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February 1, 2021

Attention: Marija Tresoglavic
Acting Commission Secretary

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3

83819/490

Dear Ms. Tresoglavic:

Pembina Kinder Morgan Canada (Jet Fuel) Inc. (“PKMJF”) Tariff Filing Proceeding regarding Application for Tariff No. 40 for 2019-2021 Tolls for Services on the Jet Fuel Line British Columbia Utilities Commission Project No. 1598984 (“Proceeding”) PKMJF Submission of Public Version of Confidential Information Request Round 1 to Vancouver Airport Fuel Facilities Corporation (“VAFFC”)

We act on behalf of PKMJF with respect to the above noted British Columbia Utilities Commission Proceeding. Further to our letter of January 25, 2021, we enclose herewith a redacted version of our Information Request Round 1 to VAFFC. In the attached version, PKMJF has redacted references to confidential materials and information submitted in these proceedings.

Should you require any further information please contact Ms. Oleniuk or the undersigned.

Sincerely,

<Submitted electronically>

David Tupper

Enclosures

31504238.1

REQUESTOR NAME: **Pembina Kinder Morgan (Jet Fuel) Inc.
(PKMJF)**

INFORMATION REQUEST ROUND NO: **[1]**

TO: **Vancouver Airport Fuel Facilities Corporation
(VAFFC)**

DATE: **January 25, 2021**

PROJECT NO: **1598984**

APPLICATION NAME: **Kinder Morgan Canada (Jet Fuel) Inc. 2019
Tariff Filing Application**

**PKMJF Information Request No. 1 to Vancouver Airport Fuel Facilities Corporation
(VAFFC)**

1.0 VAFFC Forecasted Volumes and the VAFD Project

Reference (i): **Exhibit C2-36-1 (Vancouver Airport Fuel Facilities Corporation
["VAFFC"] – Intervener Evidence and Confidentiality Request
["VAFFC Evidence"]), PDF p. 6**

On PDF p. 6 of the VAFFC Evidence at paras 10-11 and 13, VAFFC states:

VAFFC is a not-for-profit consortium of commercial airlines representing 34 of the domestic and international carriers serving YVR.

VAFFC owns and operates the fuel facility system servicing YVR's main domestic and international terminals and thereby provides fuel delivery service to all airlines using those terminals. Non-member airlines receive fuel delivery service from VAFFC on a fee-for-service basis. Each member airline purchases fuel for its own use and arranges delivery to the VAFFC fuel facilities at YVR, either through the Jet Fuel Line or via tanker trucks. VAFFC manages the storage and handling of each airline's fuel and ensures its delivery to the airlines' respective aircraft.

...

Prior to the onset of the COVID-19 pandemic, the Jet Fuel Line was able to supply up to about 80% of YVR's fuel needs, with the remainder supplied by tanker trucks. This ratio fluctuates on a daily and seasonal basis depending on actual demand for fuel at YVR (i.e., the percentage of fuel delivered by tanker trucks increases during periods of peak demand). The existing fuel delivery system needed to be supplemented by approximately 70 fuel tanker truck deliveries per day (2,000 per month) before the COVID-19 pandemic, which were required to meet the airport's peak fuel demand.

- 1.1 Does VAFFC¹ expect the Vancouver Airport Fuel Delivery (VAFD) Project to deliver 100% of jet fuel consumed at Vancouver International Airport (YVR) after the VAFD Project begins operations?
 - 1.1.1 If yes, why?
 - 1.1.2 If not, why not? Please fully explain your response.
- 1.2 Please describe all current sources of jet fuel supply for end users at YVR that VAFFC is aware of, including relative proportions that VAFFC is aware of, whether specifically or generally.
 - 1.2.1 Please provide all information VAFFC has regarding past (since 2007), present and forecast jet fuel demand at YVR airport (*i.e.*, all jet fuel demand, not just from the PKMJF Jet Fuel Line (JFL)).
 - 1.2.2 Please provide any data or information VAFFC has about the potential suppliers that will deliver jet fuel to the VAFD Project.
 - 1.2.3 Please describe and quantify how current and go-forward fuel demand estimates have been impacted by the COVID-19 pandemic, including the impact of travel restrictions. Please provide fuel demand estimates through to the anticipated date for commencement of service of the VAFD Project and for the following 5 years, as well as all information and assumptions this forecast is based on.
 - 1.2.4 Please describe all transportation options for transporting jet fuel to YVR, including those options currently available and any future anticipated options.
- 1.3 Please provide copies of any communications with suppliers of jet fuel to the JFL, including VAFFC and Parkland, regarding future supply of jet fuel for throughput on the JFL, VAFD Project, and other transportation alternatives.
- 1.4 Please describe the commercial arrangements in place or contemplated for the construction, operation, and provision of transportation service for the VAFD Project.
- 1.5 Is it anticipated that the VAFD Project will provide transportation service to parties other than VAFFC (*e.g.*, Parkland)?
 - 1.5.1 If so, please provide the names of the potential shippers, as well as any analysis, reports or agreements that discuss under what terms and at what cost service would be provided.
- 1.6 Please provide any minimum or other shipping quantity requirements agreed to with shippers or potential shippers in relation to the VAFD Project, as well as copies

¹ Please note that for all of these information requests, references to VAFFC includes VAFFC and/or its members (*i.e.*, the commercial airlines representing 34 of the domestic and international carriers serving YVR).

of any associated contracts or commercial arrangements including term and volume commitments, tolls, and surcharges (including with respect to abandonment obligations), as well as any provisions for owner or third-party shipper revenue or profit sharing.

- 1.7 Please provide monthly forecast volumes for transportation on the VAFD Project starting the first month the VAFD Project begins operations and for the following 5 years, as well as all information and assumptions this forecast is based on.
- 1.8 Please confirm VAFFC's intention to ship on the JFL after the VAFD Project begins operations.
 - 1.8.1 What forecast VAFFC annual volume will remain for transportation on the JFL or alternative means of transportation following full utilization of the VAFD Project?
 - 1.8.2 Please provide VAFFC monthly forecast volumes to be shipped on the JFL starting the first month the VAFD Project begins operations and for the following 5 years.
 - 1.8.3 Please describe whether VAFFC would be willing to execute a take-or-pay contract with PKMJF to use the JFL for the period up to the VAFD Project commencing operations, the terms of which would allow PKMJF to have the opportunity to recover its costs, earn a reasonable profit, and collect a reasonable surcharge for future abandonment costs?
 - 1.8.4 Please describe whether VAFFC would be willing to execute a take-or-pay contract with PKMJF to use the JFL for the period after the VAFD Project commences operations, the terms of which would allow PKMJF to have the opportunity to recover its costs, earn a reasonable profit, and collect a reasonable surcharge for future abandonment costs?
- 1.9 A VAFFC spokesperson was quoted in a 2017 news article (referred to in PKMJF's amended application at para. 26 on p. 15) as stating: "[t]he airlines are the end customer...They're financing this project; naturally they're going to use it. And the capacity on that existing [Jet Fuel System] will decline to such a point where it's not really economical to maintain it." Please confirm that this continues to be VAFFC's position.
 - 1.9.1 If not, why not?

Reference (ii): Exhibit C2-36-1 (VAFFC Evidence), PDF p. 11

On PDF p. 11 of the VAFFC Evidence, at para 39, VAFFC states:

Once the VAFD Project 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.

PKMJF seeks to understand the considerations that went into the development of the VAFD Project, and whether and how VAFFC has evaluated the economic impact that the VAFD Project will have on the transportation of jet fuel to YVR.

- 1.10 Please discuss the analysis that led to the decision to pursue the VAFD Project.
 - 1.10.1 Please provide copies of all economic analysis and studies conducted by VAFFC or its consultants assessing a bypass of the JFL.
 - 1.10.2 Please provide copies of all analysis and studies conducted by VAFFC or its consultants that considered the environmental impacts of the VAFD Project, including negative impacts from the proliferation of pipelines serving YVR.
 - 1.10.2.1 Please provide copies of all analysis and studies conducted by VAFFC or its consultants that considers this issue in the context of the VAFD Project.
 - 1.10.3 Please confirm that, during the development, permitting and construction phases of the VAFD Project, VAFFC was aware that PKMJF had previously sought approval from the BCUC to collect funding for abandonment of the JFL and that the BCUC ruled the request to be premature in BCUC Order P-3-08.
 - 1.10.4 Please confirm that VAFFC was aware that the 2009-2018 Negotiated Settlement terms did not include collection of abandonment funding.
- 1.11 Please provide estimated tolls, including any tolls to be attributed to capital cost recovery, and associated financial and economic analysis, for providing transportation service on the VAFD Project.
 - 1.11.1 Please confirm that VAFFC members and/or shippers on the VAFD Project will share in the revenue or profits generated from the VAFD Project.
 - 1.11.1.1 If so, please provide the “net toll” that VAFD Project shippers will pay in \$/bbl (*i.e.*, applicable tolls minus applicable revenues).
 - 1.11.1.2 If not, please explain why not.
 - 1.11.1.3 Please provides copies of any agreements or communications with VAFFC members considering how, or if, revenue from the VAFD Project will be distributed amongst VAFFC membership.
 - 1.11.1.4 Please provide copies of any analysis, reports, studies, or communications with VAFFC members, board of directors, and shareholders, as well as potential VAFD Project shippers, considering the tolling methodology that will apply to service on the VAFD Project.
 - 1.11.2 Please describe whether and, if so, how, VAFFC is taking on volume risk as part of its tolling structure for the VAFD Project.

- 1.12 Please provide any analysis, reports, or other communications regarding costs associated with transportation alternatives, existing or prospective, to the JFL, including trucking and barging.
- 1.13 Has VAFFC done any analysis regarding toll levels that would be required for the JFL to be an economic option for VAFFC shippers after the VAFD Project becomes operational?
- 1.13.1 If yes, please provide the analysis and indicate the assumptions provided including the volumes, direct costs and allocated costs included in the analysis. Please specify the toll level in \$/bbl that PKMJF would need to charge in order for VAFFC to continue shipping on the JFL after the VAFD Project is in service.
- 1.13.2 If no analysis has been done, please explain why not.
- 1.14 Please provide copies of any reports, studies or other material communications relating to the economic viability or economic life of the JFL that were conducted in relation to the development of the VAFD Project, along with any working papers that may have been prepared with respect to that issue.
- 1.15 Please confirm whether VAFCC will seek to have the VAFD Project regulated by the BCUC as a common carrier. If not confirmed, please explain fully.

2.0 Construction of the VAFD Project

Reference: Exhibit C2-36-1 (VAFFC Evidence), PDF p. 11

On PDF p. 11 of the VAFFC Evidence, at paras 37-38, VAFFC states:

The 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.

(c) Status of VAFD Project and VAFFC plans for after the VAFD Project enters operation

VAFFC is continuing construction on the VAFD Project. There have been some delays, due to the COVID-19 pandemic and work sequencing changes, with the result that the project is now not anticipated to be fully operational until approximately early 2023.

PKMJF is seeking additional information regarding the current and anticipated progression of the construction of the VAFD Project.

- 2.1 Please provide the actual and anticipated VAFD Project timeline from the time VAFFC purchased the waterfront property where the marine terminal for the VAFD Project will be located to the anticipated date it commences operations, including but not limited to:

- 2.1.1 Studies or reports which contributed to the development of the Project Description filed with the Environmental Assessment Office on January 16, 2009;
 - 2.1.2 Studies or reports which contributed to and were prepared as part of the environmental assessment process which resulted in the 2013 issuance of the Environmental Assessment Certificate;
 - 2.1.3 Financial investment decision or equivalent;
 - 2.1.4 Construction commencement;
 - 2.1.5 Construction milestones (e.g., commencement of excavation, commencement of pipe installation);
 - 2.1.6 Permitting milestones; and
 - 2.1.7 All assessments, studies, reports, board of director materials, and member and shareholder materials to support the timeline.
- 2.2 What is the current permitting and construction status of the VAFD Project?
- 2.3 Please specify the month and year that the VAFD Project is anticipated to commence operations at any capacity.
- 2.3.1 Please fully describe any reasons that VAFFC is aware of that may delay the commencement of operations and provide the anticipated impact that this may have on the commencement of operations.
 - 2.3.2 Please describe any impact of the COVID-19 pandemic on construction and permitting progress of the VAFD Project, as well as anticipated commencement of operations.
 - 2.3.3 What is the full capacity of the VAFD Project?
 - 2.3.4 What does “fully operational” mean in the above quote?
 - 2.3.5 Please specify the month and year that the VAFD Project is anticipated to begin operating at full capacity.
 - 2.3.6 Please describe any reasons that VAFFC is aware of that may delay the commencement of full capacity operations and provide the anticipated impact that this may have on the commencement of full capacity operations.
- 2.4 Has the prospect of future expansion of the VAFD Project been considered by VAFFC? If yes, what is the cost and estimated length of construction?
- 2.4.1 Please provide all studies, reports, board of director materials, shareholder and member materials, and shipper materials to support this response.

3.0 Historic Volumes

Reference: Exhibit C2-36-1 (VAFFC Evidence), PDF p. 3.

On PDF p. 3 of the VAFFC Evidence, at para 2, VAFFC states that:

Over the past three decades VAFFC's member airlines have shipped most of the volumes on the Jet Fuel Line and are the end-users of all of the jet fuel shipped on the line. The costs of shipping on the Jet Fuel Line are ultimately borne by airline customers.

PKMJF seeks information regarding the historical volumes shipped by VAFFC on the JFL.

3.1 Please provide the annual volumes shipped by VAFFC on the JFL since 2007 to present.

4.0 Tolling Matters

Reference (i): Exhibit C2-36-1(VAFFC Evidence, Appendix A: Regulatory Principles and Implications for 2019 – 2021 Test Year Revenue Requirements [“VAFFC Evidence, Appendix A”]), PDF p. 39

Table on PDF p. 39 of the VAFFC Evidence, Appendix A:

Topic	Public Utility	Common Carrier
Requirement to meet volume demanded	Utility must supply, and expand, to meet all reasonable demands as part of “obligation to serve”	Typically none, except offering surplus capacity on non-discriminatory basis. In the case of the JFL, intentional underservicing was not only possible, but pursued.
Entitlement to fair return	Within standard of the prudent investment principle, utility is legally entitled to a fair return on any investment (both annual revenue requirement and long-term recovery of rate base). In other words, a strong protection and expectation for both a return on, and a return of, capital.	When transporting common carriage volumes, prices to reflect fair annual costs for the service provided (shipping) without reference to unique circumstances of specific buyers or sellers (e.g., looming alleged obsolescence).

4.1 Is it Mr. Bowman's opinion that an oil pipeline that is considered a common carrier should not have an expectation for both a return on, and a return of, capital?

4.1.1 If yes, please fully explain your response.

4.1.2 If no, please fully explain your response.

4.2 With respect to Mr. Bowman's assertion that “[i]n the case of the JFL, intentional underservicing was not only possible, but pursued.”

- 4.2.1 Please provide all evidence Mr. Bowman relied upon to support his assertion.
- 4.2.2 Is it Mr. Bowman's position that the JFL was under a requirement to provide more service that it has provided? If so, please fully explain and provide all evidence supporting this claim.
- 4.3 With respect to Mr. Bowman's opinion that "[w]hen transporting common carriage volumes, prices to reflect fair annual costs for the service provided (shipping) without reference to unique circumstances of specific buyers or sellers (e.g., looming alleged obsolescence)."
- 4.3.1 Is it Mr. Bowman's opinion that the projected use (*i.e.*, volumes transported) of a common carrier oil pipeline should not be reflected in a revenue requirement study? If not, please fully explain and cite all authoritative sources supporting this claim.
- 4.3.2 Is it Mr. Bowman's opinion that it is appropriate to analyze the economic life of an oil pipeline when developing depreciation rates? If not, please fully explain.
- 4.3.3 Is it Mr. Bowman's opinion that when analyzing the economic life of an oil pipeline, the forecasted volumes transported by its existing and possible shippers should not be analyzed? If so, please fully explain.

Reference (ii): Exhibit C2-36-1 (VAFFC Evidence, Appendix A), PDF p. 45

On PDF p. 45 of the VAFFC Evidence, Appendix A, Mr. Bowman states:

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

- 4.4 Is it Mr. Bowman's understanding that the shippers, including VAFFC, were forced into entering into the 2009-2018 negotiated settlement? If so, please provide all evidence supporting such an accusation.
 - 4.4.1 If not, is it Mr. Bowman's understanding that the shippers, including VAFFC, voluntarily entered into the 2009-2018 negotiated settlement?
- 4.5 Is it Mr. Bowman's position that VAFFC and its members are not sophisticated commercial parties?

Reference (iii): Exhibit C2-36-1 (VAFFC Evidence, Appendix A), PDF p. 51

On PDF p. 51 of the VAFFC Evidence, Appendix A, Mr. Bowman 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)⁵⁷. This approach to asset depreciation could only reasonably be consistent with an assumed termination of pipeline service starting in the year 2023 (service after 2022 would otherwise be provided by a zero rate base asset, and there would be no basis to calculate a tariff that would provide any return to the owner who had taken on the risks of operation, etc.). Such termination of pipeline service would normally be understood to coincide with the final chance to collect from customers the costs needed for Removal or Abandonment of the pipeline and related assets. However, PKMJF's current filing portrays no abandonment reserves are in place (or credited as an offset to future customer funding obligations) as of January 1, 2019.

It is not credible that a regime was implemented which targeted known and fixed, stable revenues for 10 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. It is even less credible that this approach was purportedly implemented concurrent with a massive [REDACTED] in the net income taken by the pipeline operator, as reviewed above (a [REDACTED] from the traditional level of return on rate base of around \$0.720 million to [REDACTED] within 12 months). [Far] more likely, the settlement was acceptable to all parties, including PKMJF, because it understood to provide PKMJF with sufficient funds to address abandonment consistent with a 13-year life adopted for depreciation (whether recorded as abandonment accruals, or as extraordinary net income knowingly offsetting future as-yet recorded shareholder costs for abandonment). 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.

⁵⁷ Exhibit A2-1, Appendix 1, 2009-2018 Negotiated Settlement.

⁵⁸ With respect to toll development, the proposed Abandonment trust proposes to collect the full costs estimated by the abandonment study, with no offset or credit for amounts provided or accrued prior to January 1, 2019.

4.6 Is it Mr. Bowman's opinion that a pipeline cannot earn a return if it has been fully depreciated?

4.6.1 If yes, please provide all authoritative sources that support this opinion.

- 4.7 Is it Mr. Bowman's opinion that if PKMJF's tolls are set on a cost of service basis, PKMJF should be provided the opportunity to recover its costs and earn a reasonable profit? If not, please explain why not.
- 4.8 Referring to footnote 57 on PDF p. 51, please provide all references in Exhibit A2-1, Appendix, 2009-2018 Negotiated Settlement, that the PKMJF assets would be fully depreciated as of the end of 2022?
- 4.9 Is it Mr. Bowman's understanding that when VAFFC membership² entered into the 2009-2018 negotiated settlement, it expected PKMJF to set aside a portion of revenues collected to fund an abandonment fund? If so, please provide all evidence supporting such a position.
- 4.10 Was Mr. Bowman consulted by VAFFC, or any of its membership, during the negotiations which led to the 2009-2018 negotiated settlement such that he was privy to the understandings and positions of VAFFC or its membership during those negotiations?
- 4.10.1 If not, was Mr. Bowman otherwise made privy to the understandings and positions of VAFFC or its membership during the negotiations which led to the 2009-2018 negotiated settlement?

Reference (vi): Exhibit C2-36-1 (VAFFC Evidence, Appendix A), PDF p. 52

On PDF p. 52 of the VAFFC Evidence, Appendix A, Mr. Bowman states:

In short, the only reasonable way to set forward-looking tolls today in the wake of the negotiated settlement, would be to assume PKMJF acted or was expected to act consistent with a prudent pipeline operator during that period. This would yield an abandonment reserve as of December 31, 2018 of between \$2.556 million⁶¹ and \$3.671 million⁶² (likely the latter). Such a reserve should be directed by the BCUC to be established (for the purposes of setting 2019-2021 tolls), effective December 31, 2018, out of PKMJF's past tolls which were instead recorded as net income to the shareholder. To be clear - these amounts should not be collected from toll-payers a second time. Revenue Requirements for 2019 and going forward should be set to reflect abandonment funding for the remainder of reasonably estimated abandonment costs over and above this level (see the complementary evidence of Patricia Lee) over the appropriate depreciation period.

- 4.11 Is it Mr. Bowman's opinion that if it is shown that PKMJF's cost of service was higher than its revenues during a prior settlement period, its current rates should be adjusted to compensate for previous under-recovery in prior periods? If not, why not?

Reference (v): Exhibit C2-36-1 (VAFFC Evidence, Appendix A), PDF p. 53

² The 2009-2018 Negotiated Settlement was entered into by "KMJF and its shippers, including Air Canada". Accordingly, the reference to VAFFC in this request is intended to refer to the entity and/or its members who were parties to the 2009-2019 Negotiated Settlement.

On PDF p. 53 of the VAFFC Evidence, Appendix A, Mr. Bowman states:

In respect of depreciation, the 2009-2018 negotiated settlement included an adjustment to the lives used to depreciate assets. The concept applied is what would be considered a “terminal life” or “life span” in depreciation practice – where an asset is determined to have an effective end date for retirement, and all components are targeted to be depreciated by no later than that date, regardless as to their physical characteristics or condition.

4.12 Mr. Bowman uses the term “terminal life” in his report:

4.12.1 What is Mr. Bowman’s definition of “terminal life” in the context of developing an oil pipeline depreciation study?

4.12.2 Please provide all references in Exhibit A2-1, Appendix, 2009-2018 Negotiated Settlement, referred to in footnote 57 on PDF p. 51, to the term “terminal life.”

4.12.3 Is it Mr. Bowman’s understanding that a “terminal life” approach is used in oil pipeline depreciation studies? If so, please cite all instances.

5.0 Depreciation

Reference (i): Exhibit C2-36-1, (VAFFC Evidence, Appendix C: Review of Depreciation Methodology in PKMJF’s Proposed Revenue Requirement of the 2019 Tariff Application ([“VAFFC Evidence, Appendix C”]), PDF p. 103

On PDF p. 103 of the VAFFC Evidence, Appendix C, Ms. Lee 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. It was PKMJF’s responsibility to regularly review the depreciation rates and underlying life components which, from all appearances, it did not. This would have reduced the reported undepreciated costs as of December 31, 2018.

5.1 In Ms. Lee’s experience, how often do oil pipelines typically file new depreciation studies?

5.2 Is Ms. Lee aware of any instances where an oil pipeline filed a new depreciation study annually? If so, please provide cites to all instances.

5.3 With respect to Ms. Lee’s assertion that “the 2010 negotiated depreciation rates were designed to fully recover the JFL assets by a retirement date of December 31, 2022,” please provide all cites to where PKMJF made this specific claim.

Reference (ii): Exhibit C2-36-1, (VAFFC Evidence, Appendix C), PDF p. 109

Schedule 5, on PDF p. 109 of the VAFFC Evidence, Appendix C:

Appendix C: Review of PKMJF's Depreciation Methodology

December 16, 2020

Application for Tolls									
Schedule 5									
2019 Depreciation Study									
		Original Cost	Accumulated Depreciation	Net Service Value	2018 Depreciation Expense	Existing Depreciation Rates	Forecast Remaining Life	Proposed Recovery 3 Years w Exception	
Account Number & Description		12/31/2018	12/31/2018	12/31/2018	(e)	(f)	(g)=(d/e)	(h)	(i)=(h/b)
(a)		(b)	(c)	(d)			[1/]		
152	Land Rights	98,683.73	91,762.48	6,921.25	1,746.70	1.77%	4.0	2,307.08	2.34%
153	Line Pipe	6,107,724.24	3,558,941.50	2,548,782.74	282,472.58	4.86%	9.0	849,594.25	13.91%
156	Buildings	480,479.33	341,743.90	138,735.43	19,219.17	4.00%	7.2	46,245.14	9.62%
158	Pumping Equipment	1,138,930.25	900,553.22	238,377.03	52,390.80	4.60%	4.5	79,459.01	6.98%
159	Station Lines	1,931,570.82	1,572,956.16	358,614.66	81,898.61	4.24%	4.4	119,538.22	6.19%
160	Other Station Equipment	2,760,133.99	1,989,824.62	770,309.37	153,627.16	5.73%	5.0	256,769.79	9.30%
160C	Central Pipeline Control	329,325.99	329,325.99				na	na	na
161	Storage Tanks	1,878,251.02	1,228,896.83	649,354.19	91,993.66	4.90%	7.1	216,451.40	11.52%
163	Communications	239,200.52	223,358.50	15,842.02	5,513.46	10.00%	2.9	5,280.67	2.21%
185WE	Work Equipment	51,974.45	47,999.11	3,975.34	1,325.12	20.00%	3.0	1,325.11	2.55%
186HW	Computer Hardware	3,789.43	3,789.43			20.00%	na	na	na
186SW	Computer Software	8,625.11	8,625.11			20.00%	na	na	na
189D	AFUDC (Interest)	149,198.01	132,466.61	16,731.40	4,819.10	3.23%	3.5	5,577.13	3.74%
189E	AFUDC (Equity)	160,050.56	136,072.52	23,978.04	5,425.72	3.39%	4.4	7,992.68	4.99%
190	Construction Overhead	3,252,311.99	2,773,177.53	479,134.46	130,417.68	4.01%	3.7	159,711.49	4.91%
BS	Cost of Removal		(404,795.28)	404,795.28	49,516.56	7.69%	8.2	134,931.76	33.33%
	Total	18,590,249.44	12,934,698.23	5,655,551.21	880,366.33		6.4	1,885,183.74	10.14%
Summary of Depreciation Rates					2018		2019		
Depreciation Expense without Costs of Removal					830,849.77		1,750,251.98		
Amortization of normal Costs of Removal					49,516.56		134,931.76		
Total Provision for Pipeline					<u>880,366.33</u>		<u>1,885,183.74</u>		
Notes:									
[1/] Reflects depreciation and amortization effective as of January 1, 2010.									

On PDF p. 109 of the VAFFC Evidence, Appendix C, Ms. Lee states:

A review of the depreciation study indicates areas of concern where depreciation actions have not been in accord with generally accepted depreciation practices.

5.4 Please explain why Ms. Lee did not include all columns included in Schedule 5.

5.5 Ms. Lee asserts that a "review of the depreciation study indicates areas of concern where depreciation actions have not been in accord with generally accepted depreciation practices." What is the basis for Ms. Lee's understanding of generally accepted depreciation practices for oil pipelines? Please provide a list of authoritative sources.

Reference (iii): Exhibit C2-36-1, (VAFFC Evidence, Appendix C), PDF p. 114

On PDF p. 114 of the VAFFC Evidence, Appendix C, Ms. Lee states:

Using PKMJF's method of remaining life determination, the 13-year remaining life established in 2010 would have been adjusted each subsequent year to ensure recovery

of any additions. In other words, the 2010 depreciation rates would apply to the January 1, 2010 embedded investments until fully recovered; additions in 2010 would be subject to a 12-year period or an 8.3% depreciation rate; 2011 additions would be subject to an 11-year period or a 9.1% depreciation rate; 2012 additions would be subject to a 10-year period or a 10% depreciation rate; and so on. In this manner, January 1, 2010 embedded net investments as well as all subsequent additions would be fully recovered by 2022, a reasonable interpretation of PKMJF's intent of the 2010 depreciation rate design.

It is unclear if PKMJF's failure to book depreciation expense in this way reflects a lack of understanding or an attempt to increase earnings. As addressed in the complementary evidence (Appendix A, by P. Bowman), PKMJF has received more than sufficient toll revenue to recover the expenses it should have booked under the 2010 depreciation rate design.

- 5.6 With respect to Ms. Lee's assertion that "[i]t is unclear if PKMJF's failure to book depreciation expense in this way reflects a lack of understanding or an attempt to increase earnings":
- 5.6.1 By "book depreciation expense in this way," please confirm that Ms. Lee is referring to the approach she describes in the preceding paragraph.
- 5.6.1.1 If so, please list all instances in which an oil pipeline was authorized to use this depreciation approach.
- 5.6.1.2 If not, please explain what approach she is referring to.
- 5.6.2 Is Ms. Lee alleging that PKMJF inappropriately attempted to increase earnings? If so, please provide all evidence for making such an accusation.
- 5.7 With respect to Ms. Lee's statement regarding "PKMJF's method of remaining life determination," is it Ms. Lee's understanding this method is unique to PKMJF amongst oil pipelines?

Reference (iv): Exhibit C2-36-1, (VAFFC Evidence, Appendix C), PDF p. 115

On PDF p. 115 of the VAFFC Evidence, Appendix C, Ms. Lee states:

In sum, 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.

- 5.8 With respect to Ms. Lee's claim that "[i]t is conceivable that Parkland and some other shippers (airline and non-airline) may use the JFL even if it had higher tolls":

- 5.8.1 Does Ms. Lee believe that it is likely that some other shippers (airline and non-airline) may use the JFL even if it had higher tolls?
- 5.8.2 Did Ms. Lee review any evidence that suggests that some other shippers (airline and non-airline) may use the JFL even if it had higher tolls? If so, please provide such evidence.
- 5.8.3 Does Ms. Lee believe that if some other shippers (airline and non-airline) may use the JFL even if it had higher tolls, there would be sufficient volumes to make it economic for both the shipper and PKMJF?

6.0 Abandonment

Reference (i): Exhibit C2-36-1, (VAFFC Evidence, Appendix D: Review of PKMJF's proposed Abandonment Costs for the 2019 Tariff Application (["VAFFC Evidence, Appendix D"]), PDF p. 122

On PDF p. 122 of the VAFFC Evidence, Appendix D, Ms. Lee states:

In 2008, the NEB (now the CER) initiated a proceeding to address the financial issues of pipeline abandonment, identified as Stream 3 in its Land Management Consultation Initiative (LMCI). This proceeding introduced the trust fund concept in Canada. In May 2009, the NEB issued RH-2-2008 Reasons for Decision that set forth guiding principles and a Base Case for preparing preliminary abandonment cost estimates for pipeline abandonment costs. Also, the NEB recognized that preliminary abandonment cost estimates would require the use of assumptions rather than actual numbers. Even so, the use of assumptions was not a sufficient rationale to preclude making the cost estimates. On March 4, 2010, the NEB released a revised Base Case that included physical assumptions but no Unit Costs. Subsequently, in December 2010, the NEB issued a table containing revised Unit Costs.

PKMJF seeks clarification on Ms. Lee's opinion on the application of NEB guidelines, encapsulated in MH-001-2012, to the abandonment assumptions of the JFL.

- 6.1 With respect to Ms. Lee's discussion regarding the NEB's abandonment cost collection mechanism, is Ms. Lee aware of any instances where the NEB assumed that existing oil pipelines had already collected some or all of their abandonment costs in prior tolls? If so, please cite each and every instance.

Reference (ii): Exhibit C2-36-1, (VAFFC Evidence, Appendix D), PDF p. 123

On PDF p. 123 of the VAFFC Evidence, Appendix D, Ms. Lee 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 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. Thus, PKMJF had ample opportunity to file an application concerning the provision of abandonment costs as the BCUC encouraged it to do in Order P-7-2008. 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.

PKMJF seeks to better understand Ms. Lee's assertion that "[i]t 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".

6.2 With respect to Ms. Lee's opinion that "[i]t 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":

6.2.1 Please define what "more than a tentative decision to proceed" means.

6.2.2 Is Ms. Lee aware of any rulings in which a "more than tentative decision to proceed" has been applied to determine if abandonment costs should be allowed to be collected by an oil pipeline. If so, please provide all instances.

6.2.3 Does Ms. Lee consider more than a tentative decision to proceed equivalent to a firm and final decision? If not, please explain the differences.

7.0 Expert Qualifications

Reference: Exhibit C2-36-1, (VAFFC Evidence), PDF p. 5

On PDF p. 5 of the VAFFC Evidence, VAFFC states:

To support its intervention, VAFFC has retained Patricia Lee, Patrick Bowman, and Melissa Davies, through InterGroup Consultants Ltd. ("InterGroup"), to provide their expert opinion. VAFFC adopts InterGroup's expert opinion (the "InterGroup Report"), which is being filed concurrently with VAFFC's evidence. This evidence also provides a synopsis of their conclusions.

PKMJF seeks additional information regarding the qualifications of Melissa Davies, Patrick Bowman, and Patricia Lee of InterGroup Consultants Ltd. that is directly related to the economics and management of oil pipelines, including tolls, tariffs, rates, and depreciation matters. PKMJF also seeks to better understand the direction regarding the evaluations conducted by Melissa Davies, Patrick Bowman, and Patricia Lee of InterGroup Consultants Ltd. in relation to the PKMJF 2019 Tariff Application.

7.1 Please provide additional details regarding the expertise and experience of Melissa Davies, Patrick Bowman, and Patricia Lee of InterGroup Consultants Ltd. that is directly related to the economics and management of oil pipelines, including tolls, tariffs, rates, and depreciation matters.

7.1.1 Please list any oil pipeline depreciation studies authored by any of Ms. Davies, Mr. Bowman, and Ms. Lee.

7.1.2 Please list any oil pipeline tolls, tariffs, and/or rates proceedings where any of Ms. Davies, Mr. Bowman, or Ms. Lee have provided expert testimony.

- 7.2 Please provide full copies of the following documents:
- 7.2.1 Retainer letter or any other form of engagement agreement with InterGroup Consultants;
 - 7.2.2 Any written instructions or direction given to InterGroup Consultants (to the extent such directions or instruction was given or supplemented by verbal communications, please describe those verbal communications);
 - 7.2.3 Materials InterGroup Consultants was provided with to review;
 - 7.2.4 InterGroup Consultants working papers; and
 - 7.2.5 Full report outputs.