bcuc
British Columbia
Utilities Commission

Patrick Wruck
Commission Secretary

Commission.Secretary@bcuc.com
bcuc.com

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

March 30, 2021

Sent via email/eFile

Kinder Morgan Canada (Jet Fuel) Inc.
2019 Tariff Filing Exhibit A-53

Mr. David Tupper
Partner
Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patten & Trademark Agents
855-2nd Street S.W.
Suite 3500, Bankers Hall East Tower
Calgary, AB T2P 4J8
david.tupper@blakes.com

Re: Kinder Morgan Canada (Jet Fuel) Inc. – 2019 Tariff Filing Application – Project No. 1598984 – BCUC Information Request No. 4 to PKMJF

Dear Mr. Tupper:

Further to the above-noted application, please find enclosed British Columbia Utilities Commission Information Request No. 4. In accordance with the regulatory timetable established by BCUC Order P-3-21, please file your response no later than Tuesday, April 27, 2021.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/cmv
Attachment

cc: Terri-Lee Oleniuk
Partner
Blakes, Cassels & Graydon LLP
terri-lee.oleniuk@blakes.com

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Suite 410, 900 Howe Street
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Kinder Morgan Canada (Jet Fuel) Inc.
2019 Tariff Filing Application

INFORMATION REQUEST NO. 4 TO PKM CANADA (JET FUEL) INC.

Table of Contents

A. THE AMENDED APPLICATION

8.0 Reference: THE AMENDED APPLICATION
Exhibit B-64-3-1, pdf pp. 4, 14; Exhibit B-64-2, pp. 1, 18–19
Revised Revenue Requirements

On pdf page 4 of Exhibit B-64-3-1, PKM Canada (Jet Fuel) Inc.'s (PKMJF) Rebuttal Evidence, PKMJF states:

> Based on the length of time that the proceeding has been ongoing, as well as additional information that has become available through the course of the proceeding, the Application is being amended to extend the Tolling Period to March 31, 2023 and to revise the 2019 and 2020 Revenue Requirements to include actual costs. Forecast costs are being used to calculate the Revenue Requirements for 2021 through 2023.

On pdf page 1 of Exhibit B-64-2, the Amended Revenue Requirement Schedules, PKMJF states that it "…is filing the enclosed amended revenue requirement, which replaces the schedules found in Appendix A of PKMJF's amended application filed as Ex. B-14" and that "Any changes from the prior revenue requirement calculations are noted in green shading."

8.1 Please provide a working excel spreadsheet that includes tables of (i) the Revenue Requirement Schedules filed as Appendix A to Exhibit B-14; (ii) the Amended Revenue Requirement Schedules filed as Exhibit B-64-2; and (iii) the variance for each schedule.

8.1.1 Please provide a detailed narrative to accompany and explain each difference between the Amended Revenue Requirement Schedules and the Revenue Requirement Schedules filed as Appendix A to Exhibit B-14. This narrative should include, at a minimum (i) the driver for the change; (ii) whether the figures are forecast or actuals; (iii) any assumptions relied upon; and (iv) why PKMJF believes the change is warranted.

8.2 Please explain why PKMJF considers it appropriate to revise its 2019 and 2020 revenue requirements to include actual, rather than forecast, costs.

8.2.1 Please discuss the pros and cons of using actual versus forecast costs from the

perspective of (i) PKMJF; and (ii) shippers.

8.2.2 If actual costs are used for 2019 and 2020, is the result that shippers implicitly bear forecast risks in those years? Please explain why or why not.

8.3 Please provide PKMJF's estimated revenue requirement for each of the test years (2019 to 2023) assuming: (i) a 4.25-year useful life of the Jet Fuel Line (JFL); and (ii) PKMJF's forecast costs as presented in Appendix A to Exhibit B-14, rather than actual costs as presented in Exhibit B-16.

8.3.1 Please provide the effective toll in each of the test years based on the above and (i) 2018; (ii) 2019; and (iii) 2020 actual throughput volumes.

On pdf page 1 of the Amended Revenue Requirement Schedules, PKMJF states:

> the updated revenue requirement calculations reflected in the following tables are as follows:
>
> - Assume a 4.25-year depreciable life and, similarly, a 4.25-year collection period for PKMJF's abandonment cost collection mechanism
> - Calculate annual revenue requirement amounts for the years 2019 through 2022, and for the partial-year period January 1, 2023 through March 31, 2023
> - Include actual operating expenses for 2019 and 2020, and forecast operating expenses for the remaining years

Schedule 12 of the Amended Revenue Requirement Schedules provides the capital cost allowance for each applicable asset class. Schedule 12 is reproduced in part below:

Schedule 12
Capital Cost Allowance

			2018	2019	2020	2021	2022	2023
			Actual	Forecast	Forecast	Forecast	Forecast	Forecast
UCC (Opening)	Cls 1		2,852,419	3,020,073	3,178,570	3,051,427	2,929,370	2,812,195
Prior Year True Up			0	0	0	0	0	0
Additions			287,500	285,000	0	0	0	0
Adjustment								
Proceeds								
CCA Claimed		4.0%	(119,847)	(126,503)	(127,143)	(122,057)	(117,175)	(112,488)
UCC (Opening)	Cls 2		167,410	157,366	147,924	139,048	130,705	122,863
Prior Year True Up								
Additions			0	0	0	0	0	0
Adjustment								
Proceeds								
CCA Claimed		6.0%	(10,045)	(9,442)	(8,875)	(8,343)	(7,842)	(7,372)

...

8.4 Please confirm, or explain otherwise, that PKMJF's revised revenue requirement reflects actual 2019 and 2020 operating expenses but not actual capital expenses.

8.4.1 If confirmed, please explain why PKMJF considers such an approach to be appropriate and provide (i) a working excel spreadsheet that includes tables of the Capital Cost Allowance provided as Schedule 12 in Exhibit B-64-2; (ii) a revised version of Schedule 12 reflecting actual costs for the years 2019 and 2020, and the variance between forecast and actual costs; and (ii) a narrative explaining any variances.

On pdf page 14 of PKMJF's Rebuttal Evidence, PKMJF states:

> While PKMJF continues to believe the use of a revenue requirement escalator was appropriate, more refined forecasts for 2021, 2022, and Q1 2023 have been prepared in response to concerns from Interveners that a 2% revenue requirement escalator was too broad.

8.5 Please explain what it means for PKMJF to have prepared "more refined forecasts for 2021, 2022, and Q1 2023".

8.6 Did PKMJF continue to use a revenue requirement escalator to develop its forecast 2021, 2022, and Q1 2023 revenue requirements?

8.6.1 If yes, please provide (i) the escalator used for each year; (ii) the basis for the escalator(s) used; and (iii) an explanation as to why PKMJF considers the escalator(s) used to be more appropriate than a 2% escalator.

8.6.2 If not, please explain why not and provide (i) a detailed explanation of the methodology PKMJF employed to develop its forecast 2021, 2022, and Q1 2023 revenue requirements; and (ii) an explanation as to why PKMKF considers the methodology used to be more appropriate than a 2% escalator.

8.7 Please provide the calculation of the escalation of the revised 2019 revenue requirement over the 2018 revenue requirement.

8.8 Please provide the calculation of the escalation of the revised 2020 revenue requirement over the revised 2019 revenue requirement and the 2018 revenue requirement.

9.0 Reference: THE AMENDED APPLICATION
Exhibit B-64-2, pdf p. 4; Schedule 5, pdf p. 10; Exhibit C2-40-1, BCUC IR 11.5
Schedule 5 – 2019 Depreciation Rates

Schedule 5 of the Amended Revenue Requirement Schedules provides the following depreciation and amortization rates to be effective January 1, 2019:

Schedule 5
2019 Depreciation Study
Calculation of Depreciation and Amortization Rates to be Effective January 1, 2019

Account Number & Description		Original Cost 12/31/2018	Accumulated Depreciation 12/31/2018	Net Service Value 12/31/2018	2018 Depreciation Expense	Existing Depreciation Rates	Forecast Remaining Life	Proposed Recovery 4.25 Years		Revised Remaining Life
(a)		(b)	(c)	(d)	(e)	(f)	(g) = [d / e] [1/]	(h)	(i) = [h / b]	(j) = [d / h]
152	Land Rights	98,683.73	91,762.48	6,921.25	1,746.70	1.77%	4.0	1,628.53	1.65%	4.25
153	Line Pipe ~~[2/]~~	6,107,724.24	3,558,941.50	2,548,782.74	282,472.58	4.86%	9.0	599,713.59	9.82%	4.25
156	Buildings	480,479.33	341,743.90	138,735.43	19,219.18	4.00%	7.2	32,643.63	6.79%	4.25
158	Pumping Equipment	1,138,930.25	900,553.22	238,377.03	52,390.80	4.60%	4.5	56,088.71	4.92%	4.25
159	Station Lines	1,931,570.82	1,572,956.16	358,614.66	81,898.61	4.24%	4.4	84,379.92	4.37%	4.25
160	Other Station Equipment	2,760,133.99	1,989,824.62	770,309.37	153,627.16	5.73%	5.0	181,249.26	6.57%	4.25
160C	Central Pipeline Control	329,325.99	329,325.99	-	-	0.00%	na	-	0.00%	na
161	Storage Tanks	1,878,251.02	1,228,896.83	649,354.19	91,993.66	4.90%	7.1	152,789.22	8.13%	4.25
163	Communications	239,200.52	223,358.50	15,842.02	5,513.46	10.00%	2.9	3,727.53	1.56%	4.25
185WE	Work Equipment	51,974.45	47,999.11	3,975.34	1,325.12	20.00%	3.0	935.37	1.80%	4.25
186HW	Computer Hardware	3,789.43	3,789.43	-	-	20.00%	na	-	0.00%	na
186SW	Computer Software	8,625.11	8,625.11	-	-	20.00%	na	-	0.00%	na
189D	AFUDC (Interest)	149,198.01	132,466.61	16,731.40	4,819.10	3.23%	3.5	3,936.80	2.64%	4.25
189E	AFUDC (Equity)	160,050.56	136,072.52	23,978.04	5,425.72	3.39%	4.4	5,641.89	3.53%	4.25
190	Construction Overhead	3,252,311.99	2,773,177.53	479,134.46	130,417.68	4.01%	3.7	112,737.52	3.47%	4.25
BS	Cost of Removal	-	(404,795.28)	404,795.28	49,516.56	7.69%	8.2	95,245.95	23.53%	4.25
	Total	18,590,249.44	12,934,698.23	5,655,551.21	880,366.33		6.4	1,330,717.93		

Schedule 5 of the Amended Revenue Requirement Schedules states, "[t]he 2019 Depreciation Study presented above calculates revised depreciation rates as of January 1, 2019 based upon a 4.25 year remaining depreciable life."

9.1 Please confirm, or explain otherwise, that Schedule 5 is the "2019 Depreciation Study" in its entirety.

9.1.1 If confirmed, please explain why the study does not include analyses on the relevant

factors of depreciation, including but not limited to (i) the depreciation methods or techniques used by PKMJF; (ii) the economic useful lives of the assets; and (iii) the estimated net salvage values. Provide such analyses if available.

9.1.2 If not confirmed, please provide the 2019 Depreciation Study.

9.2 Please confirm, or explain otherwise, that the "Net Service Value 12/31/18" (column d) is the net book value of the asset class as of December 31, 2018.

9.3 Please confirm, or explain otherwise, that the "Existing Depreciation Rates" (column f) and "Forecast Remaining Life" (column g) were applicable to the negotiated settlement period and are no longer used to calculate PKMJF's revenue requirement in the Amended Application.

9.4 Please provide the accounting standards PKMJF follows when recording depreciation and amortization expense.

9.5 Please confirm, or explain otherwise, that PKMJF recorded depreciation and amortization expenses in its 2019 and 2020 audited financial statements consistent with that presented in Schedule 5.

9.5.1 If not confirmed, please explain why not, and provide (i) the depreciation and amortization expenses PKMJF recorded in 2019 and 2020; and (ii) the depreciation and amortization expenses PKMJF expects to record in 2021 to 2023.

9.6 Under a scenario where the proposed revised test period and depreciation and amortization rates are approved by the BCUC, and assuming no additions during the test period (2019 to 2023), please confirm, or explain otherwise, that the net book value of the JFL assets at December 31, 2018, would be fully recovered over 4.25 years, thus by March 31, 2023.

9.6.1 If confirmed, please provide any supporting documentation and/or calculations.

9.6.2 If not confirmed, please explain why, and provide the remaining net book value of these assets at March 31, 2023. Please provide any supporting documentation and/or calculations in your response.

9.7 Under a scenario where the proposed revised test period and depreciation and amortization rates are approved by the BCUC, please confirm, or explain otherwise, that any new capital asset addition made during the test period (2019 to 2023) would be depreciated/amortized at the respective rates listed under Proposed Recovery 4.25 Years (column i) presented in Schedule 5 of the Amended Revenue Requirement Schedules.

9.7.1 If confirmed, please provide the expected net book of these assets at the end of the test period (i.e. March 31, 2023), and PKMJF's proposed treatment of the balance. In your response, please provide any supporting documentation and/or calculations.

9.7.2 If not confirmed, please (i) explain in detail the methodology that would be used to depreciate/amortize the capital asset additions made during the test period; (ii) provide the net book value of these assets on March 31, 2023; and (iii) provide PKMJF's proposed treatment of the balance, if any. In your response, please provide any supporting documentation and/or calculations.

9.7.3 As an example, if a capital asset addition of $1,000,000 is made to account 160, Other Station Equipment, on March 31, 2021, please provide the net book value at March 31, 2023. In your response, please provide any supporting documentation and/or calculations.

On pdf page 4 of the Amended Revenue Requirement Schedules, PKMJF provides a high-level summary of the key parameters for the proposed revenue requirement and states that the annual return of capital is $1,326,000 for 2019 to 2022, and $332,000 for Q1 2023.

9.8 Please reconcile the return of capital presented on pdf page 4 of the Amended Revenue Requirement to amortization/depreciation expense provided in Schedule 5. In your response, please provide an explanation for any differences.

9.9 Please confirm, or explain otherwise, that the accounting standards PKMJF follow specifies a frequency for review of depreciation and amortization rates.

9.9.1 If confirmed, please (i) specify the required frequency; (ii) provide reference to the standard; and (iii) indicate how often PKMJF reviews the rates and the rationale if this differs from the specified frequency.

9.9.2 If not confirmed, please explain whether PKMJF regularly reviews its depreciation and amortization rates. If yes, please indicate how often. If not, please explain why not.

9.10 Please provide PKMJF's methodology for determining the remaining lives and depreciation and amortization rates presented in Schedule 5. In your response, please discuss any key assumptions used and why PKMJF's considers these assumptions to be reasonable.

9.11 Please identify the relevant factors from PKMJF's perspective that should be considered in determining the remaining life (column j) of an asset or group of assets. Please include a discussion on whether the asset retirement date is considered in determining the remaining life in your response.

9.12 Please explain why the remaining life and depreciation and amortization rates effective January 1, 2019 are considered reasonable.

9.13 Would PKMJF agree that depreciation and amortization is intended to allocate an asset's cost as equitably as possible to the periods during which the owner benefits from the asset? If not, please explain why not.

9.14 Please provide the residual and/or salvage value of the assets currently in service and discuss if this value has been incorporated in the proposed revenue requirement.

9.14.1 If the residual and/or salvage value of the assets has not been incorporated in the proposed revenue requirement, please explain why not and provide an update schedule including this value.

9.15 Please confirm, or explain otherwise, that if the depreciation rates presented in Schedule 5 of Exhibit B-16 are applied, the JFL, including any capital additions, will be fully depreciated by March 31, 2023.

9.15.1 If not confirmed, please explain whether and how the remaining unamortized/undepreciated costs will be recovered.

9.16 Please discuss, from PKMJF's perspective, whether prudently incurred capital investments should be permitted to be fully recovered regardless of whether the asset is presumed no longer used and useful in 4.25 years.

9.17 Please explain whether PKMJF is aware of any Canadian regulatory or legal precedent for the denial of recovery of the prudently incurred costs of assets that continue to be used and useful.

9.18 In a scenario where the JFL economic life exceeds 4.25 years, please discuss how the proposed revised depreciation and amortization rates impact the JFL cost of service beginning 2024.

On pdf page 4 of the Amended Revenue Requirement Schedules, PKMJF states:

> The expected remaining life of the pipeline is forecast to be 4.25 years, based on the Vancouver Airport Fuel Delivery's ("VAFD") stated construction timeline for its competing pipeline project. PKMJF expects that, as a result, the PKMJF pipeline system

will become economically unviable once the VAFD project commences operations and bypasses the PKMJF pipeline system.

9.19 Please explain how PKMJF's ability to recover the revenue requirement will be impacted if the VAFD project commences operations in advance of the stated construction timeline.

9.20 Please discuss the risk of the JFL, or components of the JFL, becoming stranded assets if the depreciation and amortization rates used during the negotiated settlement period, rather than PKMJF's proposed rates, continue to apply. Provide details of the assets, including their capital cost and the expected accumulated deprecation at the end of the test period (2019 to 2023).

In response to British Columbia Utilities Commission (BCUC) information request (IR) 11.5, VAFFC states:

> Depreciation expense inserted into common carrier tolls does not necessarily follow this definition. Take the example of a ferry terminal that uses substantial quantities of diesel fuel, delivered by truck. An entrepreneur identifies that it can build a pipeline to the facility that can operate for 40 years and, if properly depreciated over that time, deliver the diesel at a cost savings of 20%. The next year, the pipeline is built. In year 2, it is determined that the pipeline is properly declared a common carrier so that all potential fuel shippers can access its capacity on a non-discriminatory basis. In year 3, the government invests in a bridge such that ferry service will be obsolete by year 5. What is the appropriate approach for depreciation?
>
> For accounting purposes, the depreciation must be accelerated so that the factual material increase in costs (i.e., losses) can be immediately reported. Including such accelerated depreciation in tolls would not make any reasonable sense though, as the shippers could immediately revert to trucking for the remaining period, as it was only 20% higher cost. If instead something had changed in year 1 or 2 (e.g., trucks were banned, or all the trucks were sold off) then the shippers would seek to remain on the pipeline but ought to bear no responsibility for the ill-fated investment – making the investment was the decision of the entrepreneur. There is simply no rational basis to hamper the economic position of the fuel providers to offer a market distorting protection to the investor who knowingly invested capital in a profit-making venture exposed to the risk of a bridge.

9.21 Please explain, from PKMJF's perspective, whether applying accelerating depreciation in the above scenario is appropriate.

9.21.1 If yes, please explain why.

9.21.2 If not, please explain why not and comment on the differences between the above scenario and the current circumstances surrounding the JFL.

10.0 Reference: THE AMENDED APPLICATION
Exhibit C2-40-1, BCUC IR 13.7; Exhibit B-64-2, Schedule 7, pdf p. 13; Schedule 12, pdf pp. 18–19
Capital Additions

Schedule 7 of the Amended Revenue Requirement Schedules states, "[n]o capital additions are forecast for the Tolling Period."

Schedule 12 of the Amended Revenue Requirement Schedules provides the capital cost allowance for each applicable asset class. Schedule 12 is reproduced in part below:

		2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
…							
UCC (Opening)	Total	5,121,222	5,354,240	5,575,562	5,236,788	4,923,453	4,633,118
Prior Year True Up		0	0	0	0	0	0
Additions		575,000	570,000	0	0	0	0
Adjustment		0	0	0	0	0	0
Proceeds		0	0	0	0	0	0
CCA Claimed		**(341,982)**	**(348,678)**	**(338,774)**	**(313,335)**	**(290,335)**	**(269,476)**

10.1 Given PKMJF's statement that there are no capital additions forecast for 2019 through 2023, please:

(i) explain why additions are recorded on the capital cost allowance schedule (Schedule 12) in 2019;

(ii) indicate how any actual capital asset additions made in 2019 and 2020 will be depreciated for financial and regulatory accounting purposes, with reference to the relevant accounting standard(s);

(iii) indicate how any capital asset additions made between 2021 to 2023 would be depreciated for financial and regulatory accounting purposes, with reference to the relevant accounting standard(s); and

(iv) explain how any capital asset additions made during the test period will be used and useful in the operation of the JFL for the benefit of shippers.

In response to BCUC IR 13.7, VAFFC states that "…expensing capital additions was specifically referenced by PKMJF as the practice it would follow once accelerated depreciation was implemented (Exhibit B-5, 2007 Application, Responses to BCUC (IR1) 6.1)."

10.2 Please explain if PKMJF has or intends to expense capital asset additions during the test period (2019 to 2023).

10.2.1 If yes, please (i) provide the actual and forecast capital asset additions PKMJF has expensed or intends on expensing; (ii) explain whether these additions are included in the revenue requirement; and (iii) provide justification for recovering these additions in tolls, as applicable.

10.3 Does PKMJF require BCUC approval to expense capital additions?

10.3.1 If yes, please provide references to the relevant sections of the *Utilities Commission Act* (UCA).

10.3.2 If not, why not?

10.4 Does PKMJF require approval from its independent auditors to expense capital additions?

10.4.1 If yes, please provide references to the relevant accounting standards.

10.4.2 If not, why not?

10.5 Please discuss whether PKMJF's treatment of capital asset additions can differ for regulatory accounting purposes and financial accounting purposes.

10.5.1 What, if any, impact would a decision by the BCUC not to accept the expensing of JFL capital additions have on PKMJF's financial accounting practices?

10.6 Please explain whether there have been or are forecast to be any asset sales or retirements during the 2019 to 2023 test period.

10.6.1 If yes, please provide a description of the asset, the original cost, accumulated deprecation, salvage value, and proceeds at the time of sale and any realized gains or losses.

11.0 Reference: THE AMENDED APPLICATION
Exhibit B-64-2, Schedule 15, pdf p. 22
Operating Expenses – Fuel & Power and Property Tax

Schedule 15 of the Amended Revenue Requirement Schedules provides a summary of operating expenses of the proposed revenue requirement from 2019 to 2023:

	Jan-Dec 2019 Actuals	Jan-Dec 2020 Actuals	Jan-Dec 2021 Forecast	Jan-Dec 2022 Forecast	Jan-Mar 2023 Forecast	Sch No.
Fuel & Power	$369	$180	$250	$304	$76	
Property Tax	$147	$177	$147	$153	$38	
Direct Field Expenses	$1,761	$1,923	$1,916	$1,954	$498	16
A&G Costs	$1,358	$1,302	$1,293	$1,319	$336	17
Total Operating Expenses for Cost of Service	$3,634	$3,582	$3,606	$3,730	$949	

11.1 Please discuss the key assumptions used to develop the Fuel & Power 2021 to 2023 forecast amounts and elaborate on why the assumptions are considered reasonable.

11.2 Please explain the variance in Fuel and Power from (i) fiscal 2019 actual to fiscal 2020 actual; (ii) fiscal 2020 actual to fiscal 2021 forecast; (iii) fiscal 2021 forecast to fiscal 2022 forecast; and (iv) fiscal 2022 forecast to fiscal 2023 forecast.

11.3 Please explain the variance in Property Tax from (i) fiscal 2019 actual to fiscal 2020 actual; (ii) fiscal 2020 actual to fiscal 2021 forecast; and (iii) fiscal 2021 forecast to fiscal 2022 forecast.

12.0 Reference: THE AMENDED APPLICATION
Exhibit B-64-2, Schedule 16, pdf p. 23; Exhibit B-25, VAFFC IR 22.1, p. 2; Exhibit C2-36-2, InterGroup Report, Appendix B, pp. B-24, B-29; Exhibit B-14, Schedule 16, pdf p. 99
Operating Expenses – Direct Field Expenses

Schedule 16 of the Amended Revenue Requirement Schedules provides the Direct Field Expenses of the proposed Revenue Requirement from 2019 to 2023:

	Jan-Dec 2019 Actuals	Jan-Dec 2020 Actuals	Jan-Dec 2021 Forecast	Jan-Dec 2022 Forecast	Jan-Mar 2023 Forecast
Field Payroll	$587	$623	$625	$638	$163
Field Non-Payroll					
Employee Expenses	$177	$83	$100	$102	$26
Materials/Supplies/Parts/etc.	$42	$102	$39	$40	$10
Outside Services	$647	$383	$0	$0	$0
Vehicle Expense	$3	$8	$60	$61	$16
Rents	$162	$155	$272	$277	$71
DOT Fees (incl in Other from 2020 on)	$8	$0	$0	$0	$0
IT Hardware/Software, field communications		$93	$56	$57	$15
Other	$135	$28	$44	$45	$11
Field Major Maintenance	$0	$0	$0	$0	$0
Tank Major Maintenance	$0	$0	$0	$0	$0
Health/Safety/Environment		$112	$261	$266	$68
Cathodic Protection			$50	$51	$13
Valve Repairs		$11	$10	$10	$3
Measurement Equipt Repairs		$13	$50	$51	$13
Site Maintenance		$1	$4	$4	$1
ROW Maintenance		$78	$172	$175	$45
Pumps and Motor Repairs		$51	$75	$77	$20
Electrical Repairs		$32	$36	$37	$9
Mechanical Repairs		$39	$62	$63	$16
Pipeline Repairs		$111	$0	$0	$0
Subtotal	$1,174	$1,300	$1,291	$1,317	$336
Direct Field Expenses	$1,761	$1,923	$1,916	$1,954	$498

PKMJF's previous estimate of Direct Field Expenses, as presented Schedule 16 in Exhibit B-14, is as follows:

Direct Field Expenses

($000)

	2019 Forecast
Field Payroll	$562
Field Non-Payroll	
Employee Expenses	$93
Materials/Supplies/Parts/etc.	$121
Outside Services	$420
Vehicle Expense	$45
Rents	$162
DOT Fees	$7
Other	$60
Field Major Maintenance	$340
Tank Major Maintenance	$15
Subtotal	$1,263
Direct Field Expenses	$1,825

Note: Does not include integrity costs.

In the further response to VAFFC IR 22.1 (Exhibit B-25), where VAFFC requested specific details on direct field expenses from 2007 to 2018, PKMJF states:

> KMJF also notes that in the Application KMJF normalized Integrity Costs over a three-year period based on a three-year average. Therefore, given these fluctuations in costs, such as Integrity Costs, KMJF is not able to give a meaningful explanation of the year over year changes in Direct Field Expenses.

12.1 Please provide a detailed explanation of why each of the following new cost categories were included as direct field expenses in Schedule 16 of the Amended Revenue Requirement Schedules:

(i) IT Hardware/Software, field communications;

(ii) Health/Safety/Environment;
(iii) Cathodic Protection;
(iv) Valve Repairs;
(v) Measurement Equipt Repairs;
(vi) Site Maintenance;
(vii) ROW Maintenance;
(viii) Pumps and Motor Repairs;
(ix) Electric Repairs;
(x) Mechanical Repairs; and
(xi) Pipeline Repairs.

12.1.1 Please provide a breakdown of each cost category by test year. In your response, please include a description of the types of expenditures included in each cost category, as appropriate.

12.1.2 With the exception of Cathodic Protection, for each of the cost categories identified in BCUC IR 5.1, please explain why there are no expenses recorded in 2019 and provide rationale for the level of expenditures in 2020, 2021, 2022 and 2023.

12.1.3 With respect to Cathodic Protection, please explain why there are no expenses recorded in 2019 or 2020 and provide rationale for the level of expenditures in 2021, 2022 and 2023.

12.1.4 Please discuss why the actual and forecast levels for each of the above cost categories are reasonable for each year of the test period.

12.1.5 Please explain why repairs and maintenance activities (i.e. cathodic protection, valve repairs, measurement equipment repairs, site maintenance, right of way maintenance, pumps and motor repairs, electric repairs mechanical repairs and pipeline repairs) are included in Direct Field Expenses and not Integrity Costs.

12.2 For any Direct Field Expenses that have been re-classified to a different cost category, whether within Schedule 16 or not, please provide a detailed explanation of the following: (i) the cost amount; (ii) the original cost category; (iii) the new cost category; and (iv) the reason for the re-classification.

12.3 For each of the following cost categories please provide a detailed breakdown of the expenses per year:

a. Field Payroll;

b. Employee Expenses;

c. Materials/Supplies/Parts/etc;

d. Outside Services;

e. Vehicle Expense;

f. Rents;

g. IT Hardware/Software field communications; and

h. Other.

12.4 For each of the following cost categories, please explain: the variance (i) from fiscal 2019 forecast in Exhibit B-14 to fiscal 2019 actuals in Exhibit B-64-1; (ii) from fiscal 2019 actuals to 2020 actuals in Exhibit B-64-1; (iii) from fiscal 2020 forecast, based on the 2019 forecast and the 2% inflation factor in B-14, to fiscal 2020 actuals in B-64-1; and (iv) from fiscal 2020 actuals to 2021 forecast.

a. Field Payroll;

b. Employee Expenses;

c. Materials/Supplies/Parts/etc;

d. Outside Services;

e. Vehicle Expense;

f. Rents;

g. IT Hardware/Software field communications; and

h. Other.

12.5 For each of the following cost categories, please discuss why the actual and forecast levels of each expense for fiscal 2019, 2020, 2021, 2022 and 2023 are reasonable and include reference to the 2019-2021 expense forecast included in Schedule 16 of the Revenue Requirement filed in Exhibit B-14:

a. Field Payroll;

b. Employee Expenses;

c. Materials/Supplies/Parts/etc;

d. Outside Services;

e. Vehicle Expense;

f. Rents;

g. IT Hardware/Software field communications; and

h. Other.

12.6 Please explain why there are no Outside Services costs forecast for fiscal 2021, 2022 and 2023.

12.7 Please explain why the Outside Services for 2019 and 2020 could not be completed by PKMJF's field employees.

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). These costs are provided for elsewhere. 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. [*emphasis removed*]

12.8 Please confirm, or explain otherwise, that there were no actual costs in the Field Major Maintenance and Tank Major Maintenance categories in 2019.

12.9 Please explain why no actual or forecast costs are included in the Field Major Maintenance and Tank Major Maintenance cost categories for the 2019 to 2023 test period in Schedule 16 of the Amended Revenue Requirement Schedules.

12.9.1 If Field Major Maintenance and Tank Major Maintenance costs were reclassified within

Direct Field Expenses, please explain the reasons for reclassification. In your response, please provide any supporting documentation or calculations that clearly indicate these costs are not provided for elsewhere in the proposed cost of service for each test year (2019 to 2023).

12.9.2 If Field Major Maintenance and Tank Major Maintenance costs were not reclassified, did PKMJF perform the planned field and tank major maintenance?

12.9.2.1 If yes, please (i) provide forecast and actual costs for 2019 and 2020; (ii) the reason for the variance between forecast and actual costs; and (iii) specify where the costs are included in the proposed revenue requirement.

12.9.2.2 If not, please explain when the maintenance activities it will be completed or why they are no longer necessary.

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

> 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. [*emphasis removed*]

12.10 Please confirm, or explain otherwise, that there are no Outside Services costs duplicated in PKMJF's revenue requirement.

12.10.1 If confirmed, please provide any supporting documentation or calculations that clearly indicate these costs are not provided for elsewhere in the proposed cost of service for each test year (2019 to 2023).

12.10.2 If not confirmed, please identify the duplications, the associated cost overlap, and the reason(s) for the duplication.

12.11 Please explain how Outside Services differ from Direct Field Payroll and from Integrity activities.

12.12 Please explain the difference between the Outside Services costs included in Direct Field Expenses and Outside Services costs included in Administrative and General (A&G) costs.

12.13 Please explain if there are any Direct Field Expenses that do not directly support the service provided to shippers or provide direct benefit to shippers. If yes, please indicate what these Direct Field Expenses relate to, and provide the associated costs.

13.0 Reference: THE AMENDED APPLICATION
Exhibit B-12, Parkland IR 7.2; Exhibit B-39, Parkland IR 8.1.1; Exhibit B-38, VAFFC IR 16.2; Exhibit B-64-2, Schedule 17, pdf p. 24; Exhibit C2-36-2, InterGroup Report, Appendix B, pp. B-36, B-38, B-39

Operating Expenses – A&G Costs

Schedule 17 of the Amended Revenue Requirement Schedules provides the Administrative and General (A&G) costs of the proposed Revenue Requirement from 2019 to 2023:

	Jan-Dec 2019 Actuals	Jan-Dec 2020 Actuals	Jan-Dec 2021 Forecast	Jan-Dec 2022 Forecast	Jan-Mar 2023 Forecast
Payroll Tax [1/]	$79	$0	$0	$0	$0
Allocated Corporate Overhead	$15	$0	$0	$0	$0
Travel, Training, etc.	$55	$0	$0	$0	$0
Employee Benefits [1/]	$311	$0	$0	$0	$0
Labor allocations [1/] [2]	$632	$1,279	$1,249	$1,274	$325
Materials and Supplies	$4	$0	$0	$0	$0
Outside Services	$49	$0	$0	$0	$0
Phones/Utilities	$28	$0	$0	$0	$0
Rent	$129	$0	$0	$0	$0
Insurance	$50	$23	$44	$45	$11
Miscellaneous	$7	$0	$0	$0	$0
Total	$1,358	$1,302	$1,293	$1,319	$336

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 allocation model used by Canadian entities to allocate general and administrative type expenses.
>
> The Mass Model allocates general and administrative expenses of the corporation to operating entities within the corporation. Costs incurred in departments that support the entire business operations such as Human Resources, IT, AP, Accounting, Scheduling, Procurement, Legal, Audit, Insurance, etc. are generally coded into an account on the parent company and allocated based on three factors: PP&E (plant in service), Revenue, and Direct Labour. Ratios are averaged and calculated as a percentage of the total for all operating entities and that average is used to allocate costs to the KMJF Jet Fuel Line each month.
>
> KMJF understands that for the period 2014 to August 31, 2018 costs were allocated by the owner of the Trans Mountain Pipeline to the Jet Fuel Line based on the methodology set out in the 2002 Allocation Study filed with the NEB. [*emphasis retained; footnotes omitted*]

In response to VAFFC IR 16.2, PKMJF states:

> As a result of the 2019 acquisition Pembina is currently reviewing the cost allocation methodology it will follow. Once a methodology has been determined Pembina will allocate costs accordingly. <u>PKMJF determined that the amount of the allocated costs set out in the Amended Application are reasonable and expects it to be lower than any amount that may be allocated based on a methodology determined by Pembina, since Pembina is a smaller entity than the Kinder Morgan entities and consequently expects to have lesser economies of scale for costs allocated amongst different Pembina related entities</u>. [*emphasis added*]

13.1 Please discuss in detail the methodology for determining the actual and forecast A&G costs and

explain why this methodology is reasonable.

13.1.1 Please provide reasons for the allocation methodology used for each A&G cost category.

13.2 Please clarify whether PKMJF's parent company uses forecast or actual costs in the allocation of A&G costs.

13.3 Please explain, with rationale, whether there are any differences between the current methodology for allocating A&G costs and the methodology used by PKMJF's former parent, Kinder Morgan Inc.

13.4 Please explain whether the allocation methodology has been previously reviewed by any other energy regulator(s) in relation to the other utilities owned by the parent company. If so, please provide relevant extracts from the regulatory Decisions.

13.5 Please confirm, or explain otherwise, that all PKMJF administrative staff are employed by PKMJF's parent, Pembina Pipeline Corporation.

13.6 Please confirm, or explain otherwise, that PKMJF has continued to allocate test period (2019 to 2023) A&G costs using the Massachusetts Model.

13.6.1 If not, please explain what cost allocation methodology PKMJF follows and how it determined it would follow that methodology.

13.7 Please explain why the A&G costs are allocated amongst various cost categories in 2019 and between Labour allocations and Insurance in 2020 to 2023.

13.8 Please explain the decrease in A&G costs (i) from 2019 actual to 2020 actual; and (ii) from 2020 actual to 2021 forecast.

13.9 Please provide a detailed description of the costs that are included in Payroll Tax, Employee Benefits and Labour allocations.

13.10 Please explain the variance in Labour allocations from (i) from fiscal 2019 actual to 2020 actuals; and (ii) from fiscal 2020 actuals to 2021 forecast.

13.11 Please provide a description of the Outside Services, if any, included in the 2019 actual A&G costs. Please include a list of the services procured with the associated cost, as applicable.

13.11.1 Please explain why no A&G Outside Services costs were incurred in 2020, nor are any forecast for 2021 to 2023.

13.12 Please provide a description of the insurance products/services included in Insurance costs.

13.12.1 Please explain the variance in Insurance costs (i) from fiscal 2019 actual to 2020 actuals; and (ii) from fiscal 2020 actuals to 2021 forecast.

13.12.2 Please discuss why the actual and forecast levels of Insurance costs for fiscal 2019, 2020, 2021, 2022 and 2023 are reasonable.

Schedule 17 of the Amended Revenue Requirement Schedules includes the following footnote for Labour allocations:

[2] Includes costs (including benefits) from the following groups:	FTE's
- Operations/Business Development	0.4
- Product Logistics	0.2
- EHS	0.4
- Engineering	0.6
- Tax	0.1
- Insurance/Risk/Internal Audit	0.2
- IT	0.1
- Accounting/Planning/Forecasting	1.2
-Corporate Accounting/Treasury/Accounts Payable	0.4
- Human Resources	0.1
-Regulatory	0.5
-Legal	0.3
-Business Unit Management	0.3
-Supply Chain/Operations Services	0.2
	5.0

13.13 Please provide all calculations and assumptions that were used to determine the Full Time Equivalent (FTE) number for each department, and explain why the assumptions are considered reasonable.

13.14 Please discuss why PKMJF considers the allocation of five A&G FTEs to the JFL to be reasonable.

In response to Parkland IR 8.1.1, PKMJF states:

> PKMJF does not believe the acquisition will create synergies that would result in decreases to the A&G costs currently forecast. Generally, all things equal, synergies result from economies of scale. Given that Pembina is much smaller than Kinder Morgan, Inc. it is unlikely that Pembina would be able to achieve synergies on the JFL during the applied for tolling period in addition to those that Kinder Morgan, Inc. was able to achieve.

13.15 Please discuss the synergies, if any, that have resulted from the Pembina acquisition, discuss how these synergies compare to the synergies with Kinder Morgan Inc., and explain how the change has impacted the A&G actual and forecast costs, if at all.

13.16 Please provide a detailed breakdown of the shared services that are provided to PKMJF by its current parent company.

13.16.1 Please specify any differences in the nature, type, or level of shared services provided by the current parent company as compared to the predecessor. Discuss the impact on the proposed revenue requirement for 2019 to 2023.

13.16.2 Please provide the date when Pembina acquired the JFL and the transition of shared services took place. In your response, please discuss how this transition in shared services has impacted the revenue requirement including, but not limited to (i) any changes in the annual amount of shared services allocated to the JFL; (ii) the quantum of the change, and (iii) whether these changes have been reflected in the proposed revenue requirement.

13.16.3 Please discuss how the size of the parent company can impact the amount of shared services allocated.

13.16.4 Does PKMJF agree that subsidiaries of a significantly larger operation would experience greater allocable A&G costs? If not, please explain why not.

13.16.5 Please provide an estimate of the annual cost of the shared services if PKMJF were a stand-alone public company.

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. [*emphasis added*]

13.17 Please explain how activities from the A&G costs directly support the JFL.

13.18 Please confirm, or explain otherwise, that there is no duplication of shared services in PKMJF's proposed revenue requirement.

13.18.1 If confirmed, please provide any supporting documentation or calculations that clearly indicate these costs are not provided for elsewhere in the proposed revenue requirement for each test year (2019 to 2023).

13.18.2 If not confirmed, please identify the duplications, the associated cost overlap, and the reason(s) for the duplication.

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

> PKMJF's A&G forecast should not be approved for collection from tollpayers as it has not proven that, 1) PKMJF first directly assigned all costs related to each asset to the extent possible to minimize shared/common costs, 2) that PKMJF has proven each overhead activity is justifiably used and useful by PKMJF's jet fuel pipeline and should be included in A&G (there's a possibility that while reasonably a 'common' cost, it is not common to all assets equally), and 3) that the allocation of each activity, once proven used and useful to PKMJF's jet fuel pipeline is allocated based on an appropriate cost driver between each asset (that uses annualized cost data at a minimum).

13.19 Please explain how PKMJF's parent company determines which costs are directly assignable to PKMJF and which costs are allocated to PKMJF by the Massachusetts formula or alternative.

13.20 Please confirm, or explain otherwise, that none of the A&G costs included in Schedule 17 are directly assignable to PKMJF.

13.20.1 If not confirmed, please (i) indicate the A&G costs that are directly assignable and (ii) explain how theses costs are assigned to PKMJF.

13.21 Please explain whether the A&G costs incurred by PKMJF's parent company are combined into one common cost pool for allocation.

13.21.1 If more than one cost pool is used, please describe each of the cost pools and specify the types of costs included in each pool.

13.21.1.1 For each cost pool used, please (i) indicate whether there are specific cost drivers causing change in the activity's cost, and if so, why the driver(s) is considered reasonable; and (ii) confirm the costs are allocated based on the relevant driver(s) or explain why not.

13.22 If PKMJF continues to use the Massachusetts Model for allocation, please provide the applicable ratios for each factor (PP&E (plant in service), Revenue, and Direct Labour), used to support the allocations to PKMJF for each year of the test period (2019 to 2023).

13.22.1 Please provide the combined ratio for each factor that is applied to the parent company's A&G costs to determine the allocable amount to PKMJF.

13.23 Please provide any supporting documentation or calculations that clearly show PKMJF's A&G costs are fairly and properly assigned to PKMJF's cost of service and that shippers do not subsidize and are not subsidized by other subsidiaries of PKMJF's parent company.

On pages B-38 and B-39 of the InterGroup Report, VAFFC states:

> In the absence of PKMJF's finalized A&G allocation methodology review, A&G expense for inclusion in PKMJF's 2019 revenue requirement should be reduced by approximately $250,000. In its next application PKMJF should be directed to file its completed review, with supporting justification for the allocation of relevant overhead costs based on appropriate cost drivers for review (based on annual amounts). [*emphasis removed*]

13.24 Please discuss whether VAFFC's recommended adjustment for A&G costs is suitable. Why or why not?

14.0 Reference: THE AMENDED APPLICATION
Exhibit B-64-2, Schedule 18, pdf p. 25; Exhibit B-14, Schedule 18, pdf p. 101; Exhibit C2-36-2, InterGroup Report, Appendix B, p. B-32
Integrity Costs

Schedule 18 of the Amended Revenue Requirement Schedules provides the Normalized Integrity costs of the proposed Revenue Requirement from 2019 to 2023:

	Jan-Dec 2019 Actuals	Jan-Dec 2020 Actuals	Jan-Dec 2021 Forecast	Jan-Dec 2022 Forecast	Jan-Mar 2023 Forecast	4.25-Year Total
ILI Inspection - Pipeline	$229	$0	$0	$100	$0	$329
Geohazard management program	$0	$75	$110	$10	$55	$250
Field anomaly investigations (Includes Capital Dig Estimate)	$1,165	$0	$0	$0	$0	$1,165
Natural Hazards, CP Program & Weld Re-certs - Field Work	$15	$0	$0	$0	$0	$15
VE/UT inspection-vessels and piping	$0	$0	$20	$20	$0	$40
NPS 6 Chevron to Vancouver airport	$0	$0	$50	$0	$0	$50
Total	$1,409	$75	$180	$130	$55	$1,849
4.25-Year Total Normalized over 4.25 Years						**$435**

Schedule 18 of the Revenue Requirement filed in Exhibit B-14 provides the Normalized Integrity costs for the Revenue Requirement from 2019 to 2022:

	2019 Forecast	2020 Forecast	2021 Forecast	3-Year Total
ILI Assessment - Parkland to Airport	$345			$345
ILI Digs (Estimate 8 Digs)	$680			$680
DOC Survey		$62		$62
Dent Fatigue Analysis		$50		$50
KMAP (7 Days)	$20			$20
KMAP Digs (Estimated 3 @ $85k)	$255			$255
ILI Assessment(s) Shell to Burnaby				$0
ILI Digs (Estimate 4 Digs)				$0
DOC Survey		$30		$30
Dent Fatigue Analysis				$0
KMAP (Minimum Charge)				$0
KMAP Digs (Estimated 2 Digs)				$0
ILI Assessment(s) - Westridge to Ellerslie				$0
ILI Digs (Estimated 4 digs)				$0
DOC Survey		$30		$30
Dent Fatigue Analysis				$0
KMAP (Minimum Charge)				$0
KMAP Digs (Estimated 2 Digs)				$0
PODS/Risk/HCA	$50	$50	$50	$150
Total	$1,350	$222	$50	$1,622
3-Year Total Normalized over 3 Years				**$541**

14.1 Please explain why the categories for Normalized Integrity costs included in Schedule 18 of the Amended Revenue Requirement Schedules differ from the cost categories included in Schedule 18 of the Revenue Requirement filed in Exhibit B-14.

14.1.1 Please provide a detailed explanation for the reclassification of each of the costs. In your response, please include the following: the cost amount; the original cost category; the new cost category; and the reason for the reclassification.

14.1.2 For each cost category included in Schedule 18 of the Amended Revenue Requirement Schedules please describe the nature of the expenditures and types of costs included in each category.

14.2 Please provide a detailed breakdown by year of the integrity work to be completed over the 4.25 year test period (2019 to 2023). For each line item of the detailed breakdown, include (i) a description of the work completed or anticipated; (ii) an explanation of why the work is necessary, with reference to any applicable codes/standards/regulations requiring the work and/or any triggering events (e.g. anticipated abandonment); and (iii) rationale for recovering the associated costs of the integrity work from shippers in light of PJKMJF's intention to de-commission and abandon the JFL when the VAFD project goes into service.

14.3 Please provide a detailed explanation the integrity work undertaken in 2019 and why this resulted in actual integrity costs exceeding forecast costs.

14.4 Please discuss how Integrity costs differ from Direct Field Expenses.

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

> Previous treatment for pipeline inspections (including Anomaly inspections) was to amortize the costs, which occurred once every 5 years, over a 5 year period. In the 2008 Application, PKMJF (then TransMountain) presented costs for In Line Inspections (including Anomaly Inspections) that occurred in 2001 and 2007, totalling $327,897 and $364,609 respectively. The Application also provided detail on the expected 2007 works to justify the expenditure which has not been provided in this Application. [*footnotes omitted*]

14.5 Please confirm, or explain otherwise, that pipeline assessments and inspections occur once every five years. If not confirmed, please provide the assessment and inspection intervals.

14.6 Please indicate when the three most recent pipeline assessments and inspections were completed and when the next one is planned.

14.6.1 Please provide the results and recommendations from the last three pipeline assessments and inspections. Please (i) specify the recommended work that has and has not been completed prior to the test period (2019 to 2023); (ii) specify what, if any work, from these assessments will be completed in the test period (2019 to 2023); and (iii) provide a forecast of these costs.

Further 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. 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. [*emphasis removed*]

14.7 Please explain whether it is reasonable to normalize Integrity costs over the same interval that pipeline inspections and assessments take place. If not, please explain why not.

14.8 Please clarify why the normalization period of the Integrity costs was increased from 3 to 4.25 years. Please specify the relevant factors PKMJF considered, the key assumptions made, and explain why PKMJF considers those factors and assumptions to be reasonable.

15.0 Reference: THE AMENDED APPLICATION
Exhibit B-64-2, Schedule 19, pdf p. 26; Exhibit B-14, Schedule 19, pdf p. 102; Exhibit C2-36-2, InterGroup Report, Appendix B, p. B-33
Rate Case Costs

Schedule 19 of the Amended Revenue Requirement Schedules provides the Rate Case Costs of the proposed Revenue Requirement from 2019 to 2023:

Normalized Rate Case Costs
($000)

	Jan-Dec 2019 Actuals	Jan-Dec 2020 Actuals	Jan-Dec 2021 Forecast	Jan-Dec 2022 Forecast	Jan-Mar 2023 Forecast	4.25-Year Total
Forecast Rate Case Costs	$601	$200	$250	$0	$0	$1,051
4.25-Year Total Normalized over 4.25 Years						$247

15.1 Please provide a detailed breakdown by year of the actual and forecast Rate Case costs. In your response, please explain the increase from 2020 actual costs of $200,000 to 2021 forecast costs of $250,000.

Schedule 19 of the Revenue Requirement filed in Exhibit B-14 provides the forecast Rate Case costs for 2019:

Normalized Rate Case Costs
($000)

	2019 Forecast
Forecast Rate Case Costs	$425
3-Year Total Normalized over 3 Years	**$142**

On page B-33 of the InterGroup Report, VAFFC states that "The BCUC should include the normalized Rate Case costs as forecast ($141,000 for 2019). While PKMJF's actual 2019 Rate Case costs are reported higher than forecast this amount should not be approved…" [*emphasis removed*]

15.1.1 Please discuss whether is it appropriate to limit recovery of Rate Case costs to those forecast in PKMJF's original Application.

B. JET FUEL SYSTEM

16.0 Reference: THE JET FUEL SYSTEM
Exhibit B-64-3-1, pdf pp. 5, 336; Exhibit C2-40-1, BCUC IR 4.3; Exhibit C2-43-1, PKMJF IR 2.15
Life of the Jet Fuel Line

On pdf page 5 of PKMJF's Rebuttal Evidence, PKMJF states:

> When operational, the VAFD [Vancouver Airport Fuel Delivery] Project will dramatically reduce the volume of deliveries on the Jet Fuel Line and will render the Jet Fuel Line uneconomic to continue to operate. In this context, the tolls sought in the Application seek to maintain a reasonable return of and on PKMJF's investment over the remaining economic life of the Jet Fuel Line.

In response to PKMJF IR 2.5.1, VAFFC indicates that the VAFD project will be fully operational in February 2023.

In response to BCUC IR 4.3, VAFFC states that it "has no reason to believe the schedule for the completion of the VAFD Project will change at this time."

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

16.1.1 Please discuss the potential pros and cons of PKMJF waiting until the VAFD project is in-service and the economic viability of the JFL is more certain before determining the economic life of the asset and any adjustments required to depreciation rates and/or PKMJF's revenue requirement.

16.2 Please discuss the impact any changes to the VAFD project schedule would have on the economic life of the JFL and PKMJF's proposed revenue requirement.

16.2.1 Please discuss the action(s) PKMJF would take if operation of the VAFD project were to be delayed beyond February 2023.

In National Energy Board (NEB) Decision RH-2-2008, found on pdf page 336 of Exhibit B-64-3-1, the NEB states: "Timing of abandonment of a pipeline for the purpose of estimating future abandonment costs should be the shorter of anticipated economic life or physical life."

16.3 Please confirm, or explain otherwise, that the estimated 4.25-year useful life of the JFL is less than the physical life of the JFL assets and discuss whether this is consistent with NEB Decision RH-2-2008.

17.0 Reference: THE JET FUEL SYSTEM
Exhibit C2-43-1, PKMJF IR 1.8.3; Exhibit C1-41, PKMJF IR 1.7 and 1.8
Take-or-pay contracts

In response to PKMJF IR 1.8.3, VAFFC states:

> VAFFC's members may be willing to enter into a take-or-pay contract with PKMJF to use a significant proportion of the capacity of the Jet Fuel Line before the VAFD Project commences operation, depending on the terms to which PKMJF would be willing to agree, and particularly on whether PKMJF would be willing to agree to a toll that makes economic sense to VAFFC member shippers.
>
> VAFFC agrees that a take or pay contract should allow PKMJF the opportunity to recover its real costs (including a portion of estimated future abandonment costs) and earn a reasonable profit. Consistent with the findings of the NEB, VAFFC considers abandonment costs the responsibility of the carrier. The risk the carrier bears concerning timely collection of abandonment costs is one of the reasons it should earn a reasonable return. However, VAFFC does not consider PKMJF's current evidence to adequately or fairly describe its real costs. VAFFC is also not willing to enter into a take-or-pay contract that transfers significant new risks to shippers. [*footnote omitted*]

In response to PKMJF IR 1.7 and 1.8, Parkland Refining (B.C.) Ltd. (Parkland) indicates that it would "consider a take-or-pay contract, among other toll mechanisms, in determining whether the JFL toll is competitive" for periods up to and after commercial operation of the VAFD project.

17.1 Has PKMJF engaged VAFFC's members regarding the potential for executing a take-or-pay contract for use of the JFL prior to commercial operation of the VAFD project?

17.1.1 If yes, please provide an update on the status of such engagement and any resulting impact(s) to PKMJF's Application.

17.1.2 If not, why not?

17.2 Has PKMJF engaged Parkland regarding the potential for executing a take-or-pay contract for use of the JFL prior to commercial operation of the VAFD project?

17.2.1 If yes, please provide an update on the status of such engagement and any resulting impact(s) to PKMJF's Application.

17.2.2 If not, why not?

17.3 Has PKMJF engaged Parkland regarding the potential for executing a take-or-pay contract for use of the JFL following commercial operation of the VAFD project?

17.3.1 If yes, please provide an update on the status of such engagement.

17.3.2 If not, why not?

17.3.3 Please discuss what, if any, impact Parkland's willingness to consider a take-or-pay contract for the period following completion of the VAFD project has on the anticipated economic life of the JFL and PKMJF's Application.

C. COST OF SERVICE

18.0 Reference: COST OF SERVICE
Exhibit B-37, BCUC IR 3.5.1.3; Exhibit B-40-1, BCUC IRs 11.1, 11.3, 13.14, 13.17; Exhibit B-64-4, Wetmore Rebuttal Evidence, Section 3.2.3, pp. 7, 8, 9; Section 3.3.4, p. 14; B-64-2, Schedule 4; Exhibit C2-36-2, InterGroup Report, Appendix B, p. A-32 (pdf p. 59); Exhibit A2-1, 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), p. 2; Appendix 1
Depreciation During the Negotiated Settlement Period

On page 2 of the 2010 Tariff Filing, it states, "As part of the discussions, TMJ [Trans Mountain (Jet Fuel) Inc.] has agreed to include for filing updated depreciation and amortization rates, to be effective January 1, 2010, and the assumptions used to calculate these rates in Appendix 1."

Appendix 1 to the 2010 Tariff Filing included the depreciation and amortization rates to be effective January 1, 2010 and is reproduced in part below.

Calculation of Depreciation and Amortization Rates to be effective January 1, 2010
($000)

Account Number & Description		Original Cost Dec 31, 2009	Accumulated Depreciation Dec 31, 2009	Net Service Value Dec 31, 2009	2009 Depreciation Expense	Existing Depreciation Rates (%)	Forecast Remaining Life	Proposed Recovery 13 years w exceptions		Revised Remaining Life
(a)		(b)	(c)	(d)	(e)	(f)	(g) = [d / e]	(h)	(i) = [h / b]	(j) = [d / h]
152	Land Rights	98,684	76,040	22,644	1,192	1.21%	19.0	1,742	1.77%	13.0
153	Line Pipe	4,609,863	1,697,754	2,912,109	147,726	3.32%	19.7	224,008	4.86%	13.0
156	Buildings	364,788	175,315	189,474	9,972	2.73%	19.0	14,575	4.00%	13.0
158	Pumping Equipment	1,131,243	454,213	677,031	48,359	4.27%	14.0	52,079	4.60%	13.0
159	Station Lines	2,139,161	960,168	1,178,992	60,986	2.85%	19.3	90,692	4.24%	13.0
160	Other Station Equipment	2,819,995	720,847	2,099,148	110,575	3.92%	19.0	161,473	5.73%	13.0
160C	Central Pipeline Control	251,761	251,761	0	0	0.00%	0.0	0	0.00%	0.0
161	Storage Tanks	1,346,048	488,500	857,548	43,851	3.26%	19.6	65,965	4.90%	13.0
163	Communications [1]	184,066	96,533	87,533	17,507	10.00%	5.0	17,507	10.00%	5.0
185WE	Work Equipment [1]	45,349	45,349	0	0	20.00%	0.0	0	20.00%	0.0
186HW	Computer Hardware [1]	3,789	3,789	0	0	20.00%	0.0	0	20.00%	0.0
186SW	Computer Software [1]	8,625	8,625	0	0	20.00%	0.0	0	20.00%	0.0
189D	AFUDC (Interest)	181,894	105,500	76,394	4,021	2.21%	19.0	5,876	3.23%	13.0
189E	AFUDC (Equity)	179,889	100,726	79,163	4,166	2.32%	19.0	6,089	3.39%	13.0
190	Construction Overhead	3,377,045	1,614,456	1,762,589	92,768	2.75%	19.0	135,584	4.01%	13.0
BS	Costs of Removal [2]		(55,736)	55,736	2,933	5.00%	19.0	4,287	7.69%	13.0
	Total	16,742,201	6,743,841	9,998,360	544,056	3.25%	18.4	779,878		12.8
Base for computed average		**16,432,676**						**775,590**	**4.72%**	

18.1 Please confirm, or explain otherwise, that the numbers in Appendix 1 are presented in thousands of dollars, for a total Original Cost of approximately $16.74 billion as of December 31, 2009. If confirmed, please reconcile Appendix 1 to Schedule 5 of the Amended Revenue Requirement Schedules, which shows a total of approximately $18.59 million as of December 31, 2018.

18.2 Please confirm, or explain otherwise, that the "Net Service Value Dec 31, 2009" (column d) is the net book value of the asset class as of December 31, 2009.

18.3 Please confirm, or explain otherwise, that the "Existing Depreciation Rates (%)" (column f) and "Forecast Remaining Life" (column g) were applicable for the period ending December 31, 2009,

and were no longer relevant during the negotiated settlement period.

18.3.1 If column f and g were not applicable beginning January 1, 2010, please explain why they are included in the calculation of the depreciation and amortization rates to be effective January 1, 2010.

18.4 Please confirm, or explain otherwise, that under the deprecation/amortization rates approved by BCUC Order P-05-09, and assuming no capital additions during the negotiated settlement period, the net book value of the JFL assets at December 31, 2009, would be fully recovered over 13 years (i.e., by December 31, 2022).

18.4.1 If confirmed, please provide the remaining net book value of these assets at December 31, 2018. Please provide any supporting documentation and/or calculations in your response.

18.4.2 If not confirmed, please explain why and provide the remaining net book value of these assets at (i) December 31, 2018 and (ii) December 31, 2022. Please provide any supporting documentation and/or calculations in your response.

18.5 Please confirm, or explain otherwise, that any new capital asset addition made during the negotiated settlement period were depreciated/amortized at the rates approved by BCUC Order P-05-09.

18.5.1 If confirmed, for each of the capital asset addition made during the negotiated settlement period, as listed in Appendix BCUC-KMJF 6.9-A in response to BCUC IR 6.9, please provide the net book at the end of the negotiated settlement period (i.e. December 31, 2018). Please provide any supporting documentation and/or calculations in your response.

18.5.2 If not confirmed, please explain in detail the methodology that was used to depreciate/amortize the capital asset additions made during the negotiated settlement period and provide the net book value of these assets on December 31, 2018. Please provide any supporting documentation and/or calculations in your response.

18.6 Please confirm, or explain otherwise, that the sum of the net book values provided in response to BCUC IR 11.4.1 and 11.5.1, above, is equal to the total Net Service Value 12/31/2018 (column d) presented in Schedule 5 of the Amended Revenue Requirement Schedules (i.e. $5,655,551.21). If not, please explain why not and reconcile the sum of the net book values to the Net Service Value 12/31/2018.

18.7 In PKMJF's view, did the BCUC implicitly approve accelerated depreciation over the 13-year economic life of the assets during the negotiated settlement period? Please explain why or why not.

18.8 Please explain whether the same factors were considered in determining the remaining life (column j) of an asset or group of assets for the negotiated settlement period as the current test period (2019 to 2023). If not, please discuss the factors that were considered for the negotiated settlement period and explain why the factors differed.

18.9 Please explain whether PKMJF's methodology for determining an asset's life and the depreciation and amortization rates for the negotiated settlement period was the same methodology for the current test period (2019 to 2023).

18.9.1 If not, please (i) describe the methodology used for the negotiated settlement; (ii) discuss the key assumptions used and why they are considered reasonable; and (iii) explain why the methodology was revised for the current test period (2019 to 2023).

18.9.2 Please comment on whether estimated in-service date of the VAFD project was a relevant factor in determining the remaining life of the JFL (column j) for the negotiated

settlement period. If not, please explain why not.

18.10 Please explain why the remaining life was revised effective January 1, 2010. In your response, please specify the relevant factors that were considered and contributed to the revision.

18.11 Please provide the accounting standards PKMJF followed in recording depreciation and amortization over the negotiated settlement period.

18.11.1 Please discuss whether depreciation and amortization were recorded differently for regulatory accounting purposes as compared to financial reporting purposes over the negotiated settlement period. If yes, please describe the differences and explain why the same accounting treatment was not applied.

18.12 Please explain whether depreciation and amortization rates were reviewed during the negotiated settlement period with the same frequency they are reviewed in the current test period (2019 to 2023).

18.12.1 If not, please (i) explain whether the depreciation and amortization rates were regularly reviewed during the negotiated settlement period; and (ii) specify how often the rates were reviewed.

18.12.2 If the accounting standards followed during the test period (2019 to 2023) are different from those followed during the negotiated settlement period, please provide reference to the standard(s) previously followed and indicate how often the previous standard(s) required depreciation and amortization rates to be reviewed.

Further in Appendix 1 to the 2010 Tariff Filing Note 1 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.

18.13 Please explain the difference between the following terms referenced in Appendix 1 to the 2010 Tariff Filing: (i) Forecast Remaining Life (column g); (ii) Revised Remaining Life (column j); and (iii) Useful Life referenced in Note 1.

18.14 Please confirm, or explain otherwise, that the "contract term" is the same as the negotiated settlement period. If confirmed, please reconcile the 13-year revised remaining life to the contract term plus 1/2. If not confirmed, please define the "contract term".

18.15 Please explain why the useful life was based on the contract term plus 1/2.

18.15.1 Please discuss how the Useful Life referenced in Note 1, impacts the Revised Remaining Life (column j).

18.16 Please explain what the term "useful life" means in this context and elaborate on why the useful life of the JFL assets was reduced to "align with the contract term."

In response to BCUC IR 3.5.1.3 of the third round of IRs, PKMJF states:

> <u>The last approved depreciation study for JFL lists the end of its life at December 31, 2022 based on BCUC-approved depreciation rates</u>. PKMJF would require additional information from it's [sic] shippers surrounding their intentions of shipping on the JFL in the future before it could propose an alternative remaining life. [*emphasis added*]

In response to BCUC IR 11.1, VAFFC states:

> Notwithstanding this reasonable expectation of a physical life to 2045, in 2009, PKMJF secured an agreement from the shippers to depreciate the assets in full by 2022. While this approach should have been deemed inconsistent with a common carrier framework, customers agreed to the principle and tolls were set to provide PKMJF with sufficient revenue to implement this approach. However, PKMJF did not implement the approach – they implemented an approach that depreciated all assets (whether existing at the time, or installed much later) over 13 years. PKMJF's actual approach makes no reasonable sense – if the assets are to be retired in 2022, why would an asset installed in 2016, for example, be depreciated over 13 years? Whether intentional or simply as a result of a failure to understand basic deprecation principles, the effect of PKMJF's approach is to under-record the depreciation that should have been recorded and over-record the profit that the company reported. This issue requires adjustment. [*emphasis added*]

On page A-32 of the InterGroup Report, VAFFC suggests the following adjustment:

> Revise accumulated depreciation as of opening 2019 balances upwards by approximately $0.529 million, as an adjustment to the shareholder retained earnings, to reflect proper application of life span depreciation over the negotiated settlement period.

18.17 Please explain whether it is reasonable to consider that in 2009 it was agreed as part of the negotiated settlement that the revised remaining life for the JFL was 13 years and that all JFL assets would be depreciated by December 31, 2022. Please provide any documentation or agreements to support your position.

18.17.1 If not, please explain (i) where it is stated that Appendix 1 to the 2010 Tariff Filing applies to capital asset additions; (ii) why a capital asset addition in 2016 would be depreciated over 13 years given the "last approved depreciation study for [the] JFL lists the end of its life at December 31, 2022…". Please provide any documentation or agreements to support your position.

18.17.2 If yes, please explain whether an adjustment to the opening net book value and accumulated depreciation is required and provide the adjustment as necessary. Please provide any documentation or agreements to support your position.

18.18 Please explain how any capital additions were treated for financial and regulatory accounting purposes during the negotiated settlement period. If treatment for financial and regulatory accounting purposes differs, please identify and provide rationale for the differences.

18.18.1 Please clarify whether PKMJF's method of recording capital asset additions resulted in under-recording depreciation during the negotiated settlement period.

On pages 7, 8 and 9 of the PKMJF's Expert Rebuttal Evidence, PKMJF states:

> …Mr. Bowman calculated annual depreciation expense using different depreciation rates than those approved by the Commission. He then applied those different depreciation rates using a variable, vintage year approach. […]
>
> […]
>
> As shown for account 153, the depreciation rate approved by the Commission to be effective January 1, 2010 in column (i) was 4.86%. As shown in column (h), the annual

> depreciation expense required for account 153 assuming a 13-year depreciable life and the property and accumulated depreciation balances as of December 31, 2009 is $224,008. This level of depreciation expense is calculated in accordance with the group method of depreciation by multiplying the property balance for account 153 ($4,609,863) by the composite depreciation rate for account 153 (4.86%). In contrast, Mr. Bowman calculated a proposed depreciation rate to be used only for 2010 additions to account 153 by dividing 1 by the remaining depreciable life of 13 years, resulting in a depreciation rate of 7.69%; a depreciation rate that was not approved by the BCUC nor included on Appendix 1 of the December 7, 2009 Letter. [*emphasis added, footnotes omitted*]

On page 14 of PKMJF's Expert Rebuttal Evidence, PKMJF states, "Column (j), labeled revised remaining life, provides a check that the math was performed properly."

In response to BCUC IR 11.3, VAFFC states:

> For PKMJF's own accounting, as discussed in Ms. Lee's evidence, the appropriate economic life must be determined *first*, before the depreciation rates are calculated. On this point, the InterGroup evidence discusses the internal inconsistencies from PKMJF on the JFL's economic life. [*emphasis retained*]

18.19 Please discuss, with reference to the applicable accounting standards, whether it is appropriate that the revised remaining useful life be determined prior to the depreciation and amortization rates.

18.19.1 If yes, please explain why the depreciation and amortization rates were not adjusted each year to reflect the remaining useful life of the asset.

18.19.2 If not, please explain how the depreciation and amortization rates were calculated based on remaining life.

Further in response to BCUC IR 11.3, VAFFC states:

> Having said this, <u>it is not imperative that the BCUC make a determination of the useful life of the JFL. The only determination required from the BCUC is with respect to toll setting</u>, which, as noted above, can and should be set based on the inherent potential embedded in the investment, which is 25 years. [*emphasis added*]

18.20 Please discuss whether PKMJF agrees that the BCUC does not need to make a determination on the useful life of the JFL and the depreciation/amortization rates proposed.

18.20.1 If not, please explain why not.

18.20.2 If yes, please discuss whether the BCUC's determination should be limited to the revenue requirement recovered through tolls.

In response to BCUC IR 13.14, VAFFC states:

> ….had PKMJF properly applied the depreciation approach, the PKMJF earnings would have still far exceeded any reasonable regulatory standard by factors of [redacted]. PKMJF would not have been motivated to come back to the BCUC (and did not) to apply for a new litigated toll on a cost of service basis that would have materially reduced the

tolls it was already receiving.

18.21 Please explain whether earnings during the negotiated settlement deterred PKMJF in any way from revising depreciation rates.

Schedule 4 of the Amended Revenue Requirement Schedules provides a summary of plant and depreciation activity from 2007 through 2018:

Schedule 4
Plant and Depreciation Activity From 2007 through 2018
($000)

Description	Forecast 2009 1/	Adj. 2/	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
Plant Opening Balance				16,625	16,924	17,257	16,507	17,090	17,149	17,595	17,718	18,288
Additions				299	333	362	760	59	446	123	570	302
Retirements				0	0	-1,113	-177	0	0	0	0	0
Transfers				0	0	0	0	0	0	0	0	0
Plant Ending Balance	16,742	-117	16,625	16,924	17,257	16,507	17,090	17,149	17,595	17,718	18,288	18,590
Accumulated Depreciation Opening Balance				6,604	7,525	8,315	8,000	8,647	9,491	10,339	11,195	12,054
Depreciation Expense				921	790	798	824	844	848	856	859	880
Retirements				0	0	-1,113	-177	0	0	0	0	0
Accumulated Depreciation Ending Balance	6,744	-140	6,604	7,525	8,315	8,000	8,647	9,491	10,339	11,195	12,054	12,935
Net Book Value	9,998	22	10,020	9,399	8,942	8,506	8,442	7,657	7,255	6,523	6,234	5,656

18.22 Please reconcile the 'Original Cost December 31, 2009' in Appendix 1 to the 2010 Tariff Filing, and included in the preamble at the beginning of this IR series, to the 2010 'Plant Opening Balance' provided in Schedule 4 of the Amended Revenue Requirement Schedules. Please provide the reconciliation for each account number.

19.0 Reference: COST OF SERVICE
Exhibit B-11, BCUC IR 6.9, Appendix BCUC-KMJF 6.9-A, Appendix BCUC-KMJF 6.9-B; Exhibit B-12, VAFFC IR 1.1, Appendix Parkland-KMJF 1.1 – TMJ 2008 Deprecation Study, p. 3
Capital Asset Additions During the Negotiated Settlement Period

On page 3 of Appendix Parkland-KMJF 1.1 – TMJ 2008 Deprecation Study to the response to VAFFC IR 1.1, PKMJF states:

> The calculated annual depreciation accrual rates presented in the report are applicable to the forecast plant in service as of December 31, 2007, and <u>assume no further capital additions to the gross plant in service through the remaining economic life of this asset</u>. The depreciation rates are based on the straight-line remaining life method using the average service life procedure, and incorporate provision for the expected costs of de-activation and permanent decommissioning of the pipeline. [*emphasis added*]

19.1 Please confirm, or explain otherwise, that there were no capital asset additions forecast over the negotiated settlement period.

19.1.1 If confirmed, please explain whether the treatment of unplanned capital asset additions was discussed as part of the negotiated settlement. If not, please explain why not.

19.1.2 If not confirmed, please provide the forecast additions.

19.1.2.1 Please discuss whether the shippers were made aware of the forecast additions at the time of the negotiated settlement. If not, please explain why not.

In Appendix BCUC-KMJF 6.9-A in response to BCUC IR 6.9, PKMJF provides details of the actual capital additions made from 2010 to 2018.

19.2 For each capital asset addition from 2010 to 2018, please provide a detailed description of the addition and explain why the addition was necessary.

In Appendix BCUC-KMJF 6.9-B in the response to BCUC IR 6.9, PKMJF provides details of the actual capital retirements made from 2010 to 2018.

19.3 Please provide a detailed description of the capital asset retirements for 2010 to 2018, including the rationale for the retirement and whether these capital assets were replaced.

20.0 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
Misapplication of 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).

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

> …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. [*emphasis removed; footnotes omitted*]

20.1 Please elaborate on the instances where "individual vintage year assets were fully depreciated prior to the entire account becoming depreciated" and the materiality thereof.

20.2 Please discuss the impact not applying the group method of depreciation to all JFL assets has on the proposed revenue requirement for each of the test years (2019 to 2023).

20.3 Given the group method of depreciation was not applied in all instances, would each asset account be fully depreciated at the end of the JFL's estimated 4.25 year remaining life in a scenario where the rates in the 2019 depreciation study continue to be applied and there are no additions or retirements? Please explain why or why not.

20.3.1 Please explain the impact, if any, asset additions or retirements made during the test period (2019 to 2023) would have on PKMJF's response.

21.0 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.

21.1 Please explain how removal costs were treated prior to 2009.

21.2 Please discuss whether the unrecovered removal costs are overstated.

21.2.1 If yes, please discuss the impact on the revenue requirement for the 2019 to 2023 test period and provide the dollar impact to the annual depreciation expense, as appropriate.

22.0 Reference: COST OF SERVICE
Exhibit C2-36-1, InterGroup Report, Appendix B, p. B-2; Exhibit C2-40-1, BCUC IR 12.1
Returns during the Negotiated Settlement Period

On pages 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 response to BCUC IR 12.1, VAFFC states:

> InterGroup has recommended that tolls be set on the basis that PKMJF's assets ought to have $0.529 million more depreciation recorded against them than was reported, and the provision for removal should be assumed equal to $3.671 million over this same period. The BCUC make [sic] want to consider whether it is reasonable to adjust depreciation up, and abandonment cost funding up, and correspondingly retained earnings down (at least for the purposes of setting tolls) given the context of low/missing balances due to significant earning.

22.1 Please discuss whether, from PKMJF's perspective, it is reasonable for the BCUC to "adjust depreciation up, and abandonment cost funding up, and correspondingly retained earnings down".

22.1.1 Please discuss whether the BCUC has the authority under the UCA to do so.

22.2 Please explain whether PKMJF's net returns during the negotiated settlement have impacted the proposed revenue requirement for the test period (2019 to 2023).

22.2.1 If yes, please discuss how.

23.0 Reference: COST OF SERVICE
Exhibit B-64-1-1, pp. 26–27; Exhibit B-64-3-1, pdf p. 10; Exhibit C2-40-1, p. 19; Exhibit B-64-2, Schedule 13, p. 20; Exhibit C2-36-2, InterGroup Report, Section 3.0, p. 8; Appendix B, Section 2.0, pp. 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 of 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. [*emphasis retained*]

On pdf page 10 of Exhibit B-64-3-1, PKMJF's Rebuttal Evidence, PKMJF states:

> While Mr. Bowman argues that the negotiated settlement placed all volume risk on shippers, the increase in volume of shipments on the Jet Fuel Line towards the end of the negotiated term meant that shippers paid substantially less, and PKMJF earned substantially less, than they would have under a fixed toll.

23.1 Please discuss the toll methodology(ies) that was(were) applied to shippers prior to 2008 and provide the formula(s) used to calculate the toll(s), as applicable.

23.1.1 For each different methodology, please identify any risks and discuss how these risks were allocated between the owner and shippers.

23.2 Please discuss, in PKMF's view, how the risk profile changed for shippers commencing in 2009 as a result of the change in toll methodology.

23.3 Please discuss the risks PKMJF bore before and after the change in toll methodology.

23.4 Please explain whether any concessions were made by PKMJF as a result of the change in toll methodology in 2009.

23.5 If the toll methodology was satisfactory for all parties during the 2009 to 2018 negotiated settlement period, is this toll methodology suitable now? Please discuss.

Page 2 of the 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.

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. If a complaint is received by the Commission after 60 days of this Order, any adjustments in tolls will be on a prospective basis.

3. TMJ is to provide all Shippers on the pipeline with a copy of this Order along with confirmation to the Commission.

[*emphasis added*]

23.6 Did shippers register any complaints with PKMJF with respect to the tolls approved by Order P-5-09?

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

23.7 Please provide any further details or correspondence, in confidence if necessary, related to risk allocation during the 2009 to 2018 negotiated settlement agreement. For example, any issues or concerns raised by shippers or additional documentation related to volume risk.

In Exhibit C2-40-1 on page 19, in response to BCUC IR 6.9, VAFFC states:

> As an entrepreneur who developed the pipeline on their own initiative, and as a common carrier who does not enjoy the protections appropriate for a regulated public utility, there is no reason to expect a service provider of any commercial service to secure a right to protection from volume risk unless they can so negotiate. At times, PKMJF has so negotiated, presumably by offering shippers other valuable offsetting concessions. However, PKMJF did not so negotiate for 2019-2021. [*emphasis added*]
>
> Just like any entrepreneurial business venture, PKMJF ought to be at risk of sales volume. This risk must reside somewhere, and there is simply no legislative, policy, regulatory or other legal or economic principle, guideline, or enactment that would presumptively force this risk on the airlines or other shippers. Public utilities have extensive duties owed to them because they are actively enticed to invest so as to take on aspects of the public interest – common carriers (particularly PKMJF) were not and are not intended to be so enticed.

On pages 26 and 27 of Exhibit B-64-1-1, PKMJF's Expert Rebuttal Evidence, Mr. Wetmore states:

> Mr. Bowman opined that the shippers bore all volume risk (positive and negative) because the negotiated settlement included agreed to annual revenues, and he alternatively appears to opine that volume risk would have been transferred to the pipeline owner's account if an agreed to toll was instead used. While agreed-to revenues are only one component of the overall negotiated settlement, I disagree with Mr. Bowman's view that this component transferred all volume risk to the shippers.
>
> …since volumes increased substantially from 2010 to 2018, the implied toll the shippers paid in 2018 was 14% lower than the implied toll they paid in 2010. Thus, had the parties instead agreed to a fixed per m^3 toll for 2010 ($6.81 based on the 2010 data below), and increased that toll up to 2018 annually by 2.5% (or not), PKMJF would have earned substantially more revenue than it actually earned for 2010 to 2018. This illustrates that the shippers in total had complete price certainty for the entire 2010-2018 settlement period, regardless of cost or volume variances, which, in my view, minimized their risks and provided them with value. Clearly, the shippers did not bear all volume risk.

In Exhibit B-64-2, PKMF's Amended Revenue Requirement Schedules, PKMJF states:

PKMJF's forecast revenue requirement includes all components of the cost of service, rate base, and rate of return methodology. The 2019-2023 Forecast Revenue Requirement is calculated based on the continuation of the existing annual revenue requirement cost allocation tolling methodology approved by the Commission in Order P-5-09, issued December 16, 2009.

23.8 In PKMJF's view, with the existing toll methodology, please discuss whether PKMJF or the shippers currently bear volume risk. In your response, please comment on how this may have changed due the recent changes in throughput volumes

23.9 Please discuss any alternative toll methodologies that PKMJF has considered, the pros and cons of each alternative, and why PKMJF selected its proposed toll methodology.

23.9.1 Is PKMJF aware of any examples of a guaranteed revenue requirement tolling methodology being used in British Columbia, or in other jurisdictions within Canada? If yes, please describe the circumstances and provide references to any relevant decisions.

23.10 Please discuss, in PKMJF's view, who should bear the risks associated with throughput variance and the basis for PKMJF's position.

23.11 Please discuss whether PKMJF agrees or disagrees with VAFFC's above statement that "there is no reason to expect a service provider of any commercial service to secure a right to protection from volume risk unless they can so negotiate."

23.12 Please explain how, from PKMJF's perspective, the entitlements and obligations for revenue requirements differ between a common carrier and a public utility.

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.

23.13 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.

24.0 Reference: COST OF SERVICE
Exhibit B-64-1-1, pp. 23, 25; Exhibit B-64-3-1, pp. 10–11; Exhibit C2-40-1, p. 78; Exhibit C2-36-2, VAFFC Direct Evidence, p. 11; InterGroup Report, pp. 2–3; Appendix B, p. B-2; Appendix D, p. D-10
Regulatory Principles

On pdf pages 9 and 10 of PKMJF's Rebuttal Evidence, PKMJF states:

> VAFFC and its expert Mr. Bowman argue that because the Jet Fuel Line is a common carrier pipeline and not a utility, PKMJF is not entitled to a "guaranteed return on the appraised value of property". However, <u>VAFFC is not consistent with this position in later statements in this proceeding</u>, and this position is also <u>not consistent with established regulatory law</u>. [*emphasis added*]

24.1 Please provide references to the "later statements in this proceeding" that PKMJF submits are 'inconsistent' with VAFFC's position referred to in the above preamble.

24.2 Please explain how VAFFC's position is "not consistent with established regulatory law". Please

provide any established legal authority or precedent to support your response.

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

> 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.

On pages 2 and 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. 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, the proceeding occurs with major questions tied to the applicable regulatory (economic and legal) first principles. [*emphasis added*]

On page 25 of PKMJF's Expert Rebuttal Evidence, Mr. Wetmore states:

> To the extent that Mr. Bowman is suggesting that PKMJF is not entitled to the opportunity to recover its cost of operation for the pipeline as well as the depreciation of plant in service and other required costs over the expected remaining life of the pipeline, that would be inconsistent with my understanding (and that of other oil pipeline regulators) of the regulatory principles and precedent underlying just and reasonable tolls for oil pipeline companies.

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

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

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

24.6 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 PKMJF's view to ensure fairness for both the common carrier (and its shareholders) and shippers.

24.6.1 Please explain why this approach should be adopted, including any references to relevant case law.

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."

24.7 Please discuss whether, in PKMJF'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.

In Exhibit C2-40-1 on page 78, in response to BCUC IR 18.10, VAFFC states:

> The Bonbright principles of a sound rate design apply to public utilities, but only to a more limited extent to common carriers. For example, the Bonbright principles of price stability, understandability, and fair apportionment among customers are inherent to the concept that a common carrier provides non-discriminatory access.
>
> Similarly, pricing that encourages efficiency (including both conservation and increased use when the value so merits), feasible application, and freedom from controversies as to applicability are universally applicable pricing principles in economics. In contrast, the Bonbright criteria such as revenue stability for the owner and the fair return standard (i.e., the opportunity to earn a return of and a return on effectively all invested capital) apply to public utilities, but are not prioritized for common carriers. There is no such priority.

On page 23 of PKMJF's Expert Rebuttal Evidence, Mr. Wetmore states:

> In responding to BCUC and PKMJF information requests, Mr. Bowman provided what I believe to be inconsistent opinions regarding the evaluation of PKMJF's revenue requirement as a common carrier under the jurisdiction of the BCUC. On one hand, Mr. Bowman opines that he is not aware of any BC legislation or regulations that state that PKMJF is entitled to a return on, or a return of, capital and that PKMJF therefore may be viewed as an entrepreneur where its return is not tied to the original investment in physical assets. Alternatively, Mr. Bowman also opines that since PKMJF's tolls are to be set by the regulator (i.e., the BCUC), PKMJF should be provided the opportunity to recover costs and earn a fair return.

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

24.8.1 If confirmed, to what extent do the principles apply to a public utility? Please elaborate.

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

24.9.1 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?

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

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

24.9.2 If not confirmed, please explain why not.

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

> 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.

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

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

24.10.2 If not, why not?

25.0 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.

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

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

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

25.3.1 Does PKMJF 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.

25.3.1.1 If yes, how similar, and what aspects?

25.3.1.2 If no, please explain why not.

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

25.4 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.

25.5 In PKMJF's view, does the BCUC have the jurisdiction to approve depreciation rates for common carriers? Please explain why or why not.

25.5.1 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 discuss.

25.6 In PKMJF's view, does the BCUC have the jurisdiction to approve and allocate abandonment costs for common carriers? Please elaborate.

25.6.1 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 discuss.

25.7 In PKMJF's view, does the BCUC have the jurisdiction to approve capital structure and allowed rate of return for common carriers? Please explain why or why not.

25.7.1 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 discuss.

On pages 2 and 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. 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, the proceeding occurs with major questions tied to the applicable regulatory (economic and legal) first principles. [*emphasis added*]

25.8 In PKMJF'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.

D. ABANDONMENT COSTS

26.0 Reference: ABANDONMENT COSTS
Exhibit B-64-3-1, pdf pp. 12, 21
Abandonment Cost Estimates – Revised Estimates in the Amended Application

On pdf page 21 of PKMJF's Rebuttal Evidence, PKMJF states:

> As discussed above, PKMJF proposes to extend the Tolling Period to March 31, 2023 to coincide with the commencement of operations for the VAFD Project. According [sic], a comparison of the revised Annual Abandonment Costs with the previously applied for amounts is shown in the table below.

	2019	2020	2021	2022	2023
Previous Annual Abandonment Costs (Exhibit B-14, August 23, 2019)	$4,102,000	$4,102,000	$4,102,000	N/A	N/A
Revised Annual Abandonment Costs	$2,927,000	$2,927,000	$2,927,000	$2,927,000	$732,000

26.1 Please provide a detailed explanation of the $134,000 increase to the estimated overall cost of abandoning the JFL, including the specific cost categories that have increased and the basis for the increase.

26.1.1 Please provide any updates to the Final Environmental Liability Management Inc. report or other supporting materials respecting the revised abandonment cost estimate.

On pdf page 12 of PKMJF's Rebuttal Evidence, PKMJF provides the effective tolls for each of the Test Years based on 2018, 2019, and 2020 actual throughput volumes.

26.1.1 Please provide equivalent calculations for PKMJF's proposed abandonment surcharge.

27.0 Reference: ABANDONMENT COSTS
Exhibit B-64-3-1, pdf p. 24; Exhibit C2-40-1, BCUC IR 24.5 and 24.5.1; Exhibit B-37, BCUC IR 5.10
Abandonment Cost Estimates – Pipeline Removal vs Abandonment in Place

On pdf page 24 of PKMJF's Rebuttal Evidence, PKMJF states:

> The assumption of 100% removal of the Jet Fuel Line in the City of Richmond in the Final ELM Report was based on initial input from the City of Richmond. The City of Richmond has not responded to attempts to obtain further detail regarding expectations for abandonment. The need for removal may also be greater given the potential for future development in the Richmond area. It was also based on the risks associated with abandonment of a pipeline in place within a heavily urban area, including potential legal challenges.
>
> In any case, these assumptions will be tested and confirmed by the British Columbia Oil and Gas Commission, and other stakeholders, during anticipated future abandonment proceedings. [*footnotes omitted*]

In response to BCUC IR 5.10, PKMJF states:

> PKMJF understands that all written correspondence regarding the abandonment of the JFL took place between the City of Richmond and ELM and has been provided. ELM advised that it is not aware of any further written communication between KMJF and the City of Richmond, nor has PKMJF had any direct communications with the City of Richmond

27.1 Has ELM and/or PKMJF attempted any further communications with the City of Richmond regarding the city's expectation that portions of the JFL in Richmond would be removed rather the abandoned in place?

27.1.1 If yes, please describe the results of the efforts and provide any copies of the communications.

27.1.2 If not, why not?

27.2 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.

27.3 Please describe the BC Oil and Gas Commission's (BCOGC) jurisdiction over whether the JFL will be removed or abandoned in place. Please include references to any relevant legislation and/or regulations empowering the BCOGC in this respect.

27.3.1 In PKMJF'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.

27.3.2 Please describe any instances PKMJF 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?

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

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

27.4.2 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.

In response to BCUC IRs 24.5 and 24.5.1, VAFFC states:

> Note that the ELM report concludes that 5.25 km of the Richmond pipe is in agricultural setting (40% of the Richmond portion) with the remaining 60% urban, but that the Burnaby portion is 100% urban (ELM Report page 9, in Exhibit B-10). Based on this factual difference, there is no logic to the removal for Richmond being 100%, while the removal for Burnaby being 20%. If anything, InterGroup's evidence is conservative by replicating the 80:20 ratio for Burnaby to Richmond - a more fulsome implementation of consistency would only assume 20% of Richmond's urban portion was removed, and 0% of the agricultural - for a total removed of only 12% overall.

27.5 Please discuss what portion of the JFL in Richmond PKMJF believes would require removal rather than abandonment in place, absent the City of Richmond's stated expectation that 100 percent of the JFL would be removed. Provide a detailed explanation of the basis for PKMJF's estimate.

27.5.1 How does PKMJF's estimate of the portion of the JFL in Richmond that would require removal compare to the 20 percent and 12 percent removal estimates provided by VAFFC?

27.5.1.1 Please explain the basis for any differences between PKMJF's estimate and VAFFC's estimates.

27.5.1.2 Please discuss, from PKMJF's perspective, the reasonableness of VAFFC's removal estimates

27.6 For each municipality along the JFL pipeline route, please provide an estimate of the portion of the JFL right-of-way that PKMJF owns in fee simple versus has easement rights for.

27.6.1 If portions of the JFL right-of-way are located on property owned by PKMJF in fee simple, please provide a map or maps clearly showing the relevant property(ies).

27.6.2 If portions of the JFL right-of-way are located on property owned by PKMJF in fee simple, please explain whether it is reasonable to assume PKMJF could abandon the pipeline in place in these locations. If not, why not?

27.6.3 If portions of the JFL right-of-way are located on easements, please explain whether the treatment of the JFL following abandonment (i.e., removal or abandonment in place of the asset) is addressed in any of the JFL easement agreements.

27.6.3.1 If yes, please provide (i) a detailed explanation of the abandonment-related provisions included in the easement agreements; (ii) a detailed breakdown of which portions of the pipeline route are covered by certain abandonment provisions, including a summary by host municipality and map(s) clearly showing the relevant locations along pipeline route; and (iii) a description of the impact, if any, such provisions have on PKMJF's abandonment cost estimate.

27.6.3.2 If not, please discuss whether it is common practice for pipeline owners to include provisions related to the abandonment of the asset in easement agreements.

27.7 For each municipality along the JFL pipeline route, please provide an estimate of the portion of the JFL right-of-way that is located on private versus municipal land.

27.7.1 For PKMJF's perspective, does the preference of a host municipality have greater weight

with respect to portions of the asset located on municipal lands versus private land? Please explain why or why not.

27.8 Did PKMJF have any existing, or enter into any new, operating or other agreements with host municipalities along the JFL route with provisions addressing treatment of the JFL following abandonment (i.e., removal or abandonment in place)?

27.8.1 If yes, please provide copies of the agreements, highlighting the provisions relating to abandonment of the JFL.

27.8.2 If not, please discuss whether it is common practice for pipeline owners to enter into such agreements with host municipalities.

28.0 Reference: ABANDONMENT COSTS
Exhibit B-64-3-1, pdf pp. 23–25, 253, 336; Exhibit C2-40-1, BCUC IR 23.2, 24.5, and 24.5.1; Exhibit B-37, BCUC IR 5.10
Abandonment Cost Estimates – Estimate Certainty and Abandonment Timeline

On pdf pages 23 to 24 of PKMJF's Rebuttal Evidence, PKMJF states:

> The level of detail employed in the Final ELM Report is appropriate given the fact there may be a lengthy period of time between PKMJF ceasing service on the Jet Fuel Line, applying for and receiving approval to abandon, and completing abandonment. As PKMJF proceeds through this process, it will be able to obtain further certainty and detail around abandonment costs that will be appropriate to the various regulatory proceedings necessary for abandonment. The high-level abandonment estimate in the Final ELM Report is sufficient to set abandonment costs to be recovered in tolls on the Jet Fuel Line.

28.1 Please explain why PKMJF believes there may be "a lengthy period of time" between cessation of service on the JFL and completion of pipeline abandonment.

28.2 Please explain why PKMJF considers the period of time between cessation of service and completion of pipeline abandonment to be material to the quality of estimates necessary to permit the recovery of abandonment costs in tolls.

28.3 Please provide a description of the regulatory approvals necessary to abandon the JFL as well as (i) when PKMJF expects to file for each of the necessary approvals; and (ii) PKMJF's best estimate for how it would take to obtain each approval.

28.4 Does PKMJF consider this proceeding to be the appropriate place to determine how the JFL will be abandoned? Please explain why or why not.

On pdf page 336 of Exhibit B-64-3-1, or page 114 of NEB Decision RH-2-2008, the NEB states that "Pipeline companies are ultimately responsible for the full costs of constructing, operating and abandoning their pipelines, and the Board will hold the regulated company responsible for these costs."

In response to BCUC IR 23.2, VAFFC states:

> The NEB firmly rejected true-ups in its Reasons for Decision RH-2-2008 on the basis that pipeline owners properly hold the responsibility of identifying when to apply to the NEB to commence collecting funds, managing the adequacy of trust balances, and remaining ultimately accountable for the cost of abandonment. There are no additional specific instances where the NEB or CER rejected true-up structures because the NEB firmly rejected the concept in principle at the outset of establishing abandonment funds. VAFFC is likewise unaware of any CER regulated pipeline that has applied to commence

collecting funds from shippers for abandonment trust purposes only a year or two away from the projected disbursement of such funds.

On pdf pages 24 to 25 of PKMJF's Rebuttal Evidence, PKMJF states:

> VAFFC also objects to this true-up proposal, labelling it "unprecedented" and suggesting it is not consistent with National Energy Board precedent and would unfairly burden the last generation of shippers when shareholders have already been compensated in light of abandonment risks. These arguments do not hold up in light of the unique circumstances of the Jet Fuel System. PKMJF's true-up proposal is a reasonable mechanism to ensure that abandonment costs are fairly recovered from shippers.
>
> The NEB has previously held that "users of the system have an obligation to fund the abandonment costs over the economic life of a pipeline based on reasonable abandonment costs estimates" …
>
> The true-up mechanism is also particularly appropriate due to the necessarily high-level assessment of abandonment costs at this time. Especially due to the potential need to remove large sections of the Jet Fuel System rather than leave them in place, abandonment costs may be subject to change. This uncertainty is addressed through the true-up mechanism, which will also refund shippers if abandonment costs are lower than expected. Nonetheless, PKMJF submits that by approving an abandonment surcharge now, based on the estimated abandonment costs set out in the Final ELM Report, the BCUC can ensure that any true up at the time of abandonment will be minimal. [e*mphasis added, footnotes omitted*]

28.5 Please discuss whether:

The NEB firmly rejected true-ups in its Reasons for Decision RH-2-2008 on the basis that pipeline owners properly hold the responsibility of identifying when to apply to the NEB to commence collecting funds, managing the adequacy of trust balances, and remaining ultimately accountable for the cost of abandonment.

28.6 Please confirm, or explain otherwise, that in NEB Decision RH-2-2008, the NEB addresses the treatment of any surplus funds in an abandonment trust following the discharge of a company's abandonment obligations, but does not address the potential for the collection of an abandonment fund deficit following asset abandonment.

28.6.1 If confirmed, please provide any references to NEB or other relevant precedent PKMJF is aware of where the collection of funds from the users of a system to cover a deficit following completion of pipeline abandonment is considered.

28.7 Please provide a detailed explanation of the "unique circumstances of the Jet Fuel System" that, in PKMJF's opinion, make the use of the proposed true-up mechanism "a reasonable mechanism to ensure that abandonment costs are fairly recovered from shippers."

28.8 Given the "high-level assessment of abandonment costs" available at this time, please explain the basis for PKMJF's position that "by approving an abandonment surcharge now, based on the estimated abandonment costs set out in the Final ELM Report, the BCUC can ensure that any true up at the time of abandonment will be minimal."

On pdf page 253 of Exhibit B-64-3-1, or page 31 of NEB Decision RH-2-2008, the NEB states:

> The Board requires all trust agreements to specify the person entitled to surplus funds remaining after a company's abandonment obligations have been discharged. The Board agrees with parties that the existence of surplus funds would be extremely unlikely.

However, a trust agreement must address a circumstance, such as surplus, that has the potential to occur. In the Board's view, silence creates uncertainty; specifying how surplus would be dealt with does not.

28.9 Please describe PKMJF's understanding of why the NEB would expect that "the existence of surplus funds would be extremely unlikely" following pipeline abandonment.

28.10 Please describe how abandonment cost estimate uncertainty is address in the abandonment trusts approved by the NEB, including, at a minimum, a discussion of who bears the risk associated with over- and under-collection of abandonment costs. Please provide references to any regulatory precedent relied upon in the response.

28.10.1 Is PKMJF aware of any NEB precedent where an abandonment trust has been approved where the asset owner is responsible for any abandonment costs beyond those collected in the abandonment trust and any surplus of abandonment funds would be refunded to the system's users?

28.10.1.1 If yes, please provide relevant references.

28.10.2 Is PKMJF aware of any NEB precedent where an abandonment trust has been approved where the users of a system would be responsible for any abandonment costs beyond those collected in the abandonment trust and would be refunded any surplus?

28.10.2.1 If yes, please provide relevant references.

28.10.3 Is PKMJF aware of any NEB precedent where an abandonment trust has been approved where the users of a system would be responsible for any abandonment costs beyond those collected in the abandonment trust and any surplus would remain with the asset owner?

28.10.3.1 If yes, please provide relevant references.

28.10.4 Is PKMJF aware of any NEB precedent where an abandonment trust using a different mechanism to address the potential for over- or under-collection of abandonment costs than those described above has been approved?

28.10.4.1 If yes, please describe the approach and provide relevant references.

28.11 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 references to any regulatory precedent relied upon in the response.