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Sent via email/eFile

PNG CPCN WESTERN TRANSMISSION REACTIVATION AND DEFERRAL ACCOUNT INCREASE EXHIBIT A-12
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Mr. Verlon G. Otto
Director, Regulatory Affairs
Pacific Northern Gas Ltd.
750 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4
votto@png.ca

Re: Pacific Northern Gas Ltd. – Certificate of Public Convenience and Necessity for the Western Transmission Gas System Reactivation and Recommissioning Project Application and Deferral Account Increase Application – Project No. 1599200 – Information Request No. 2

Dear Mr. Otto:

Further to your March 5, 2021 filing of the Application for a Certificate of Public Convenience and Necessity for the Western Transmission Gas System Reactivation and Recommissioning Project, enclosed please find British Columbia Utilities Commission Information Request No. 2. In accordance with the regulatory timetable for this proceeding, please file your responses on or before Monday, July 5, 2021.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

PS/jb
Enclosure



Pacific Northern Gas Ltd.
Application for a Certificate of Public Convenience and Necessity for the
Western Transmission Gas System Reactivation and Recommissioning Project

INFORMATION REQUEST NO. 2 TO PACIFIC NORTHERN GAS LTD.

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A. AGREEMENTS

**43.0 Reference: AGREEMENTS
Exhibit B-7, BCUC IR 4.1.1
Approval of Agreements**

In response to British Columbia Utilities Commission (BCUC) Information Request (IR) 4.1.1, Pacific Northern Gas Ltd. (PNG) stated:

PNG is requesting approval from the BCUC of the TSAs [Transportation Service Agreements] and the Interconnection Agreements by September 1, 2021 in order to satisfy condition precedent 4a(i).

43.1 Please discuss the potential implications to the Project schedule, shippers, PNG or PNG's ratepayers in the event the BCUC approved the TSAs and/or the Interconnection Agreements subject to modifications.

**44.0 Reference: AGREEMENTS
Exhibit B-1-2, General Terms and Conditions, p. 18;
Exhibit B-8, Confidential Response to BCUC IR 7.2;
Exhibit B-7, BCUC IR 8.1;
PNG RECAP Application, Exhibit B-4, BCUC IR 2.2, 7.5
Credit Requirements**

Section 17.8 of the General Terms and Conditions (GTCs) contained in Appendix B to the Application state:

Notwithstanding the provisions of this Article 17, the credit requirements may be subject to more extensive conditions to support the development and construction, by Transporter, of required additional facilities for Transporter to meet its obligations to provide Service to Shipper under the Service Agreement. Such more extensive credit requirements, if any, will be specified by Transporter to Shipper following either agreement between Shipper and Transporter, or as directed by the BCUC. Such credit requirements may include the requirement for an Approved Letter of Credit not to

exceed Shipper's pro rata share of the cost of the required additional facilities.

In its confidential response to BCUC IR 7.2, PNG provided the amounts that would be covered by a 12-month Letter of Credit for each of the shippers, and the additional credit support amounts equivalent to the interconnection capital cost.

With respect to credit support provisions outlined in section 5.4(b) of the Interconnection Agreements, in response to BCUC IR 8.1, PNG stated:

The Additional Credit Support amount will ultimately equal the total capital cost of the interconnection facility upon completion of the interconnection.

In response to BCUC IR 2.2 in the PNG Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate (RECAP Application), PNG stated:

In the context of the RECAP Application, PNG has used the term reinforcement to describe situations where new facilities are justified to accommodate the demand identified through the RECAP process. Reinforcement of PNG's transmission system cannot be accomplished without the addition of new facilities; by its nature, reinforcement requires capital investment in new facilities. As noted in the response to Question 2.1, new facilities may be justified depending on the results of the RECAP process. [*emphasis added*]

In response to BCUC IR 7.5 in the RECAP Application, PNG stated:

As noted in Section 17.8 of the proposed GT&Cs, PNG has suggested that credit support requirements, in the event of a system reinforcement project, will be negotiated between PNG and the shipper with the base requirement being that the shipper will provide a letter of credit for its pro rata share of the cost of the additional facilities. If PNG and the shipper cannot agree on the credit support requirements in these circumstances, the shipper will be able to apply to the BCUC to provide credit support at a reduced level from the base requirements and PNG will require credit support from the shipper as so directed by the BCUC. [*emphasis added*]

44.1 Please discuss whether PNG considers that as part of the BCUC's decision on whether to approve the TSAs, GTCs and Interconnection Agreements (collectively, the Agreements), that under section 17.8 of the GTCs the BCUC may order more extensive credit requirements than those currently specified in the Agreements.

44.1.1 In the event the BCUC ordered more extensive credit requirements as part of its decision on the Agreements, please explain the time and process needed to establish revised agreements with the shippers.

44.1.1.1 Please discuss whether there are any risks involved to the Project schedule, shippers, PNG or PNG's ratepayers if the BCUC were to order more extensive credit requirements.

44.2 Please discuss whether PNG considers there are any circumstances where the BCUC could order more extensive credit requirements per section 17.8 of the GTCs after a BCUC decision has been rendered on the Agreements.

44.2.1 Please discuss whether section 17.8 of the GTCs obliges shippers to comply with any subsequent BCUC orders of more extensive credit requirements.

- 44.3 Please provide an explanation of the meaning of the term “additional facilities” as referred to in section 17.8 of the GTCs.
- 44.4 Please provide an explanation of whether PNG considers the following elements of the project scope constitute “additional facilities”:
- Existing compressor station reactivation;
 - Existing pipeline restoration;
 - Compressor stations R5 and R6;
 - New customer interconnect facilities; and
 - R5 to Terrace Junction Connector.
- 44.5 Please provide a breakdown of the amounts that would constitute the pro-rata share for each shipper of the following:
- Each of the facilities identified in the previous question individually;
 - All of the above facilities collectively; and
 - The facilities PNG identifies as “additional facilities”, collectively.
- 44.5.1 For each of the scenarios in the previous question, please also provide (i) a comparison against the amounts of credit support that will be required by the shipper, as outlined in PNG’s response to BCUC IR 7.2, and (ii) the number of months of demand charges for which a letter of credit would be required which is equal to the pro-rata share of the facilities. PNG may file part or all of its responses confidentially as required.
- 44.6 Please confirm, or explain otherwise, that the interconnection facilities are the only aspects of the Project for which shippers are specifically required to provide credit support in the amount of the shippers’ pro-rata share of the facilities.
- 44.6.1 If confirmed, please explain why PNG has not sought additional credit support from shippers for other facilities, up to the shippers’ pro-rata share of the facilities.

**45.0 Reference: AGREEMENTS
Exhibit B-7, BCUC IR 5.1
Construction of interconnection facilities**

In response to BCUC IR 5.1, PNG stated:

Working towards the first milestone of December 1, 2022, PNG determined that a minimum of 5 months was reasonable to construct the first interconnection facility. PNG anticipates that it will be able to determine what, if any, constructability or other constraints may exist before June 2022.

- 45.1 Please briefly elaborate on the need for a minimum of 5 months to construct the first interconnection facility.

B. PROJECT COSTS, ACCOUNTING TREATMENT AND RATE IMPACTS

**46.0 Reference: PROJECT COSTS, ACCOUNTING TREATMENT AND RATE IMPACTS
Exhibit B-1, Section 6.5.4, p. 133; Exhibit B-7, BCUC IR 33.3, 33.4, 33.3.1
Interconnection Pipelines**

In response to BCUC IR 33.3, PNG stated:

The demand charge for each of the interconnection pipelines is intended to remain fixed over the term of the Interconnection Agreement with no escalation or decrease related to, and independent of, PNG's general delivery rate changes.

... fixing the demand charge for the interconnecting pipelines over the term of the related Interconnection Agreement provides additional toll predictability for the RS 80 customers while avoiding the significant administrative complexity of setting up administrative systems to track a full stand-alone rate base and cost of service calculation for each interconnecting pipeline. That is, PNG does not believe the additional expense associated with setting each interconnecting pipeline up as a separate division will provide its existing customers with any net additional benefit beyond the very significant benefit they will realize from the addition of the RS 80 customers.

In response to BCUC IR 33.4, PNG stated:

The con of the proposed roll-in of the interconnecting pipelines, from the perspective of PNG's other customers, is that they will be assuming the risk of any variances between the revenues recovered under each interconnecting TSA and the actual revenue requirement associated with the interconnecting pipeline from year-to-year. ...

It is PNG's belief that it is appropriate for its other customers to assume the risks noted and that these risks are not material in the context of the overall Reactivation Project. Not only will those customers be the beneficiaries of the revenues from the RS 80 customers, there would also be savings in administrative costs. PNG notes that the BCUC has previously approved this approach to risk assumption by customers under previous fixed rate arrangements with Methanex and Eurocan.

- 46.1 Please elaborate on why PNG considers it appropriate for its other customers to bear the risk of any cost variances associated with the interconnecting pipelines and describe and quantify the savings in administrative costs.
- 46.2 Please identify which class of service the revenues and costs for the interconnecting pipelines will be included in for rate setting purposes.
- 46.3 Please explain, with rationale, how the revenues and costs associated with the interconnection agreements will be treated if PNG undertakes a cost of service analysis or files a rate design application with the BCUC during the term of the agreements, and whether the tolls may be subject to any rate rebalancing.
- 46.4 Please elaborate on the appropriateness of setting a fixed toll for the interconnecting pipelines, given that PNG proposes to roll-in the costs and revenues of the interconnecting pipelines to its existing revenue requirement and given that the revenue requirement and other delivery rates will fluctuate over the term of the TSA.
- 46.5 Please provide the initial toll and supporting excel schedules for each interconnecting pipeline under a scenario where the toll will be subject to BCUC approved delivery rate changes based on PNG's bi-annual revenue requirement applications.
- 46.6 Please provide a forecast of the expected range of cost variances and resulting rate impacts for PNG's existing customers associated with the interconnecting pipelines.

On page 133 of the Application, PNG states that “[r]ates for service on the interconnecting pipeline will be set to recover the full increase in the cost of service resulting from the construction and operating of the interconnecting pipelines such that there will be negligible rate impacts on PNG's other customers”.

- 46.7 Please confirm, or explain otherwise, that PNG proposes to set the tolls for the interconnecting pipelines based on forecast incremental costs, rather than embedded costs.
- 46.7.1 If confirmed, please explain, with rationale, why PNG considers it appropriate to set a toll for the interconnecting pipelines based on incremental costs rather than embedded costs.
- 46.7.2 Please provide an estimate of the toll for each interconnection agreement using PNG's embedded costs.

In response to BCUC IR 33.3.1, PNG stated:

The methodology for determining the fixed demand charge for the interconnecting pipelines is essentially identical to the mains extension methodology other than the future incremental revenues (i.e. the demand charge) is determined in order that the required contribution is calculated to be zero.

- 46.8 Please explain, with rationale, why PNG considers it appropriate to set a toll for the interconnecting pipelines so that the required contribution is calculated to be zero.

**47.0 Reference: PROJECT COSTS, ACCOUNTING TREATMENT AND RATE IMPACTS
Exhibit B-7, BCUC IR 36.2, 36.4, 36.5 and 36.8
Depreciation**

In response to BCUC IR 36.4, PNG stated:

PNG did consider depreciation rates for the interconnection pipeline in accordance with approved rates for transmission pipeline assets. However, given that the interconnection pipelines were to be considered specific use assets and paid for by the customer for which they are being constructed, PNG believed that use of the approved rates would result in sole-use undepreciated assets at the end of the primary term of the TSAs. Continuing to amortize the sole-use undepreciated assets at the end of the TSAs would add to the delivery tolls of the remaining customer base if the TSAs were not extended at the end of its primary term. This would come at a time when there is no incremental margin from the RECAP customers and would result in upward rate pressure for PNG's other customers. This outcome was not desirable as there is considerable uncertainty that these assets will be used and useful beyond the initial term of the TSAs given their sole-use nature.

In response to BCUC IR 36.5, PNG stated:

PNG did consider depreciating the project assets over the life of the TSAs but recognized that many of the project assets, all of which are common-use facilities, would still be used and useful after the expiry of the initial term of the TSAs. At this time, PNG is unable to determine what, if any, assets would not be used and/or useful following the primary term of the TSAs.

... in the event that Shippers do not renew their TSAs beyond the primary term and there were no replacement customers prepared to contract for the then available capacity, PNG would review if any facilities could be decommissioned or deactivated to reduce its cost of service without jeopardizing the provision of safe, reliable service to remaining customers.

- 47.1 Under a scenario whereby none of the TSAs are extended beyond the primary term, please provide details with examples of how specific project assets may continue to be used and useful.

- 47.2 Given PNG is unable to determine whether the project assets will be used and useful beyond the initial term of the TSAs, please explain whether PNG's rationale for depreciating the interconnecting pipeline assets over the term of the TSA (i.e., that using approved rates would result in undepreciated assets after the primary TSAs expire) also applies to the other project assets, rather than using standard depreciation rates. If not, please explain why not.
- 47.3 Under a scenario whereby PNG is directed to use depreciation rates for the project assets based on the TSA terms, please provide the specific depreciation rate that would be applicable, with rationale, based on the primary terms of the different TSAs.

In response to BCUC IR 36.8, PNG stated:

PNG is of the opinion that the useful life of an asset should be determined based on the period to which the asset is required to earn a favourable cash flow. US GAAP guidance for intangible assets in ASC 360-10-35-3 includes the following factors, which are also useful to consider in determining the useful life of a tangible asset:

...

- c. Any legal, regulatory, or contractual provisions that may limit the useful life. The cash flows and useful lives of intangible assets that are based on legal rights are constrained by the duration of those legal rights. Thus, the useful lives of such intangible assets cannot extend beyond the length of their legal rights and may be shorter.

- 47.4 Under a scenario whereby none of the TSAs are extended beyond the primary term, please discuss if PNG considers that the project assets will continue to earn a favourable cash flow, with supporting rationale and PNG's interpretation of the meaning of "favourable cash flow".
- 47.5 Please discuss whether the contractual requirements of the TSAs limit the useful life of the project assets in any way.
- 47.6 Please discuss whether the contractual requirements of the Interconnection Agreements limit the useful life of the interconnection facilities in any way.

In response to BCUC IR 36.2, PNG stated:

PNG is seeking approval of the Interconnection Agreements which include the monthly demand charge for each interconnection pipeline. As the depreciation rates are an input in calculating the monthly demand charge, in effect PNG is seeking approval in this Application to depreciate the interconnecting pipeline assets over the term of the underlying TSAs on which the Interconnection Agreements are based.

- 47.7 Please clarify whether a BCUC decision on the depreciation rates for the interconnection facilities is required in advance of or at the same time as the BCUC decision regarding the Interconnection Agreements, which include the demand charge.
- 47.7.1 Specifically, under a scenario whereby a depreciation rate for the interconnection facilities other than the term of the TSA is used, please discuss whether PNG would propose a different demand charge, or if the proposal would be to keep the demand charge as currently presented in the Interconnection Agreements.