be material. Specifically, VAFFC's Intervener Evidence specifies the following error:

> …in some cases where individual assets became fully depreciated, the original cost of those assets were no longer depreciated while not decreasing the tolls in a like manner. This is not group depreciation.

In response to VAFFC IR 10.7, PKMJF states:

> PKMJF's understanding is that KMJF applied the group method of depreciation, but that in some rare instances individual vintage year assets were fully depreciated prior to the entire account becoming depreciated. PKMJF notes that if the 2019 depreciation study rates and approach applied, each account will become fully deprecated[sic] at the end of PKMJF's remaining economic life at the end of the currently applied for tolling period (assuming that there are no additions or retirements).

14.1 Considering that the instances where individual assets were fully depreciated prior to the entire account becoming depreciated were (i) rare and (ii) limited to "vintage year assets", please elaborate on the possible materiality of an error with the group method of depreciation.

14.1.1 Please discuss the likelihood of this error having a material impact on the revenue requirement in the Test Years.

14.2 In a hypothetical scenario where the rates in the 2019 deprecation study are approved, and there are no additions or retirements, does VAFFC agree each account would be fully depreciated at the end of the JFL economic remaining life? Please explain why or why not.

15.0 Reference: COST OF SERVICE
Exhibit C2-36-2, InterGroup Report, Appendix C, Section 3.3, pp. C-10, C-11
Depreciation – Cost of Removal – 2009 Unrecovered Removal Costs

On pages C-10 and C-11 of the InterGroup Report, VAFFC states:

> It is unclear how the unrecovered removal costs of $58,669 shown in 2009 were determined. Also, there is no detail separately distinguishing interim retirements from the associated removal costs. There is also a question as to why those removal costs did not have any historical accumulated depreciation applied. As mentioned above, it is not clear how removal costs were treated prior to 2009. It is possible that the cost of removal shown in 2009 reflects the net of the net book value of the retirements less removal costs. Despite the fact that this was found acceptable in 2009 by all parties, the amount could be overstated.

15.1 Please provide any evidence VAFFC has supporting that the unrecovered removal costs could be overstated.

15.2 Considering the unrecovered removal costs were found to be acceptable by all parties in 2009, please clarify the relevance of these costs to the current test period.

15.3 Please discuss whether the alleged overstatement is likely to have a material effect on the cost of service in the Test Years.

16.0 Reference: COST OF SERVICE
Exhibit C2-36-2, InterGroup Report p. 6; Appendix A, pp. A-17, A-18, A-24
Negotiated Settlement History

On page 6 of the InterGroup Report, VAFFC states:

> PKMJF (and the respective shareholders, at present and previously) operated the pipeline in a manner that failed to protect the inherent value of the assets, <u>and not only permitted bypass</u>, but acted in a manner that encouraged bypass and the resulting adverse impacts on the long-term value of the PKMJF assets. [Emphasis added]

Further, on page A-18 of the InterGroup Report, VAFFC states:

> As a Common Carrier and not a franchised Public Utility, customers are not captive to PKMJF, and it is clear <u>PKMJF undermined their market position and the long-term potential value of their assets</u> by making their own service less economic than necessary. Events since that time underline this perspective. [Emphasis added]

16.1 Please explain how PKMJF "permitted bypass".

16.2 As an alternative to developing its own system, did VAFFC consider and/or approach PKMJF regarding the potential for a bypass rate? Please discuss.

16.2.1 If not, please explain why not.

16.3 Please explain how PKMJF undermined their market position and the long-term potential value of their assets by making their services "less economic than necessary".

On page A-17 of the InterGroup Report, regarding the 2009-2018 negotiated settlement period, VAFFC states, "The settlement documentation provided publicly to the BCUC lacks detail. Other than the total revenue requirement, and a depreciation schedule, no numerical detail is provided."

On page A-24 of the InterGroup Report, VAFFC states:

> At the time of the 2009-2018 negotiated settlement, for whatever reasons were relevant at the time, shippers agreed to a tolling regime predicated on the PKMJF assets being fully depreciated and no longer in service as of the end of 2022 (13 years from the negotiated implementation of accelerated depreciation at January 1, 2010)
>
> Whatever the intent at the time of the settlement, PKMJF's current Application effectively seeks to impose and crystallize now the identical outcomes that such improbable and commercially unreasonable approaches would have targeted, which is inherently double-counting abandonment recoveries from customers.

16.4 Please confirm that VAFFC was the negotiator and/or representative for its members at the time when the 2009-2018 negotiated settlement took place.

16.4.1 If confirmed, what shippers did VAFFC negotiate on behalf of?

16.4.2 If not confirmed, who negotiated on behalf of shippers?

16.4.3 If VAFFC was not part of the negotiations, how can VAFFC conclude that shippers agreed to a tolling regime based on PKMJF assets being fully depreciated by the end of 2022?

16.5 If VAFFC was the negotiator, please discuss and provide rationale for why shippers agreed to the tolling regime set out in the negotiated settlement.

16.5.1 Please explain whether shippers had any concerns about the tolling methodology at the time it was negotiated.

16.5.1.1 If yes, were these concerns communicated to the BCUC and/or PKMJF? Please provide details, and any supporting documentation, if possible.

16.6 Please discuss why the terms of the negotiated settlement were accepted for the 2009 to 2018 period but appear to be undesirable now.

16.7 Please list the risks that shippers assumed during the 2009 to 2018 period.

16.8 Please confirm that the current risks for each shipper are the same as the risks during the 2009-2018 negotiated settlement agreement. In the response, please include an explanation as to why risks that were assumed by shippers during the 2009 to 2018 period are now regarded as no longer fair nor appropriate.

16.9 Please provide any further details or correspondence, in confidence if necessary, related to the discussions regarding the 2009-2018 negotiated settlement agreement. For example, any issues or concerns raised by VAFFC/other shippers or additional documentation related to volume risk.

On page A-18 of the InterGroup Report, VAFFC states:

> <u>Surprisingly, even though PKMJF had no entitlement to guarantees of capital cost recovery or accelerated depreciation, the 2009-2018 negotiated settlement largely secured this right for PKMJF</u> (i.e., all asset costs to be recovered by 2023). But this was not the only surprising aspect – PKMJF also secured tolls with material unexplained increases from shippers. Costs to shippers therefore increased with little rationale and no apparent added value. [Emphasis added]

16.10 Please discuss how the 2009-2018 negotiated settlement 'secured' the right for PKMJF to accelerate depreciation. In your response, please provide any evidence available to support this.

16.10.1 Please explain why shippers agreed to these terms if PKMJF had no entitlement to such rights.

16.11 Please explain how PKMJF secured tolls with material increases from shippers.

16.12 Did VAFFC or any other shipper raise concerns with PKMJF or ask for the rationale behind the cost increases quoted above at the time of negotiations or during the 2009-2018 settlement period? If yes, please provide documentation to support this.

17.0 Reference: COST OF SERVICE
Exhibit C2-36-2, InterGroup Report, Appendix A, pp. A-17, A-20
Negotiated Settlement Tolling Methodology

On page A-17 of the InterGroup Report, VAFFC states:

> The PKMJF settlement introduces to tolls the concept of shippers bearing risk for

volume. This is achieved by setting an overall revenue requirement, and only finalizing tolls once the annual volumes are known and adjustments can be made to ensure PKMJF recovers the specified revenue requirement, regardless as to throughput. This form of tolling for PKMJF is unusual, and appears to only have been used once prior – the incentive tolling agreement from 1998-2002.

17.1 Please explain why this form of tolling is considered unusual for PKMJF if it has been used previously with shippers only a number of years prior to the 2009-2018 negotiated settlement period.

17.2 Please explain why VAFFC refers to the 1998-2002 tolling agreement as the "incentive" tolling agreement. In your response, please discuss the incentives that were agreed upon at that time.

17.2.1 Did the 2009-2018 negotiated settlement agreement contain incentives? In your response please discuss what, if any, incentives were present and any benefits shippers/PKMJF received.

17.3 Please provide further details on the 1998-2002 incentive tolling arrangement, including but not limited to, who negotiated on behalf of shippers and if any complaints or concerns were raised by shippers during negotiations or throughout the tolling arrangement.

17.3.1 Why did shippers agree to bearing the risk for volume during the 1998-2002 period? Please elaborate.

17.3.2 During this period, were there any competitive alternatives to the JFL available, or considered by shippers? Please describe any such alternatives and whether shippers availed themselves of these alternatives.

17.3.3 If other viable option(s) were available, or considered, such as a potential bypass during the 1998-2002 period, would shippers have agreed to bear the volume risk? Please explain.

17.3.4 If there was another viable option, such as a potential bypass during the 2009-2018 period, would shippers have agreed to bear the volume risk? Please explain.

On A-17 of the InterGroup Report, VAFFC states:

> The revenue requirements for PKMJF jumped massively compared to all previous forecasts. For 2009, the revenue requirements were surprisingly revised upwards from the original 2009 proposed level of $3.973 million, to $4.800 million, a jump of 21% in the same year. This then escalated to $5.694 million (a 19% increase) in 2010, a combined 66% increase ($2.271 million) in 2 years, over the initially approved 2008 level. [footnote omitted]

The toll settlement provides no detail regarding justifying any PKMJF cost increases, outside of the depreciation revision on assets.

Further, on page A-20 of the InterGroup Report, VAFFC states:

> The massive and unexplained increases arising from the 10-year negotiated settlement 2009-2018 give rise to significant questions about how the added revenue was justified and managed. Focusing just on the first 2 years – 2009 (second variant) and 2010, the revenue requirements jumped massively from the 2008 litigated and 2009 first negotiated revenue requirements…

17.4 Did VAFFC register any complaints related to cost increases, the toll methodology, or any other settlement terms to the BCUC or to PKMJF during the 2009-2018 negotiated settlement period? Please discuss.

17.4.1 If not, why not? In your response, please discuss whether this implies shippers were satisfied with the toll methodology during the 2009-2018 negotiated settlement period.

17.4.2 If the methodology was satisfactory during the 2009-2018 negotiated settlement period, is this methodology suitable now?

18.0 Reference: COST OF SERVICE
Exhibit C2-36-2, VAFFC Direct Evidence, p. 11; Intergroup Report, pp. 2–3, 6; Appendix A, p. A-3; Appendix B, B-2; Appendix D, p. D-10
Regulatory Principles

On page 11 of VAFFC's Direct Evidence, VAFFC states:

> In return for a franchise right (and duty) to provide service, the public utility receives the protections necessary to attract capital, typically including a reasonable opportunity to recover the cost of investments made on a prudent basis over the life of the investment, and earn a fair return on the invested capital.
>
> In contrast, a common carrier does not generally receive the grant of any special authority or protection against competition.
>
> The Application is clear that PKMJF is regulated by the BCUC as a common carrier. Through information request responses, however, PKMJF claims that the statutory protections accorded to public utilities in BC must be extended to it, including a guaranteed return on the appraised value of property. VAFFC opposes this claim. It does not fit either BC's statutory framework, the facts applicable to the Jet Fuel Line, or the history of regulation of the Jet Fuel Line. [footnotes omitted]

On pages 2 to 3 of the of the InterGroup Report, VAFFC states:

> Common Carrier Principles are not Codified: As a Common Carrier (Part 4 of the Utilities Commission Act), <u>PKMJF is under a framework with almost no specific legislative standards for tolls.</u> The legislation is simply silent on matters such as the reasonableness of rates and the obligations of fair treatment to the shareholders. As a result, <u>the proceeding occurs with major questions tied to the applicable regulatory (economic and legal) first principles.</u> [Emphasis added]

18.1 In VAFFC's view, what are the applicable regulatory, both economic and legal, principles that should apply to a common carrier? Please list and discuss these principles as appropriate.

18.2 In VAFFC's view, should the regulatory principles applied for a common carrier differ from those of a public utility? Please explain why or why not.

18.3 In VAFFC's view, what are a common carrier's entitlements with regards to toll setting? In your response please discuss whether any protections should be afforded to a common carrier.

18.4 If, as VAFFC states, the legislation is silent on matter such as the reasonableness of rates and the obligations of fair treatment to shareholders, please discuss what is a reasonable approach in VAFFC's view to ensure fairness for both the common carrier (and its shareholders) and shippers.

18.4.1 Please explain why this approach should be adopted.

On page B-2 of the Intergroup Report, VAFFC states, "For the past decade, PKMJF's tolls were set based on a negotiated settlement, where revenue requirement was not established based on a pure cost of service framework."

18.5 Please discuss why a "pure cost of service framework" was not used during the 2009-2018 negotiated settlement.

18.6 Please discuss whether, in VAFFC's view, a cost of service-based approach is appropriate for setting tolls for a common carrier in circumstances where a negotiated settlement has not been reached.

On page 3 of the InterGroup Report, VAFFC states:

> Common Carriers and Public Utilities Differ: The status as a Common Carrier in BC is distinct and entirely separate from the far more prescriptive and well-established framework for setting rates and tolls for regulated public utilities. These rights and obligations, arising from public utility status, are not reflective of the PKMJF reality, and cannot be rotely or reflexively applied to PKMJF.

18.7 Please discuss what is meant by 'not reflective of the PKMJF reality'.

18.8 Please discuss what specific rights and obligations VAFFC is referring to in the above preamble and to what extent these are not applicable to a common carrier.

On page A-3 of the InterGroup Report, VAFFC states:

> It is clear from PKMJF's filings that PKMJF errs in its conclusions regarding its entitlements to recoveries from toll-payers. Such entitlements might be arguable in a scenario where PKMJF was a Public Utility. However, PKMJF is not a Public Utility, it is a Common Carrier. The distinction is critical, and of substantial import [sic] to the tolls that are merited in 2019-2021.

On page A-4 of the InterGroup Report, VAFFC states:

> Despite PKMJF's status as a Common Carrier, many of its proposals are fundamentally rooted in concepts that apply to Public Utilities, but not necessarily to Common Carriers. The status of a Common Carrier reflects an Industrial Organization that lies somewhere between an industry without price and service regulation, and the heavily regulated status of a Public Utility. This fundamental misunderstanding or error by PKMJF leads to incorrect conclusions regarding its entitlements to recovery of costs.

18.9 Please discuss which proposals by PKMJF are 'fundamentally rooted in concepts that apply to public utilities…'.

On page D-10 of the InterGroup Report, VAFFC states:

> It was not VAFFC's responsibility to have pursued dismantlement earlier. That responsibility was clearly a business decision of PKMJF, one that it chose to disregard, if it is to be believed that tolls in the period 2009-2018 were insufficient to provide for an abandonment reserve.

Additionally, waiting until this late date to seek explicit abandonment cost recovery is not consistent with Bonbright principles of fairness and avoiding undue discrimination and the corollary principle of intergenerational equity. It is patently unfair and discriminatory to begin collecting abandonment funds now that should have rightly began some years ago when the risk of bypass was clearly known. Intergenerational inequity would be caused by this PKMJF failure to set aside funds (or to claim to have failed to set aside funds) for abandonment earlier. [Emphasis added]

18.10 Please confirm, or explain otherwise, that VAFFC considers Bonbright principles of utility rate setting applicable to public utilities.

18.10.1 If confirmed, to what extent do the principles apply to a public utility?

18.11 Please confirm, or explain otherwise, that VAFFC considers Bonbright principles of utility rate setting applicable to setting tolls for common carriers.

18.11.1 If confirmed, please explain why the principles for utility rate setting apply if, as stated in evidence by VAFFC, PKMJF is a common carrier and the principles are not codified?

18.11.1.1 To what extent do the principles (e.g. a fair rate of return on invested capital) apply to a common carrier? Please elaborate.

18.11.1.2 If the principles should apply to different extents for a public utility and a common carrier, please explain why, giving examples if possible.

18.11.2 If not confirmed, please explain why not.

18.11.3 If not confirmed, why does VAFFC raise the Bonbright principles of fairness, undue discrimination, and intergenerational equity in its submission?

Also on page D-10 of the InterGroup Report, VAFFC states:

PKMJF contends that its proposed toll surcharge collection is not discriminatory because abandonment costs are allocated in the same manner as the JFL's annual revenue requirement based on relative volumes shipped by each shipper. However, as shown in a PKMJF information request response, the proposed abandonment surcharge represents a 62.2% increase in revenue requirements over the 2018 approved revenue requirement and a 58.2% increase over the 2019 interim toll increase.

While PKMJF does not consider 2018 to 2019 Revenue Requirements (including the abandonment surcharge) to be an apples-to-apples comparison, as it asserts no abandonment costs were included in the 2018 Revenue Requirement, I believe the comparison is valid in determining a true and fair picture of the impact of the surcharge on customers. On its face, this amounts to rate shock directly resulting from PKMJF's suggestion that it failed to pursue abandonment costs until now even though it was fully aware of the imminent VAFD Project. [Emphasis added]

18.12 Is the concept of rate shock applicable to users of a common carrier's assets (e.g., shippers)? Please discuss.

18.12.1.1 If yes, please explain why this principle should apply and how it is applicable in a competitive market.

19.0 Reference: COST OF SERVICE
Exhibit C2-36-2, InterGroup Report, pp. 2–3; *Utilities Commission Act*, Part 4 Jurisdiction

Part 4 of the *Utilities Commission Act* (UCA) relates to the regulation of carriers, purchasers and processors. For example, section 65 (3.1) is as follows:

> 65 (3.1)Without limiting subsection (2) (b) or (3), the commission may establish conditions with respect to a common carrier in relation to any of the following matters:
>
> (a)a toll that may be charged by the common carrier;
>
> (b)extensions, improvements or abandonment of service.

19.1 Please discuss, in VAFFC's view, what the BCUC's jurisdiction is with regards to setting tolls for common carriers.

19.2 In VAFFC's view, does the BCUC have the jurisdiction to set any conditions it considers relevant when setting tolls? Please explain why or why not.

19.3 In VAFFC's view, what factors should the BCUC consider when establishing tolls? Please elaborate.

19.3.1 Does VAFFC consider that the setting of tolls should be in line with or similar to the setting of rates for public utilities under sections 59-60 of the UCA? Please discuss.

19.3.1.1 If yes, how similar, and what aspects?

19.3.1.2 If no, please explain why not.

19.3.2 Does VAFFC consider that the tolls set by the BCUC should not be unjust, unreasonable, unduly discriminatory, or unduly preferential? Please discuss.

19.3.3 What conditions are reasonable to establish when setting tolls in a competitive market? In your response, please discuss how the BCUC should set a toll that is a surrogate for a rate established by market participants.

19.4 In VAFFC's view, does the BCUC have the jurisdiction to approve depreciation rates for common carriers? Please discuss.

19.4.1 In what ways, if any, does the BCUC's authority with respect to the approval of depreciation rates differ between common carriers and public utilities? Please elaborate.

19.5 In VAFFC's view, does the BCUC have the jurisdiction to approve and allocate abandonment costs for common carriers? Please discuss.

19.5.1 In what ways, if any, does the BCUC's authority with respect to the collection of abandonment costs differ between common carriers and public utilities? Please elaborate.

19.6 In VAFFC's view, does the BCUC have the jurisdiction to approve capital structure and allowed rate of return for common carriers? Please discuss.

19.6.1 In what ways, if any, does the BCUC's authority with respect to the approval of capital structure and allowed rate of return differ between common carriers and public utilities? Please elaborate.

On pages 2 to 3 of the InterGroup Report, VAFFC states:

> Common Carrier Principles are not Codified: As a Common Carrier (Part 4 of the Utilities Commission Act), PKMJF is under a framework with almost no specific legislative standards for tolls. <u>The legislation is simply silent on matters such as the reasonableness of rates and the obligations of fair treatment to the shareholders</u>. As a result, the proceeding occurs with major questions tied to the applicable regulatory (economic and

legal) first principles. [Emphasis added]

19.7 In VAFFC's view, does the absence of a prescribed set of circumstances when setting a toll for a common carrier mean that the BCUC has unfettered discretion to set the tolls based on relevant considerations? Please discuss.

C. ABANDONMENT COSTS

20.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, InterGroup Report, p. 7; Appendix A, A-24; Appendix D, pp. D-8, D-11
Abandonment Cost Recovery – Negotiated Settlement Period

On page 7 of the InterGroup Report, VAFFC states:

> PKMJF knew or ought to have known (according to the PKMJF scenarios) sufficient information about abandonment costs to include accruals to some form of abandonment liability or reserve starting in 2009 (as part of the negotiated settlement). Failing to record such accruals led to excessive net income being recorded during this period, and harm to customers from failing to record an appropriate funded Abandonment provision.

On page A-24 of the InterGroup Report, VAFFC states:

> It is not credible that a regime was implemented which targeted known and fixed, stable revenues for years out of the remaining 13 year life of the pipeline, but failed to consider establishment of any abandonment fund. To so conclude would be to find that PKMJF deliberately accepted an omission of the chance to fund the future costs of abandonment during the last 10 of 13 years of the pipeline. Either PKMJF would have to have been supremely confident that it could, to be colloquial, assuredly wallop shippers for abandonment costs in the final 3 years, or PKMJF would have had to be intensely oblivious to this pending risk. Neither of these is credible… more likely, the settlement was acceptable to all parties, including PKMJF, because it was understood to provide PKMJF with sufficient funds to address abandonment consistent with a 13-year life adopted for depreciation…

20.1 Did the parties to the 2009 to 2018 negotiated settlement agree to include the collection of costs associated with abandonment of the JFL as a component of the negotiated settlement? Please elaborate.

20.1.1 If yes, please provide any documentation in VAFFC's possession that demonstrates such an agreement was reached.

20.1.2 If not, please explain why VAFFC expected PKMJF to be collecting abandonment recoveries without any formal confirmation.

20.2 Please provide any documentation VAFFC has regarding PKMJF's plans to establish an abandonment fund for the JFL during the 2009 to 2018 negotiated settlement period.

20.3 If VAFFC cannot provide documentation respecting the collection of abandonment costs during the negotiated settlement period, please explain the basis for VAFFC's submission that it is "…likely, the settlement was acceptable to all parties, including PKMJF, because it was understood to provide PKMJF with sufficient funds to address abandonment consistent with a 13-year life adopted for depreciation."

20.4 Please discuss whether it is standard industry practice for abandonment costs to be included as a component of negotiated settlements presented to the BCUC and/or the Canadian Energy Regulator.

20.5 Please explain the harm to customers that VAFFC states resulted from PKMJF's "…failing to record an appropriate funded Abandonment provision."

On page D-8 of the InterGroup Report, VAFFC states:

> Regulators can provide the opportunity and mechanisms for recovery but it is the responsibility of the company, in this case PKMJF, to pursue the recovery when the need arises. With respect to the provision for abandonment costs, PKMJF failed its responsibility.

On page D-11 of the InterGroup Report, VAFFC states:

> While the costs of abandonment are part of PKMJF's normal business operations, the fact that PKMJ has acted in an imprudent manner with respect to this issue by not seeking a dismantlement provision before now mean that it should bear the risk of dismantlement cost recovery or at least a portion thereof rather than the shippers.

20.6 In VAFFC's view, is there a specific point in the lifecycle of a pipeline by which a common carrier must establish an abandonment reserve fund or risk being unable to recover abandonment costs from users? Please explain.

20.6.1 If yes, please provide any precedent VAFFC is aware of where the collection of abandonment costs, in whole or in part, were denied by a regulator due to the pipeline owner's failure to establish an abandonment reserve sooner. Please provide any relevant supporting documents in your response.

20.6.1.1 For each instance identified, please explain how abandonment costs were funded.

20.7 Please provide any evidence VAFFC may have that demonstrates PKMJF failed to seek recovery of abandonment costs when 'the need arose'.

20.8 Please discuss any differences in the way abandonment costs are funded by common carriers versus public utilities.

20.9 Please discuss whether pipeline users have a responsibility to budget for a portion of the costs associated with abandonment of the pipeline.

20.9.1 Please explain how VAFFC's views its obligations with respect to the eventual abandonment of the JFL.

21.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, VAFFC Direct Evidence, p. 11; InterGroup Report, p. 10; Appendix D, p. D-10
Abandonment Cost Recovery – Intergeneration Inequity

On page 10 VAFFC's Direct Evidence, VAFFC states:

> Once the VAFD becomes operational, VAFFC does not expect its members to cease all shipments of jet fuel on the Jet Fuel Line. Rather, VAFFC expects members will ship on the Jet Fuel Line opportunistically, when it makes economic sense to do so, taking into account different jet fuel source prices and overall transportation cost options.

On page 7 of the InterGroup Report, VAFFC states:

> The amount of abandonment costs to be collected in the Test Years should be the total estimated cost, less the amount appropriately accrued as of 2018, divided by a

reasonable estimate of the remaining potential physical life of the assets (in particular, 25 years…). [redacted text omitted]

On page D-10 of the InterGroup Report, VAFFC states:

> It is patently unfair and discriminatory to begin collecting abandonment funds now that should have rightly began some years ago when the risk of bypass was clearly known. Intergenerational inequity would be caused by this PKMJF failure to set aside funds (or to claim to have failed to set aside funds) for abandonment earlier. [footnote omitted]

21.1 Please identify any changes to the composition of shippers and/or the apportionment of throughput volumes between shippers on the JFL since the JFL became operational.

21.2 Please discuss the potential for intergenerational inequity under a scenario where the costs of abandoning the JFL are recovered over a 25-year period, during which time VAFFC's members, and potentially others, ship on an opportunistic basis following completion of the VAFD project.

21.2.1 Please discuss how any potential intergenerational inequity could be mitigated.

On January 6, 2020, Pembina Pipeline Corporation informed the BCUC that it had acquired the JFL from Kinder Morgan Canada (Jet Fuel) Inc.

21.3 Please discuss whether the concept of intergenerational inequity applies to owners, as well as users, of common carrier facilities and the basis for VAFFC's position.

21.3.1 Please discuss whether it would be appropriate for PKMJF to bear the risk of being unable to recover abandonment costs for the JFL as a result of the actions of previous owners.

22.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, InterGroup Report, Appendix D, p. D-10
Abandonment Cost Recovery – Rate Shock

On page D-10 of the InterGroup Report, VAFFC states:

> …as shown in a PKMJF information request response, the proposed abandonment surcharge represents a 62.2% increase in revenue requirements over the 2018 approved revenue requirement and a 58.2% increase over the 2019 interim toll increase. While PKMJF does not consider 2018 to 2019 Revenue Requirements (including the abandonment surcharge) to be an apples-to-apples comparison, as it asserts no abandonment costs were included in the 2018 Revenue Requirement, I believe the comparison is valid in determining a true and fair picture of the impact of the surcharge on customers. On its face, this amounts to rate shock directly resulting from PKMJF's suggestion that it failed to pursue abandonment costs until now even though it was fully aware of the imminent VAFD Project.

22.1 Please describe any measures that VAFFC would propose to limit the potential for rate shock to all shippers under the following scenarios: (i) PKMJF abandons the JFL following completion of the VAFD project; and (ii) PKMJF continues to operate the JFL until the assets have reached the end of their physical life, during which time VAFFC's members ship on the JFL on an opportunistic basis following completion of the VAFD project. Please explain any assumptions used in the response.

23.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, VAFFC Direct Evidence, p. 3, 10, 15; InterGroup Report, Appendix C, p.

C-2; Appendix D, p. D-4; Exhibit B-38, VAFFC IR 15.3; Exhibit B-11, BCUC IR 11.10.1, 11.10.2; Exhibit B-13, VAFFC IR 12.6(c); Exhibit B-39, Parkland Refining (B.C.) Ltd. (Parkland) IR 12.1
Abandonment Cost Recovery – Abandonment Trusts and Asset Retirement Obligations

On page D-4 of the InterGroup Report, VAFFC states:

> While the JFL is not regulated by the NEB, PKMJF submits that the guidelines established by the NEB [National Energy Board] (now the CER) in MH-001-2012 are a reasonable basis for abandonment assumptions in the present circumstances. In addition to estimating costs, the NEB/CER framework also addresses concepts related to abandonment trusts. [footnote omitted]
>
> In addition to regulatory approaches, there are accounting requirements to ensure investors are aware of liabilities related to asset retirements such as abandonment. These requirements are Asset Retirement Obligations (AROs) and result from a legal obligation to retire or decommission a plant asset.

VAFFC continues that "The use of an abandonment trust fund, as opposed to an ARO, is comparatively rare in Canada and the United States" and that it is VAFFC's understanding that "…major federally regulated pipelines in Canada have abandonment funds while provincially regulated pipelines do not."

On page 3 of VAFFC's Direct Evidence, VAFFC states that "…the abandonment fund PKMJF proposes is novel to the BCUC, of a type rejected by the National Energy Board, and inappropriate to these circumstances."

On page C-2 of the InterGroup Report, VAFFC states that "…PKMJF's now assumed final retirement date January 1, 2022 is contradicted by… the 25-year life expectancy used in the calculation of the Asset Retirement Obligation reported in the PKMJF 2019 financial reports. [footnotes and redacted text omitted]

23.1 Please discuss whether, in VAFFC's opinion, the CER guidelines provide a reasonable basis for preparing estimates of the costs associated with abandonment of the JFL.

23.1.1 If not, please specify the alternative assumptions VAFFC would recommend and why these assumptions are more appropriate than use of the CER guidelines as proposed by PKMJF.

23.2 Please elaborate on VAFFC's statement that PKMJK's proposed abandonment fund is "of a type rejected by the National Energy Board", including identification of the specific instance(s) where the CER rejected a similar proposal and the basis for such rejections.

23.3 Please provide a detailed explanation as to why VAFFC considers PKMJF's proposed implementation of an abandonment trust to be "inappropriate to these circumstances".

On page 15 of VAFFC's Direct Evidence, VAFFC states, "Carriers are entitled to forecast and collect funds in anticipation of abandonment costs, but the obligation to do so in a timely and accurate way lies with the carrier."

On page 10 of VAFFC's Direct Evidence, VAFFC states:

> The VAFD Project received its conditional EAC [Environmental Assessment Certificate] on December 11, 2013, and the EAO determined that the VAFD Project had been substantially started on September 18, 2018. PKMJF sought accelerated depreciation and abandonment costs on June 7, 2019.

In response to VAFFC IR 15.3, PKMJF states, "Prior owners of the JFL operated under US GAAP accounting rules which did not require asset retirement obligations (ARO) to be recorded for this asset."

In response to BCUC IRs 11.10.1 and 11.10.2, PKMJF states, "An ARO liability is reported when a reasonable estimate of the fair value of the legal obligation can be made", and "While it is premature to report an ARO for accounting purposes, it is not premature to implement KMJF's proposed abandonment surcharge for ratemaking purposes."

In response to VAFFC IR 12.6 (c), PKMJF states, "KMJF is not aware of any issues raised by KMJF auditors since 2009 regarding recognition of any Asset Retirement Obligation."

In response to Parkland IR 12.1, PKMJF confirms that it recognizes as ARO in is accounting records for the current and most recent fiscal year.

23.4 Please discuss the practical differences between the use of an ARO and an abandonment trust and whether the two concepts are mutually exclusive.

23.4.1 Please explain whether, on a forward-looking basis, the use of an ARO by PKMJF for the JFL is (i) reasonable and appropriate, and (ii) preferable to an abandonment trust.

23.5 Please describe the specific circumstances, if any, under which US GAAP requires an ARO be established.

23.5.1 Please explain how any US GAAP requirements regarding establishment of an ARO are applicable to PKMJF and the JFL.

23.5.2 Please discuss whether it would be appropriate for PKMJF to start collecting abandonment funds absent establishment of an ARO. Please provide cites to any relevant precedent.

23.6 In VAFFC's view, when is an entity obligated to establish an ARO? Please explain.

23.7 Please discuss what year VAFFC would have expected PKMJF to establish an ARO.

23.7.1 Given the EAO determined that the VAFD Project had been substantially started on September 18, 2018, is it reasonable to assume that PKMJF could have reliably estimated the fair value of the abandonment costs and recognized the ARO after this date? Please discuss.

23.7.1.1 In VAFFC's view could the ARO have been established prior to September 18, 2018. If so, on what basis would it have been established.

23.7.2 Please discuss, from VAFFC's perspective, how the threshold for recognizing an ARO is determined (e.g., nominal value, probability etc.).

23.8 Considering the financial statements of PKMJF and its predecessor have been audited annually by an independent third party, please discuss why PKMJF's financial statements did not sufficiently meet the accounting test to record an ARO for financial accounting purposes if there was sufficient evidence to support the VAFD project was proceeding and full recovery of the JFL was to be completed by 2022.

24.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, InterGroup Report, Appendix D, pp. D-13, D-14
Abandonment Cost Estimates – Pipeline Removal vs Abandonment in Place

On page D-13 of the InterGroup Report, VAFFC states, "ELM consulted the City of Richmond, the City of Burnaby, and the BCOGC [BC Oil and Gas Commission] concerning the abandonment of the JFL via email," and that ELM assumes abandonment in place "unless there is a compelling

reason to remove a segment of the pipeline."

VAFFC continues that in response to ELM's inquiry, "The City of Richmond indicated its expectation for the pipeline to be removed as part of the abandonment process but no compelling reason was given for that expectation."

Also on page D-13, VAFFC states:

> While any BCOGC Order regarding removal may govern, the fact is that no plan has been submitted to the BCOGC and may not be for a significant while, depending on when exactly the JFL ceases operations. Moreover, the plan submitted to the BCOGC must include rationale for removal rather than abandonment in place. There is no reasonable rationale at this point to assume total removal is appropriate.

24.1 Please discuss the level of justification VAFFC considers necessary before it is reasonable for pipeline abandonment cost estimates to assume pipeline removal as opposed to abandonment in place.

24.2 Please discuss whether PKMJF's relationship with and obligation(s) to the municipalities along the JFL route differs in any way from that of a public utility.

24.3 Please describe the BCOGC's jurisdiction over whether the JFL will be removed or abandoned in place. Please include cites to any relevant legislation and/or regulations empowering the BCOGC in this respect.

24.3.1 In VAFFC's opinion, what factors does the BCOGC consider when reviewing pipeline abandonment plans and proposals to remove sections of pipeline, rather than to abandon the asset in place? Please highlight what role, if any, the preference of the host municipality plays in the BCOGC's decisions.

24.3.2 Please describe any instances VAFFC is aware of where the BCOGC reviewed a pipeline abandonment plan that was not supported by the host municipality. How, and on what basis, did the BCOGC decide in these instances?

24.4 Please describe the BCUC's jurisdiction respecting abandonment of the JFL.

24.4.1 Please explain in what ways, if any, the BCUC's jurisdiction respecting abandonment of the JFL overlaps with that of the BCOGC.

24.4.2 Please discuss how any overlap in jurisdiction between the BCUC and the BCOGC respecting abandonment of the JFL might impact the decision as to whether sections of pipeline are removed or abandoned in place.

On page D-14 of the InterGroup Report, VAFFC states:

> There was no successful contact with the City of Burnaby so ELM assumed 20% removal and 80% abandonment in place to give some recognition for possible future development in industrial and commercially zoned areas. ELM was also instructed by PKMJF to assume municipal preferences received the full effect in the cost estimates. Given there was no compelling reason for the City of Richmond's expectation for total removal, I suggest assuming 20% removal and 80% abandonment at this time. This is in line with PKMJF's expectations that some removal may be reasonable due to the amount of recent redevelopment.

24.5 Please provide a detailed explanation as to why an assumption of 20 percent removal and 80 percent abandonment in place is appropriate for estimating abandonment costs for the JFL in the City of Richmond.

24.5.1 If the 20 percent removal and 80 percent abandonment in place assumption is based on

PKMJF's assumptions for the City of Burnaby, please compare the existing land uses along the JFL route in the two cities and explain why it is reasonable to expect similar levels of future development along the pipeline route in both cities.

25.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, InterGroup Report, Appendix D, p. D-15
Abandonment Cost Estimates

On page D-15 of the InterGroup Report, VAFFC states that "The minimum total adjustment to ELM's abandonment cost estimate is therefore a decrease of $3,528,363 from $11,861,577 to $8,333,214 as shown in the table below. There may be other concerns from an engineering perspective."

25.1 Please describe the type(s) of engineering concerns related to ELM's abandonment cost estimate VAFFC considers possible or probable.

25.1.1 Please explain the impact (e.g., an increase or a decrease) to PKMJF's estimated cost of abandonment that would result from realization of any of the above engineering concerns. Please provide any relevant assumptions and calculations in your response.

26.0 Reference: ABANDONMENT COSTS
Exhibit C2-36-2, InterGroup Report, Appendix D, pp. D-10, D-11, D-12; Exhibit B-14, pp. 26–27
Abandonment Cost Estimates – Estimate Uncertainty

On pages D-11 to D-12 of the InterGroup Report, VAFFC states:

> The unit cost estimates contained in the Final Abandonment Report generally appear to be within industry standards. Cost activities are reasonable for abandonment that is expected sometime in the distant future. They are not reasonable however if abandonment is really expected to take place in three years, which is PKMJF's position. The detail in the Final Abandonment Report is not what would be expected for a planned near-term abandonment.

On page D-10 of the InterGroup Report, VAFFC states:

> …if PKMJF had sought an abandonment provision to begin prior to 2013 when there was a high degree of certainty of the VAFD Project, tolls would have had a longer period, up to a full 13 years, to provide for estimated abandonment costs. In such a case, either the abandonment costs could have been a new accrual that simply reduced PKMJF's net income it otherwise recorded, or it could potentially become part of the revenue requirement in a new negotiated settlement, if one was needed.

VAFFC continues, "It is patently unfair and discriminatory to begin collecting abandonment funds now that should have rightly began some years ago when the risk of bypass was clearly known."

On pages 26 to 27 of Exhibit B-14, PKMJF's Amended Revenue Requirement and Final Tolls Application for 2019-2021, PKMJF states:

> KMJF proposes that, following the completion of the physical decommissioning and abandonment of the Jet Fuel Line, the relevant party will refund any surplus to shippers or bill shippers for any shortfall based on the difference between the estimated abandonment costs collected and the actual cost incurred for abandonment, which will become known at that time. KMJF proposes that the true-up amount be refunded to or collected from shippers based on volumes shipped during the total period during which the abandonment cost surcharge was

collected (the "**Abandonment Cost Estimate True-up Mechanism**"). [footnote omitted]

26.1 In VAFFC's opinion, how should the risk of variances between estimated and actual abandonment costs for the JFL be allocated between PKMJF and shippers?

26.1.1 Assuming PKMJF was allowed to recover its estimated costs of abandonment, please explain the treatment VAFFC would propose if: (i) actual abandonment costs were greater than estimated, such that PKMJF had not fully recovered all abandonment costs from shippers; and (ii) actual abandonment costs were less than estimated, such that PKMJF had over collected abandonment costs from shippers.

26.1.1.1 If VAFFC's proposed treatment differs from that of PKMJF's, please explain any differences and why VAFFC believes its proposal to be preferable.

26.2 Please discuss whether the regulatory treatment of abandonment cost estimate risk between the asset owners and users differs between common carriers and public utilities, and if so, why. Please provide cites to any regulatory precedent relied upon in the response.

26.3 Please describe the specific refinements to the cost estimates provided in the Final Abandonment Report that VAFFC considers to be necessary before the estimates would be reasonable to support near-term abandonment of the JFL.

26.4 Please discuss the level of cost estimate certainty VAFFC considers would have been necessary for PKMJF to have started collecting abandonment funds from shippers during the 2009 to 2018 negotiate settlement period.

26.5 Please explain whether, absent further refinements, VAFFC considers the level of precision presented in the Final Abandonment Report to provide a sufficient basis for initiating the collection of abandonment funds from shippers.

26.6 In VAFFC's opinion, would abandonment cost estimates with a comparable or greater level of uncertainty to those presented in the Final Abandonment Study have provided a sufficient basis for initiating the collection of abandonment funds from shippers in 2013? Please explain why or why not.

26.7 If VAFFC considers the abandonment cost estimates presented in the Final Abandonment Study to be sufficient for PKMJF to have begun collecting abandonment funds from shippers in 2013, but insufficient for such use today, please explain the reason(s) for VAFFC's position.