



BRITISH COLUMBIA  
UTILITIES COMMISSION

ORDER C-3-93  
NUMBER.....

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CANADA

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A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY  
IN THE MATTER OF the Utilities Commission  
Act, S.B.C. 1980, c. 60, as amended

and

An Application by Pacific Northern Gas Ltd.

**BEFORE:** M.K. Jaccard, Chair; and )  
L.R. Barr, Deputy Chair ) March 24, 1993

**WHEREAS:**


- A. On February 18, 1993 Pacific Northern Gas Ltd. ("PNG") applied for a Certificate of Public Convenience and Necessity ("CPCN"), pursuant to Section 51 of the Utilities Commission Act ("the Act"), to construct and operate 27.4 miles of 12 inch pipeline loop in four sections between Summit Lake and Terrace B.C.; and
- B. The project is to increase the capacity of the pipeline by 7,000 MCF of gas per day to meet the increased requirements of Ocelot Ammonia Company, Devco International, Inc., and Methanex Corporation (collectively known as "Methanex") as a result of the expansion of its ammonia plant at Kitimat, B.C.; and
- C. The looping project will also increase the reliability of deliveries to Methanex and other customers; and
- D. The Commission has reviewed the Application and has determined that the construction and operation of the proposed transmission line looping project is necessary for the public convenience and properly conserves the public interest.

**NOW THEREFORE** the Commission orders as follows:

- 1. Pursuant to Sections 51 and 53 of the Act, a CPCN is granted to PNG to construct and operate 27.4 miles of 12 inch pipeline loop in four sections between Summit Lake and Terrace B.C.
- 2. The Annual Cost of Service of the new pipeline loops will be borne entirely by Methanex.
- 3. The Commission approves in principle the rate structure for Methanex as illustrated in the Letter Agreement between PNG and Methanex dated February 12, 1993 and attached as Appendix A to this order.
- 4. PNG will file with the Commission monthly progress reports detailing completion of the service agreement with Methanex, public consultation, bidding, awarding of contracts and capital cost expectations as the project progresses.
- 5. The Commission approves the removal from service of 6.4 miles of 10 inch pipeline and the recording of its undepreciated net value as an extraordinary plant loss in Account 171 to be amortized over 10 years starting in 1994, pursuant to Section 56 of the Act.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 31<sup>st</sup> day of March, 1993.

BY ORDER

  
Dr. Mark K. Jaccard  
Chair

R. G. Dyce  
Executive Vice President  
& General ManagerAPPENDIX A  
(page 1 of 6)

12 February 1993

Mr. J.F. Babbitt  
President  
Devco International, Inc.  
#808 - 320 South Boston  
Tulsa, Oklahoma  
74103

Dear Jack:

**Re: Proposed Expansion of Kitimat Ammonia Plant**

Pacific Northern Gas Ltd. (Pacific Northern) has been negotiating with Ocelot Ammonia Company, Devco International Inc. and Methanex Corporation, (collectively referred to as "Methanex") respecting the firm and interruptible transportation service charges for additional gas deliveries to the Kitimat methanol/ammonia complex. A brief summary of the results of our negotiations is as follows:

1. The planned expansion of the Kitimat ammonia plant will require an additional  $198.3 \times 10^3 \text{ m}^3$  (7,000 Mcf) per day of natural gas. The expansion will require 12 to 13 months to complete and is expected to come on-stream in March or April of 1994.
2. Pacific Northern analyzed its pipeline system capability for the contract year commencing November 1, 1994 and determined it would have available excess firm capacity of approximately  $93.5 \times 10^3 \text{ m}^3$  (3,300 Mcf) per day. This capacity, together with capacity made available from time to time from built-in system diversity, is currently being used to transport interruptible gas to the methanol/ammonia complex. However, Methanex is prepared to contract for  $113.3 \times 10^3 \text{ m}^3$  (4,000 Mcf) per day of this capacity on a firm basis concurrent with the additional  $198.3 \times 10^3 \text{ m}^3$  per day of firm requirements for the increased ammonia production.

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3. The looping requirements to deliver the  $198.3 \times 10^3 \text{ m}^3$  per day and the estimated costs of these loops are projected as follows:

Section	Miles of 12 " Loop	Estimated Cost (\$000)
R1 to R2	6.3	\$3,049
R2 to R3	10.6	4,453
R3 to R4	3.3	1,467
R4 to Terrace*	7.2	4,253
	27.4	\$13,222

\* The 7.2 mile loop between R4 and Terrace (Kitnayakwa Loop) is only required for security purposes.

4. Pacific Northern is prepared to seek approval from the B.C. Utilities Commission to maintain the current transportation margin on interruptible gas deliveries and to recalculate the transportation margin on all firm gas deliveries to the methanol/ammonia complex based on current margins plus the recovery of a 15 percent cost burden associated with the new facilities. Based on projected 1993 gas deliveries and using 1993 and 1994 estimated capital costs of \$13.222 million, the pre expansion and post expansion transportation margins are calculated as follows:

Category	Energy TJ	Transportation Margin	
		\$/GJ	\$000
PRE EXPANSION			
Firm	18 363	0.9099	16,708
Interruptible	4 695	0.1860	873
Total	23 058	0.7625	17,581
POST EXPANSION			
Firm	22 742	0.8349	18,987
Interruptible	3 103	0.1860	577
Total	25 845	0.7570	19,564

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5. These margins result in Methanex paying rates which are in excess of incremental costs since the cost of the Kitnayakwa Loop is included. The proposed rates would also reduce the rate increases, if any, otherwise required from Pacific Northern's other customers for 1994, and possibly 1995. The incremental firm deliveries will be made pursuant to a firm transportation service agreement for a term of 15 years with the same basic terms and conditions as those contained in the present transportation agreement.
6. The firm transportation service agreement will become effective September 1, 1994 and will include a provision permitting Pacific Northern to curtail firm service up to a maximum of  $113.3 \times 10^3 \text{ m}^3$  (4,000 Mcf) per day on days when Pacific Northern requires pipeline capacity and gas supply to meet its core market peak day requirements. On each such day Methanex will offer to sell to Pacific Northern the curtailed volume of gas at a price equal to Pacific Northern's weighted average commodity cost of gas during the month in which the curtailment occurred plus the typical Westcoast firm raw gas transmission, processing and transportation tolls to Summit Lake calculated at a 100 percent load factor.

You have advised us that it is unlikely the ammonia plant expansion will be completed prior to March or April of 1994. Accordingly, Methanex is prepared to rely on interruptible gas deliveries from March-April through August of 1994 and thereby defer commencement of the incremental firm transportation until September 1, 1994. Since Methanex will be obligated to make relatively large financial commitments on its expansion within the next few months, Methanex has requested that Pacific Northern provide it with a letter stating the general conditions under which Pacific Northern would expand its system for these incremental deliveries and provide details of the pricing arrangements for which it would be prepared to seek B.C. Utilities Commission approval in principle.

Pacific Northern confirms that it is prepared to proceed as described above for a September 1, 1994 commencement date. The excess firm capacity referenced in

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Item 2 above will decline over time, in the absence of further looping, as a result of increased firm requirements for Pacific Northern's core market customers. However, you have confirmed that Methanex will nominate  $198.3 \text{ } 10^3 \text{ m}^3$  per day of firm incremental capacity, which is not subject to curtailment, plus  $113.3 \text{ } 10^3 \text{ m}^3$  per day, which is subject to curtailment in accordance with Item 6 above.

Pacific Northern is prepared to seek B.C. Utilities Commission approval for this arrangement and thereafter to apply for the required certificate to permit construction of the Kitnayakwa Loop during the summer of 1993 and the other loops in the summer of 1994 provided the following conditions are met:

- i) Methanex provides Pacific Northern with the corporate financial information requested by Pacific Northern in its January 30, 1992 letter to Mr. K.E. Vidalin;
- ii) Pacific Northern and Methanex negotiate and execute a firm transportation service agreement for these additional gas deliveries on or before May 1, 1993;
- iii) Pacific Northern is satisfied with the creditworthiness of Methanex or has been provided with financial security sufficient to enable Pacific Northern to prudently commit the capital funding necessary to expand its pipeline system;
- iv) To the extent the prime rate of interest charged by the Royal Bank of Canada on February 12, 1994 is greater than 7.5 percent, the 15 percent cost burden shall be increased accordingly; and
- v) Pacific Northern will use its best efforts to ensure the 27.4 miles of 12 inch looping is installed at or below the estimated cost of 13.222 million \$1993.

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If the foregoing arrangements properly reflect your understanding of our recent discussions, and if you are in agreement with the proposed arrangements, would you please so indicate by signing this letter in the place indicated below and returning one copy to my attention.

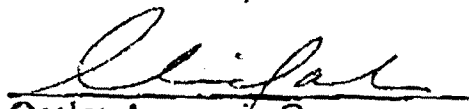
Yours truly,



R.G. Dyce  
Executive Vice President  
and General Manager

cc: Mr. K.E. Vidalin

Agreed to this 17 day  
of February, 1993

  
Methanex Corporation  
Occelot Ammonia Company

Devco International, Inc.

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If the foregoing arrangements properly reflect your understanding of our recent discussions, and if you are in agreement with the proposed arrangements, would you please so indicate by signing this letter in the place indicated below and returning one copy to my attention.

Yours truly,



R.G. Dyce  
Executive Vice President  
and General Manager

cc: Mr. K.E. Vidaliu

Agreed to this 16<sup>th</sup> day  
of February, 1993

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Methanex Corporation

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Ocelot Ammonia Company

  
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Deyco International, Inc.