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ORDER NUMBER
G-35-20

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.
Application Regarding Process for Allocation of Reactivated Capacity and
Approval of Large Volume Industrial Transportation Rate

BEFORE:
T. A. Loski, Panel Chair
C. M. Brewer, Commissioner
M. Kresivo, QC, Commissioner

on February 28, 2020

ORDER

WHEREAS:

A. On June 28, 2019, Pacific Northern Gas Ltd. (PNG) filed an application with the British Columbia Utilities Commission (BCUC) regarding the Process for Allocation of Reactivated Capacity (RECAP) and Approval of a Large Volume Industrial Transportation Rate (RS 80) (Application);

B. In the Application, PNG requests the following approvals:

   1. Approval of RS 80 and the related general terms and conditions (GTCs), pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA);

   2. Approval of the draft form of the Transportation Service Agreement (TSA) for customers seeking large volume industrial transportation service (LVITS), pursuant to section 58 of the UCA;

   3. Approval of the draft form of the Transportation Reservation Agreement (TRA) for customers seeking to reserve capacity as a large volume industrial transportation customer, pursuant to section 58 of the UCA;

   4. Approval of the creation of a new interest-bearing deferral account, the Large Volume Industrial Deferral Account (LVIDA), to record revenues from RS 80 including the firm demand charges and toll premiums as per executed TSAs and reservation fees from the executed TRAs, pursuant to sections 59 to 61 of the UCA; and

   5. Approval for the creation of a new rate base deferral account to track development costs for the reactivation project estimated at $1 million, pursuant to sections 59 to 61 of the UCA;

C. By Orders G-169-19, G-191-19 and G-258-19 the BCUC established a written public hearing process and regulatory timetables for the proceeding;

D. Distributed Gas Solutions Canada, Triton LNG Limited Partnership, Western LNG LLC and Tenaska Marketing Canada registered as interveners; and

E. The BCUC has reviewed the evidence and submissions and considers that approval is warranted.

NOW THEREFORE pursuant to sections 58 to 61 of the UCA, the BCUC orders as follows:

1. RS 80 for LVITS is approved, subject to the following:

    a. The LVITS demand charge is set at a $1.00 per GJ;

    b. PNG is directed to include the LVITS interruptible charge in RS 80 as a separate line item;

    c. The LVITS interruptible charge is set at $1.00 per GJ;

    d. The LVITS demand charge and interruptible charge will remain fixed until the last service commencement date of all shippers that participate in the RECAP; and

    e. The service commencement date for parties to participate in the RECAP is limited to 7 years from the RECAP bid date.

2. PNG is directed to file a revised RS 80 incorporating the approved changes within 30 days from the date of this order.

3. The toll premium concept to be part of the RECAP bidding process is approved, as filed.

4. The general terms and conditions for industrial transportation service are approved, as filed.

5. The draft Transportation Service Agreement for customers seeking LVITS is approved.

6. The draft Transportation Reservation Agreement for customers seeking LVITS is approved.

7. The establishment of the LVIDA to capture a portion of revenues to be collected from RS 80 shippers and reservation fees collected under TRAs resulting from the RECAP, is approved.

8. The establishment of a new rate base deferral account to record up to $1 million in development, permitting and consultation expenses related to the Reactivation Project, is approved.

9. PNG is directed to provide a report to the BCUC on the results of the RECAP, in accordance with the specifications outlined in the attached reasons for decision. The report must be filed within 30 days following acceptance of the last bid pursuant to the RECAP.

10. PNG is directed to file the following information annually for each RS 80 shipper, by April 30 of each year:

    - the shipper's current credit rating;

    - any change in the shipper's credit rating from the previous report; and

    - the amount of credit support currently on hand from the shipper.

DATED at the City of Vancouver, in the Province of British Columbia, this 28th day of February 2020.

BY ORDER

Original signed by:

T. A. Loski,
Commissioner

Attachment

Pacific Northern Gas Ltd.

Application Regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate

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Reasons for Decision

February 28, 2020

Before:
T. A. Loski, Panel Chair
C. M. Brewer, Commissioner
M. Kresivo, QC, Commissioner

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1.0 Introduction

1.1 Summary of Application and Approvals Sought

On June 28, 2019, Pacific Northern Gas Ltd. (PNG) filed an application regarding the process for allocation of reactivated capacity and approval of the Large Volume Industrial Transportation Rate (Application) with the British Columbia Utilities Commission (BCUC). This document provides the Panel's reasons for decision regarding this Application.

The proposed process for allocating reactivated capacity (RECAP) refers to the exercise that PNG plans to conduct in the first quarter of 2020 to determine the demand for gas transportation capacity on its transmission system and the amount of any toll premiums that prospective shippers are willing to pay. This type of process is referred to in the energy industry as an open season. If the outcome of the RECAP is successful, PNG intends to undertake system reactivation and recommissioning work to return the transmission system, which is currently operating at less than full capacity, to full design capacity (Reactivation Project). Further details on the RECAP and Reactivation Project are provided in Section 1.2.

In the Application, PNG applies for the following:

1. Approval of the proposed Rate Schedule 80 (or RS 80) for Large Volume Industrial Transportation Service and the related general terms and conditions, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA). In its responses to information requests, PNG also requested a finding that the toll premium concept is not unjust or unreasonable;
2. Approval of the draft transportation service agreement (TSA) for customers seeking large volume industrial transportation service, pursuant to section 58 of the UCA;
3. Approval of the draft transportation reservation agreement (TRA) for customers seeking to reserve large volume industrial transportation service, pursuant to section 58 of the UCA;
4. Approval of a new interest-bearing deferral account, the large volume industrial deferral account (LVIDA), to record revenues from RS 80 and reservation fees from the executed TRAs, pursuant to sections 59 to 61 of the UCA; and
5. Approval of a new rate base deferral account to record development, permitting and consultation expenses for the Reactivation Project, estimated at $1 million, pursuant to sections 59 to 61 of the UCA.

The Panel established a written public hearing for the review of the Application, including two rounds of information requests and written final and reply arguments. Four potential shippers registered as interveners in the proceeding: Distributed Gas Solutions Canada, Triton LNG Limited Partnership (Triton LNG), Western LNG LLC and Tenaska Marketing Canada. However, only Triton LNG participated actively in the proceeding by filing one round of information requests and a final argument.

The Panel addresses each of the approvals sought and any related issues in Sections 2.0 through 6.0 of these reasons for decision. Reporting requirements are outlined in Section 7.0.

1.2 Overview of Proposed Process for Allocation of Reactivated Capacity (RECAP) and Reactivation Project

Following the loss of its largest industrial customers, specifically Methanex Corporation in 2005 and West Fraser Mills Ltd. in 2010, PNG deactivated some of its facilities and has since had unutilized capacity on its transmission system. Due to adverse economic conditions, PNG has been unable to secure new industrial customers for the unutilized capacity.[1]

PNG submits that recent changes in market conditions, particularly related to the liquefied natural gas sector, have renewed interest in its transmission capacity. PNG conducted an open season in late 2018 and early 2019 to evaluate demand for transportation capacity on both its existing transmission system and on a proposed large-scale expansion.

The 2018/19 open season did not identify demand for the envisaged "large-scale expansion of PNG's transmission system," and accordingly, PNG terminated the process.[2] The 2018/19 open season did, however, identify demand for the unutilized capacity on PNG's existing transmission system.

In response, PNG plans to commence the RECAP in early 2020 to measure the demand for long-term, firm transportation capacity on its transmission system and allocate existing and prospective capacity of approximately 80 million standard cubic feet per day or greater.[3]

PNG submits that all interested shippers may participate in the RECAP through a bidding process, which is described on pages 12 to 14 of the Application. Some of the key elements of the RECAP are as follows:

- RS 80, the new large volume industrial transportation rate, will be applicable to all shippers who secure capacity on PNG's transmission system. In the context of the RECAP, PNG refers to the RS 80 firm demand charge as the base toll**;**
- Bidders may include toll premiums to increase the likelihood of securing capacity on PNG's transmission system;
- Bids must include a minimum contract capacity of 10 million standard cubic feet per day and a minimum contract term of 20 years, up to a maximum of 40 years; and
- Shippers with successful bids must execute either a TSA for firm transportation service or a TRA for reservation capacity with PNG following the RECAP.

[1] Exhibit B-1 (Application), Section 1.2, p. 5
[2] Exhibit B-1, Executive Summary, p. 1, and Section 1.4, pp. 7–8
[3] PNG Final Argument, Paragraph 2, p. 1

Following the completion of the RECAP and once TSAs are executed, PNG intends to undertake the Reactivation Project to return the transmission system to full capacity. The work associated with this project may include:

- reactivating PNG's pipeline assets;
- recommissioning compressor stations to operate the pipeline at full capacity; and
- potentially reinforcing the pipeline system when it is at full capacity.[4] PNG uses the term "reinforcement" to refer to scenarios where investment in new facilities is required to meet the contract demand following the RECAP.[5]

PNG will determine the scope of the Reactivation Project once the RECAP process is complete and the volumes, delivery locations and service-request dates for the winning bidders are known. Depending on the scope, the project may cost up to approximately $120 million in 2019 dollars.[6] However, PNG acknowledges that there may be reinforcement requirements following the RECAP that involve significant capital investment due to the demand for capacity relative to existing capacity. PNG has provided an example of such a scenario where the capital cost estimate is up to $500 million.[7] PNG submits that for outcomes of the RECAP that may require new facilities that cannot be economically justified with a firm demand charge of $1.00 per GJ, it will not enter into contracts and develop new facilities unless there is a toll premium to justify the new facilities.[8] The toll premium is discussed in Section 2.3 of these reasons for decision.

Depending on the outcome of the RECAP, PNG may seek additional BCUC approvals for material capital expenditures,[9] executed transportation service or reservation agreements, and additions and dispositions to the LVIDA.[10]

In addition to achieving full utilization of PNG's existing transmission system, the objectives of the RECAP are as follows:

- Optimize the overall use of PNG's transmission system by reactivating decommissioned assets;
- Optimize the use of PNG's existing facilities and potentially lead to the addition of new facilities if economically justified;
- Benefit existing ratepayers through lower rates;
- Provide for system capacity, resilience, reliability, and operational flexibility;
- Allow PNG's shareholder an opportunity to earn a fair and reasonable return on its investment in system assets; and

[4] Exhibit B-1, Section 6.3, p. 21.
[5] Exhibit B-4, BCUC Information Request (IR) 1.2.2
[6] Exhibit B-1, Section 1.6, p. 9
[7] Exhibit B-4, BCUC IR 1.2.1; Exhibit B-6, BCUC IR 2.35.1
[8] Exhibit B-4, BCUC IR 1.2.2.2, 1.5.2
[9] This may include applications for a Certificate of Public Convenience and Necessity (CPCN)
[10] Exhibit B-4, BCUC IR 1.2.3

- Expand and diversify the system shipper/customer base through the long-term contracting of transmission capacity.[11]

1.3 RECAP and Reactivation Project Consultation

PNG has consulted with various parties to date regarding the RECAP and the Reactivation Project, including potential shippers, the Provincial Government, and municipalities, communities and Indigenous Nations that may be impacted by the Reactivation Project. This section provides a summary of PNG's communication activities to date.

Prior to filing the Application, PNG consulted with potential shippers who had expressed an interest in capacity on PNG's transmission system. PNG incorporated information gathered through these consultations into the design of the RECAP, including the related agreements and tariffs, and states that it continues to communicate with prospective shippers to remain informed of their ongoing project developments.[12] In addition, PNG engaged with the Ministry of Energy, Mines and Petroleum Resources, as well as the municipalities of Kitimat, Terrace and Prince Rupert. PNG submits that "[i]n all cases, the responses have been positive and no issues have been raised by the parties."[13]

With respect to communities and Indigenous Nations that may be affected by the Reactivation Project, PNG provided formal notice of the Application to these parties in response to BCUC Order G-191-19. PNG states that the limited feedback it has received to date in response to this communication has been positive[14] and it does not expect any opposition to the Reactivation Project. Instead, PNG expects that there will be support for the Reactivation Project, given the potential benefits for communities and Indigenous Nations. However, if some opposition occurs during the engagement and consultation process for the Reactivation Project, PNG expects that "issues can be resolved with a relatively small delay in the project timing."[15]

With respect to ongoing and future engagement and consultation with potentially affected communities and Indigenous Nations, PNG submits that:

> Once PNG determines the scope of the required facilities and reactivation process, PNG plans to commence consultation with those Indigenous Nations and communities that may be affected by the Reactivation Project. The determination of the parties affected will be made in concert with the BC [Provincial] Government and, in particular, the [BC Oil and Gas Commission] staff. The engagement and consultation will continue through to construction and as appropriate, during the life of the facilities. [16]

[11] Exhibit B-1, Section 1.7, p. 10; PNG Final Argument, Paragraph 5, p. 2
[12] PNG Final Argument, Paragraph 6, p. 2
[13] Exhibit B-4, BCUC IR 8.3.1
[14] PNG Final Argument, Paragraph 7, p. 3
[15] Exhibit B-4, BCUC IR 8.3.2
[16] Exhibit B-4, BCUC IR 8.3

PNG states that it will continue its engagement and consultation activities with the affected parties regarding the Reactivation Project.[17] Specifically, if investment in new capital is required to provide service under executed and approved TSAs, PNG will undertake any necessary consultation to meet the requirements for subsequent applications to be filed with the BCUC and applications to the BC Oil and Gas Commission for permits.[18]

Panel Discussion

The Panel acknowledges that PNG has undertaken communication and engagement activities with prospective shippers, the Provincial Government, and the municipalities, communities and Indigenous Nations that may be affected by the Reactivation Project. The Panel notes that PNG is committed to ongoing consultation efforts regarding the RECAP and Reactivation Project. Further, the Panel notes that PNG intends to undertake the consultation necessary to meet the requirements for future applications to the BCUC and the BC Oil and Gas Commission resulting from the RECAP. Given the efforts undertaken by PNG, the Panel is satisfied that consultation on the Reactivation Project is adequate to the date of this decision.

2.0 Rate Schedule 80, Related General Terms and Conditions, and Toll Premium

PNG requests approval of the applicable tariff for customers who take service on PNG's transmission systems as a result of the RECAP, including RS 80, the interruptible charge and the related general terms and conditions, pursuant to sections 59 to 61 of the UCA. PNG also requests a finding that the toll premium concept that will be incorporated into the RECAP bidding process is not unjust or unreasonable.

Each of these matters is addressed in this section.

2.1 Rate Schedule 80

RS 80 is a new rate schedule for large volume industrial transportation service that will apply to all shippers who secure capacity on PNG's transmission system following the RECAP. The proposed rate schedule comprises a demand charge and is available to firm transportation service customers with a minimum contracted capacity of 10 million standard cubic feet per day and a minimum contract term of 20 years.

The Panel has reviewed RS 80 and the related evidence and argument and finds that RS 80 is reasonable and appropriate for the proposed firm large volume industrial transportation service. For the reasons outlined below, the Panel approves RS 80 subject to the inclusion of the large volume industrial transportation service interruptible charge directly in RS 80.

This section addresses the RS 80 firm demand charge and the interruptible charge associated with PNG's proposed large volume industrial transportation service.

[17] Exhibit B-4, BCUC IR 8.3.2.1
[18] Exhibit B-4, BCUC IR 2.4

2.1.1 Firm Demand Charge

PNG proposes that the RS 80 firm demand charge will:

- Initially be set at $1.00 per gigajoule (GJ);
- Be fixed at $1.00 per GJ until the last service commencement date of all RECAP shippers, meaning that there will be no rate changes during this time; and
- Become a rolled-in toll following the last service commencement date, and subject to periodic rate changes consistent with PNG's other rate classes.

In setting the RS 80 firm demand charge at $1.00 per GJ, PNG considered the following:

- The scope of the Reactivation Project;
- Rate design principles;
- Historical rates for PNG's industrial transportation customers;
- Fair apportionment of costs, specifically the recovery of the incremental cost of providing service to RS 80 customers under all potential outcomes of the RECAP;
- The rate that is considered competitive and economic for prospective shippers who may participate in the RECAP and their respective projects; and
- Impacts on both RS 80 customers and PNG's other ratepayers.[19]

PNG submits that the RS 80 firm demand charge of $1.00 per GJ will more than cover the incremental cost of providing service to RS 80 customers, and the rate has been designed "so that all capital and operating costs are recovered from RS 80 customers, thereby eliminating the risk of asset stranding."[20] As a result, PNG forecasts that its existing customers will benefit through lower rates, and in most outcomes following the RECAP, the rate reductions will be significant.[21] In support of this, PNG filed confidential financial analyses for low, medium and high-volume scenarios resulting from the RECAP.[22] PNG states that existing ratepayers benefit in all of the scenarios it has modelled in preparation for the RECAP.[23] The modelling included only the proposed firm demand charge, and did not factor in any toll premiums.[24]

PNG states that some outcomes of the RECAP may require new facilities that cannot be economically justified with a firm demand charge of $1.00 per GJ, specifically in some scenarios when a system reinforcement project is required. In these circumstances, PNG submits that it will not enter into contracts and develop new facilities unless there is a toll premium to justify the new facilities.[25] The toll premium is discussed in Section 2.3 of these reasons for decision.

[19] Exhibit B-1, Section 6.3, pp. 21–24
[20] PNG Final Argument, Paragraph 77, p. 21
[21] Exhibit B-1, Section 6.3.3, p. 23; Exhibit B-4, BCUC IR 1.6.2
[22] Exhibit B-2; Exhibit B-3, Confidential BCUC IR 1.4.2; Exhibit B-7, Confidential BCUC IR 2.8.1 and 1.20.1
[23] Exhibit B-1, Section 1.6, p. 9
[24] Exhibit B-4, BCUC IR 1.5.2
[25] Exhibit B-4, BCUC IR 1.2.2.2, 1.5.2

Overall, PNG submits that the firm demand charge of $1.00 per GJ "achieves a balance between the consideration of the benefits to existing ratepayers and achieving the best possible outcome of the RECAP for new shippers and PNG."[26]

A key component of PNG's proposed firm demand charge is the timeframe it will be in effect. PNG proposes to fix the RS 80 firm demand charge at $1.00 per GJ until the calendar year following the last service commencement date of all shippers who will receive capacity via the RECAP, meaning that RS 80 would not be subject to rate changes during this time. Following the last service commencement date, the RS 80 demand charge would become a "rolled-in" toll and subject to periodic rate changes consistent with PNG's other rate classes. [27]

PNG proposes to limit in-service dates for parties who participate in the RECAP to 5 years from the bid date; however, in its Final Argument, PNG amends its proposal to 7 years from the bid date to address the expected timing for a project proponent.[28]

In justifying this methodology, PNG emphasizes that RS 80 is expected to result in downward pressure on rates. Accordingly, if RS 80 is subject to rate changes from the beginning, the demand charge for RS 80 customers with later service commencement dates may be less than $1.00 per GJ. This would create an incentive for shippers to delay projects, which would reduce RS 80 revenues and erode the benefits to PNG's existing customers.[29] PNG submits that fixing the RS 80 firm demand charge at $1.00 per GJ for a defined term provides toll certainty for prospective RECAP bidders and "provides [RS] 80 customers a fair toll for service, regardless of their commencement date."[30]

PNG acknowledges that this methodology has a potential, although unlikely, risk of upward pressure on rates if there are unforeseen capital costs before the last service commencement date. PNG suggests that the LVIDA could be used to manage this risk, or PNG could request that the unforeseen capital costs be deferred until the TSAs go into service.[31] The LVIDA is discussed in Section 5.0 of these reasons for decision.

Ultimately, PNG submits that it will not proceed with the RECAP if RS 80 is subject to rate changes from the beginning and "may need to fall back to a first-come, first-serve process."[32]

No interveners addressed the RS 80 firm demand charge of $1.00 per GJ in final argument. Triton LNG submits that PNG's proposal to limit the last service commencement date to 5 years from bid date is not enough time to allow for projects at the early development stage to proceed and may result in a service-request date that is earlier than the project's in-service date. As stated above, PNG has revised its proposal to 7 years.

[26] Exhibit B-1, Section 6.3.6, p. 24
[27] Exhibit B-1, Section 6.2.1, p. 20
[28] Exhibit B-4, BCUC IR 1.22.3.1; Exhibit B-6, BCUC IR 2.48.1; PNG Final Argument, p. 11
[29] Exhibit B-4, BCUC IR 1.20.1
[30] Exhibit B-1, Section 6.2.1, p. 20; Exhibit B-4, BCUC IR 1.22.2.1
[31] Exhibit B-4, BCUC IR 22.1; Exhibit B-6, BCUC IR 2.48.3
[32] Exhibit B-6, BCUC IR 1.48.2.1

Panel Determination

The Panel approves setting the RS 80 demand charge at $1.00 per GJ pursuant to sections 59 to 61 of the UCA, limiting the service commencement date for parties who participate in the RECAP to 7 years from the bid date, and fixing the demand charge at $1.00 per GJ for that period.

The BCUC's mandate and jurisdiction to set rates for public utilities are set out in sections 59 to 61 of the UCA. Section 59(1)(a) provides that a public utility must not make, demand or receive a rate for service that is unjust, unreasonable, unduly discriminatory or unduly preferential. Section 60(1)(b.1) gives the BCUC broad discretion to "use any mechanism, formula or other method of setting the rate that it considers advisable…"

PNG submits that the proposed RS 80 firm demand charge of $1.00 per GJ is considered competitive and economic for prospective shippers who may participate in the RECAP.[33] Consequently, the rate supports the opportunity for a successful RECAP that will secure customers for the unutilized capacity on PNG's transmission system. The evidence indicates that RS 80 revenues at $1.00 per GJ will be well above the incremental cost associated with providing service to RS 80 customers,[34] resulting in lower rates for PNG's existing ratepayers, while mitigating the risk of asset stranding. Accordingly, the Panel is satisfied that the firm demand charge of $1.00 per GJ is not unjust or unreasonable, as it will result in a reasonable rate for RS 80 shippers while providing benefits to all other PNG ratepayers.

The Panel notes that PNG will require a toll premium if investment in new facilities cannot be economically justified with a firm demand charge of $1.00 per GJ and this will mitigate the risk of ratepayers being negatively impacted by such additional facilities. See Section 2.3 of these reasons for decision for a discussion on the toll premium.

PNG indicates that it will not proceed with the RECAP without approval to fix the RS 80 firm demand charge until the last service commencement date of all RS 80 shippers, which in the Panel's view would be a negative outcome for prospective shippers and existing ratepayers. As discussed above, PNG expects existing ratepayers to benefit from a successful RECAP through lower rates resulting from the additional revenue stream from RS 80 customers.

Accordingly, the Panel is satisfied that fixing the RS 80 firm demand charge at $1.00 per GJ until the last service commencement date of all RS 80 shippers is a reasonable approach. The Panel is satisfied that PNG's proposal to set the last service commencement date at 7 years from the bid date is reasonable and will provide participants in the RECAP with necessary certainty about the applicable rate, regardless of their individual service commencement date. The Panel is also satisfied that the LVIDA mechanism (see Section 5.0 of these reasons for decision) will mitigate the potential risk for upward pressure on rates if there are unforeseen capital costs before the last service commencement date.

[33] Exhibit B-1, Section 6.3, pp. 21–24
[34] PNG Final Argument, p. 14

2.1.2 Interruptible Charge

PNG requests approval of a large volume industrial transportation interruptible charge for interruptible service above RS 80 customers' contracted capacity. This service will be subject to interruption and curtailment at PNG's discretion based on system circumstances and requirements.[35]

The interruptible charge is set at $1.00 per GJ, consistent with the RS 80 firm demand charge. PNG submits that, based on its "best guess regarding the availability and demand for interruptible service, it concluded that the rate should be set [at] 100% of the firm rate. Once PNG has additional experience with actual availability and demand for interruptible service, it would consider applying to amend the rate."[36]

PNG proposes to record any variances between the forecast and actual interruptible charge in a deferral account, consistent with its treatment of other interruptible revenues in its future revenue requirements.[37]

In its responses to information requests, PNG includes the interruptible charge as schedule C of the draft TSA, and not in RS 80.[38] There is no separate rate schedule for the interruptible charge outside of the TSA or any indication in the draft TSA that rate changes may apply to the interruptible charge, subject to BCUC approval.

No interveners addressed the interruptible charge in final argument.

Panel Determination

The Panel approves the interruptible charge to be set at $1.00 per GJ, consistent with 100 percent of the firm demand charge, pursuant to sections 59 to 61 of the UCA. The Panel also directs PNG to fix the interruptible charge at $1.00 per GJ until the last service commencement date of all shippers, being 7 years from the RECAP bid date. Given that this rate is prospective, and PNG does not currently have any information regarding the availability of and demand for interruptible service, the Panel finds that it is appropriate not to include any discount from or premium above the firm rate for this service, at this time.

The Panel finds it reasonable to fix the interruptible charge for the same period as the firm demand charge, providing greater certainty to prospective shippers and all PNG ratepayers. The interruptible charge should be re-evaluated when the firm demand charge is moved to a rolled-in toll, subject to approval by the BCUC at some future date.

The Panel notes that PNG has included the interruptible charge in a separate schedule attached to the draft TSA, but not in RS 80.[39] Given that the interruptible charge will be applicable to all RS 80 customers and is set at 100

[35] Exhibit B-1, Section 7, p. 25
[36] Exhibit B-4, BCUC IR 25.1
[37] Exhibit B-4, BCUC IR 25.2
[38] Exhibit B-6, BCUC IR 2.49.1
[39] Exhibit B-6, BCUC IR 2.49.1

percent of the RS 80 firm demand charge, **the Panel directs PNG to include the interruptible charge in RS 80 as a separate line item.**

2.2 General Terms and Conditions

PNG requests approval of the general terms and conditions for industrial transportation service that will be applicable to RS 80. These terms and conditions include the contractual provisions that PNG intends to apply consistently to all TSAs executed after the RECAP.[40]

PNG based the proposed general terms and conditions on those previously approved by the BCUC, with a few modifications. PNG summarizes the changes on pages 18–19 of the Application, including several changes to the credit requirements that would lower the minimum acceptable credit rating and the amount of the required letter of credit. In addition, Section 17.8 of the proposed general terms and conditions is modified to state that more extensive credit requirements may be needed in the event of a system reinforcement project and may include the requirement for a letter of credit up to the shipper's pro rata share of the cost of the additional facilities. PNG submits that the changes to the credit requirements have been made to attract as much interest in the RECAP as possible.

No interveners addressed the general terms and conditions in final argument.

Panel Determination

The Panel approves the proposed general terms and conditions for industrial transportation service, pursuant to sections 59 to 61 of the UCA. The Panel notes that the terms and conditions are based on those previously approved by the BCUC with a few modifications. Additionally, the Panel is persuaded that PNG's proposals regarding credit support are reasonable. Given the magnitude of the costs associated with the Reactivation Project, the Panel considers it appropriate to monitor any changes in the creditworthiness of RS 80 shippers. Accordingly, the Panel directs PNG to report on each shipper's credit support annually, which is set out in Section 7.0 of these reasons for decision.

2.3 Toll Premium

Prospective shippers may include a toll premium in their RECAP bid, over and above the RS 80 firm demand charge of $1.00 per GJ. PNG submits that this option will improve a prospective shipper's opportunity to secure capacity on PNG's transmission system.[41] PNG states that together, the firm demand charge and toll premium "result in a rate that is fair and reasonable for the service provided"[42] and requests a BCUC finding that "toll

[40] Exhibit B-4, BCUC IR 1.18.1
[41] Exhibit B-1, Section 8, p. 26
[42] Exhibit B-1, Section 8, p. 26

premiums that result from the RECAP bidding process will not be unjust or unreasonable pursuant to its Application."[43]

The amount of toll premium, if any, that a shipper includes in a RECAP bid is voluntary. Accordingly, different RECAP shippers could have different toll premiums.[44] Given that the toll premiums are voluntary and ultimately based on each shipper's circumstances, PNG submits that the resulting tolls cannot be considered as unduly discriminatory nor unduly preferential.[45] PNG provides the rationale for this approach as follows:

> …the concept of the proposed Toll Premium would be akin to having PNG and individual interested parties negotiate a rate for providing firm transportation service, which has been the historical practice. The history of the PNG system demonstrates that industrial transportation customers have each had different negotiated rates in the past. The Toll Premium is voluntary and dependent on the bidder's own assessment in determining a toll that would be economically viable for its project. Further, the RECAP process, including the Toll Premium bid option, is transparent and equally available to all potential bidders.[46]

PNG submits that any toll premiums will improve the value of any reactivated capacity following the RECAP, which is one of the objectives of the process. Further, existing ratepayers will benefit, since any toll premiums will be to the account of PNG's ratepayers and not the shareholder.

PNG acknowledges that there may be some outcomes of the RECAP whereby new facilities are required that cannot be economically justified at the firm demand charge and a toll premium would be required. PNG submits that, in these circumstances, it would not enter into the related TSAs or proceed with development of the associated new facilities in the absence of the required toll premiums.[47]

PNG proposes that any toll premiums remain fixed for the duration of the related TSA contract term and any renewals.[48] PNG submits that this will result in increased certainty for shippers, and therefore may encourage higher toll premiums.[49]
PNG proposes to include the toll premium amount in the TSA and to keep the premium confidential for the "benefit of shippers developing their projects in a competitive market."[50] PNG will request final BCUC approval of any toll premiums in its application for approval of executed TSAs following the RECAP.[51]

No interveners addressed toll premiums in final argument.

[43] Exhibit B-6, BCUC IR 2.43.1
[44] Exhibit B-4, BCUC IR 1.26.4
[45] Exhibit B-4, BCUC IR 1.26.3
[46] Exhibit B-1, p. 26
[47] Exhibit B-6, BCUC IR 2.2.2
[48] Exhibit B-1, Section 8, p. 26
[49] Exhibit B-6, BCUC IR 2.43.3
[50] Exhibit B-4, BCUC IR 12.2
[51] Exhibit B-6, BCUC IR 2.43.1

Panel Determination

The Panel approves the concept of the toll premium that will be incorporated into the RECAP bidding process, as filed. The Panel is satisfied that the toll premium concept is similar to individually negotiated rates for transportation service, which has been the historical practice previously approved by the BCUC. The Panel notes that when bidding, all prospective shippers, which are sophisticated parties, have the option of adding a toll premium to enhance their respective bids according to their circumstances. Accordingly, the Panel finds that the toll premium concept is not unduly discriminatory nor unduly preferential.

The Panel also agrees with PNG that in instances when new facilities are required that cannot be economically justified by the firm demand charge, it is reasonable and necessary to require a toll premium from the prospective shipper requesting such service.

The Panel acknowledges that the parties participating in the RECAP are operating in a competitive market and accordingly finds it reasonable to keep the toll premium confidential, as proposed.

The Panel also finds it reasonable to fix the toll premium for the duration of the contract and any renewals. The Panel agrees with PNG that predictable toll premiums for potential shippers may encourage higher toll premiums and will minimize any advantage or disadvantage related to the timing of the bidder's project.[52] Further, PNG's modelling of the various outcomes of the RECAP, which indicates that existing ratepayers will benefit through lower rates, included only the proposed firm demand charge and did not factor in any toll premiums.[53] Accordingly, the evidence indicates that PNG's existing ratepayers will benefit from a successful RECAP through lower rates without any toll premiums or whether they are fixed or not.

The Panel is also satisfied that PNG will include any toll premiums in its future applications for BCUC approval of executed TSAs following the RECAP.

3.0 Transportation Service Agreement

PNG requests approval of the draft TSA for customers seeking large volume industrial transportation service, pursuant to section 58 of the UCA. PNG will provide the draft TSA to participants in the RECAP and will subsequently seek BCUC approval of any TSAs executed as part of that process.[54]

PNG uses the draft TSA between PNG and EDF Trading Limited, which was approved by BCUC Order C-10-15A, as the basis for the draft TSA in the Application. A summary of key changes from the EDF TSA is provided in the Application, including the addition of Article 4.4 to incorporate PNG conditions precedent.

The proposed conditions precedent include BCUC approval of any executed TSAs, PNG's receipt of all permits (including any Certificates of Public Convenience and Necessity [CPCN]) and execution of all necessary

[52] Exhibit B-4, BCUC IR 1.20.1
[53] Exhibit B-4, BCUC IR 1.5.2
[54] Exhibit B-1, Executive Summary, p. 2

agreements.[55] Each condition has a placeholder deadline for achieving it. PNG states that it will consult with BCUC about required approval dates prior to executing any RECAP TSAs.[56]

No interveners addressed the TSA in final argument.

Panel Determination

The Panel approves the draft TSA, pursuant to section 58 of the UCA. The Panel notes that the terms of the TSA are largely based on an agreement previously approved by the BCUC, with some modifications to address the specific circumstances for RS 80 customers. The Panel is satisfied that the modifications are reasonable.

The Panel notes that BCUC will deal with any future applications by PNG for TSAs and CPCNs resulting from the RECAP, including any approval timelines, at the time of such applications and based on their merits.

4.0 Transportation Reservation Agreement

PNG requests approval of the draft TRA for customers seeking to reserve large volume industrial transportation service, pursuant to section 58 of the UCA. The TRA sets out the rights and obligations for shippers who reserve capacity on PNG's transmission system.[57] PNG will provide the draft TRA to participants in the RECAP and will subsequently seek BCUC approval of any TRAs executed as part of that process.[58]

PNG submits that the draft TRA is "loosely based" on the interconnecting transportation reservation agreement between PNG and EDF Trading Limited, which was approved by BCUC Order C-10-15A.[59] This agreement included several references to the payment of project development costs, specifically that the shipper will be responsible for certain costs if the agreement is terminated before a TSA is executed. PNG's draft TRA does not include a similar clause related to the payment of project development costs, nor any reference to a backstop agreement, which is an agreement designed to protect against the stranded costs that PNG's customers could be exposed to if a prospective shipper's project does not proceed. However, PNG submits that it will require prospective shippers to enter into a backstop agreement prior to committing to or expending any capital directly related to accelerated development and construction costs.[60]

No interveners addressed the TRA in final argument.

Panel Determination

[55] Exhibit B-1, p. 15 and Appendix B, p. 2, Article 4.4
[56] Exhibit B-4, BCUC IR 1.11.3, 1.11.6.1
[57] Exhibit B-1, Executive Summary, p. 2, and Section 4, p. 17.
[58] Exhibit B-1, Section 2.4, p. 14
[59] Exhibit B-6, BCUC IR 2.40.1
[60] Exhibit B-6, BCUC IR 2.53.1.1

The Panel approves the draft TRA, pursuant to section 58 of the UCA. The Panel notes that the terms of the TRA are loosely based on an agreement previously approved by the BCUC, with several modifications to address the specific circumstances for RS 80 customers. The Panel is satisfied that the modifications, including the lack of a backstop requirement, are reasonable. PNG submits that it will require prospective shippers to enter into a backstop agreement prior to committing to or expending any capital directly related to accelerated development and construction costs.[61] The Panel considers this a reasonable approach to backstop agreements and notes that PNG risks recovery of any expended capital directly related to accelerated development and construction costs based solely on a TRA.

5.0 Large Volume Industrial Deferral Account

PNG requests approval of the LVIDA, which is a new interest-bearing deferral account, pursuant to sections 59 to 61 of the UCA.[62] Pending the outcome of the RECAP, PNG plans to record in the LVIDA a portion of the revenues from RS 80 shippers and the reservation fees from prospective shippers who have executed TRAs. Given the uncertainty regarding the RECAP outcome, PNG submits that it cannot state what portion of the revenues will be included in the LVIDA at this time.[63]

PNG submits that the LVIDA will provide PNG with some flexibility in managing the incremental revenues and reservation fees from future RS 80 shippers. The intent of the LVIDA is to:

- manage the inherent uncertainty related to the RECAP outcome;
- avoid volatility in customer rates by systematically managing expected rate decreases;
- avoid rate shock as contracts eventually expire; and
- provide flexibility to manage any unforeseen circumstances that may arise in the future.[64]

PNG proposes that the LVIDA be a non-rate base deferral account earning interest at PNG's weighted average cost of debt. Given that this credit deferral account is non-capital in nature, PNG submits that it should therefore earn an interest rate of return.[65] This is consistent with BCUC's decision for the PNG West 2013 Revenue Requirements Application, which stated:

> For deferral accounts for non-capital items which are amortized beyond one year, the appropriate return is the utility's weighted average cost of debt. For deferral accounts for non-capital items which are amortized over a period of one year or less, the appropriate return is the utility's short term interest cost.[66]

[61] Exhibit B-6, BCUC IR 2.53.1.1
[62] Exhibit B-1, Section 9, p. 27
[63] Exhibit B-1, Section 9.2, p. 28
[64] Exhibit B-1, Section 9,1, p. 27
[65] Exhibit B-1, Section 9,3, p. 28
[66] PNG West 2013 Revenue Requirements Application, Decision dated August 1, 2013, p. 44–45

PNG submits that amortization of the LVIDA will be to the benefit of PNG's ratepayer and that it "will propose a methodology for amortizing the LVIDA depending on the outcome of the RECAP and considering the benefits of rate smoothing and the length of time the item being amortized has direct value."[67]

PNG plans to address additions to and amortization of the LVIDA in future revenue requirements applications or via a separate application with the BCUC, if required, following the completion of the RECAP.[68]

PNG submits that if any RECAP TSA is terminated before the end of the contract term, PNG will seek BCUC approval to use the LVIDA to record the costs of the Reactivation Project associated with the terminated agreement.[69]

No interveners addressed the LVIDA in final argument.

Panel Determination

The Panel approves the establishment of the LVIDA as filed, pursuant to sections 59 to 61 of the UCA, to capture a portion of revenues collected from RS 80 shippers and reservation fees collected under TRAs resulting from the RECAP. The Panel agrees with PNG that the RECAP process has the potential for future rate volatility due to the timing of associated revenues and costs. The Panel is satisfied that the LVIDA will benefit ratepayers by way of rate smoothing, mitigating future rate volatility and the potential for rate shock.

The Panel is satisfied with the proposed accounting treatment of the LVIDA, including the interest rate at PNG's weighted average cost of debt.

The Panel notes that all additions to the LVIDA, as well as future amortizations of the account, will be the subject of future applications to the BCUC for approval. This is similar to the existing option fee deferral account, which was approved by BCUC Order G-174-08 to record specific option fee payments. Since the approval of this account, the amount (or absence) of annual amortization has been the subject of BCUC approval in PNG's revenue requirements applications and has been used to offset significant rate increases when required. Accordingly, the Panel makes no findings regarding the additions to and amortizations of the LVIDA.

6.0 Reactivation Project Development Costs Deferral Account

PNG requests approval of a new rate base deferral account to record development, permitting and consultation expenses related to the Reactivation Project estimated at $1 million, also referred to as the initial works, pursuant to sections 59 to 61 of the UCA.

[67] PNG Final Argument, Paragraph 69, p. 20
[68] Exhibit B-1, Section 9,1, p. 28 and PNG Final Argument, Paragraph 64, p. 19
[69] Exhibit B-4, BCUC IR 11.8

PNG plans to file a CPCN application for the Reactivation Project with the BCUC after the execution of TSAs.[70] However, the project will involve considerable work on engineering, permitting, and First Nations and stakeholder engagement and consultation prior to construction.[71] Accordingly, PNG believes it is practical to begin the engineering, permitting and consultation processes in early 2020, after the RECAP but prior to obtaining CPCN approval.[72] In doing so, PNG believes it could save six to nine months on the schedule for the Reactivation Project.[73]

PNG submits that the Reactivation Project will take approximately two to three years to complete, and states:

> Time is of the essence for a successful execution of the Reactivation Project to fulfill its expected service requirement obligations and provide assurance to prospective shippers that the pipeline would be ready for their projects' in service dates. Many of the prospective shippers are in globally competitive businesses and delays in receiving natural gas service could have a deleterious impact to both PNG's new and existing customers.[74]

In response to information requests, PNG states that it is not prepared to accelerate the initial works for the Reactivation Project without approval of the reactivation project development costs deferral account, and that lack of this approval may result in delays of the Reactivation Project. PNG is not able to attest with certainty if delays in the Reactivation Project would materially impact demand for capacity under the RECAP process. However, PNG submits that any such delay could delay the benefit of lower rates for ratepayers.[75]

PNG provides the following breakdown of costs for the initial works to be included in the reactivation project development costs deferral account:[76]

[70] PNG Final Argument, Paragraph 71, p. 20
[71] PNG Final Argument, Paragraph 71, p. 20
[72] Exhibit B-1, Section 10.1, p. 29
[73] PNG Final Argument, Paragraph 75, p. 21
[74] PNG Final Argument, p. 20
[75] Exhibit B-4, BCUC IR 32.2.1
[76] Exhibit B-4, BCUC IR 31.1

Activity	Costs
FEED/Engineering and Planning	$450,000
Permitting	$100,000
Survey	$125,000
Lands	$100,000
Indigenous Nations	$100,000
PNG Project Services	$125,000
Total	$1,000,000

PNG expects that $1 million is enough to complete the initial works for a moderate-volume RECAP outcome. PNG submits that it may incur costs for the initial works in excess of $1 million under a high-volume scenario, and would likely arrange backstop agreements with prospective shippers in that case.[77] For clarity, PNG seeks approval only for the deferral of $1 million in Reactivation Project development costs at this time.[78] PNG further submits that all of the initial work undertaken for a moderate-volume scenario will also be needed for a high-volume scenario.[79]

PNG submits that the deferral account will be in place for one to three years. The balance of the deferral account will become part of the Reactivation Project capital costs upon completion of the project[80] and accordingly the costs will be recovered in rates.[81]

With respect to any future use of the initial works, PNG submits that "If projects have delayed [in-service dates] or prospective shippers do not sign TSAs following the RECAP…this work will be used and useful for several years for future projects and reactivation scenarios."[82]

No interveners addressed the reactivation project development costs deferral account in final argument.

Panel Determination

The Panel approves the creation of the new rate base deferral account to record development, permitting and consultation expenses related to the Reactivation Project as filed, pursuant to section 59 to 61 of the UCA, to capture up to $1 million in initial works-related costs. The Panel is satisfied that this account will allow PNG to advance the timelines of the Reactivation Project by 6 to 9 months if the RECAP is successful. This in turn will allow PNG to receive revenue from RS 80 shippers sooner, meaning that the Reactivation Project will benefit ratepayers more quickly.

[77] Exhibit B-4, BCUC IR 31.1.2
[78] Exhibit B-6, BCUC IR 51.1
[79] Exhibit B-4, BCUC IR 31.1.2
[80] Exhibit B-4, BCUC IR 32.1
[81] Exhibit B-4, BCUC IR 32.4
[82] PNG Final Argument, Paragraph 74, p. 21

Given that the deferral account relates to costs that are capital in nature, the Panel is satisfied that the proposed accounting treatment of this new rate base deferral account is reasonable, including the treatment as a rate base deferral account attracting interest at the utility's weighted average cost of capital. Following completion of the Reactivation Project, the amount in the deferral account will become part of the capital costs of the project.

7.0 Reporting Requirements

Once successful bidders in the RECAP have been notified by PNG, they will have 30 days to execute TSAs or TRAs. PNG will then apply to the BCUC for approval of the executed TSAs and TRAs and will also file a CPCN application for any significant system upgrades necessary to deliver service.[83] PNG has not indicated that it intends to file a report with the BCUC on the outcome of the RECAP.

With respect to the credit requirements in the general terms and conditions applicable to industrial transportation service,[84] PNG submits:

> If the BCUC felt that it was necessary to have oversight of PNG's credit monitoring activities, PNG would be able to provide a table on a quarterly, biannual or annual basis which would identify each RS 80 shipper, their current credit rating, any change in the shipper's credit rating from the previous report and the amount of credit support currently on hand from the shipper. PNG believes this would be sufficient for the BCUC to ensure that PNG is monitoring and enforcing the credit requirements for RS 80 shippers. If any shippers provide private ratings, the report may need to be filed with the BCUC on a confidential basis.[85]

Panel Determination

Given the potential impact of the addition of RS 80 customers and the Reactivation Project on PNG's revenue requirements, the Panel directs PNG to provide a report to the BCUC on the results of the RECAP. The report must be filed within 30 days following acceptance of the last bid pursuant to the RECAP.

The RECAP results report must include the following information for each shipper bid, including successful and unsuccessful bids:

- Legal entity name;
- Delivery point;
- Delivery volumes or contract demand;
- Committed in-service date;

[83] Exhibit B-1, Section 2.4, p. 14
[84] Exhibit B-6, BCUC IR 42.4
[85] Exhibit B-6, BCUC IR 2.42.4

- Contract term;
- Toll premium in $/GJ;
- Credit rating; and
- System reinforcement requirements.

The Panel also directs PNG to file the following information annually for each RS 80 shipper, by April 30 of each year:

- the shipper's current credit rating;
- any change in the shipper's credit rating from the previous report; and
- the amount of credit support currently on hand from the shipper.