

Campus Energy Partners Suffield LP
Sections 32, 34, 226 and 229 of the *Canadian Energy Regulator Act*
Application for Approval of Tolls and Terms and Conditions of Service
for the North Suffield Pipeline
File OF-Tolls-Group2-C1017-2020-01
Filed 26 June 2020

Campus Energy Partners Suffield LP (“Campus”)
Response to Canada Energy Regulatory Information Request No. 1

Tolls and Tariffs

1.1 Purchase Price

- Reference:**
- i) AltaGas Holdings and 2133151 Alberta Ltd., NEB Transfer Application, Section 27, Cost, Page 8 of 9 (PDF page 8 of 9), [A94251-2](#)
 - ii) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline – Appendix B, Schedule 1.3.1, Plant in Service, Accumulated Depreciation, PDF page 7 of 21, [C07022-3](#)

Preamble: Reference i) is the Application to transfer ownership of the Loverna-Fusilier Pipeline, Sibbald-Hoosier Transfer Pipeline, Sibbald-Hoosier Riser Site, Suffield-Burstall Meter Station, Koomati Lateral Pipelines, South Suffield Pipeline and North Suffield Pipeline. The purchase price for these pipelines is stated as approximately \$14,736,000 in 2018.

Reference ii) states the average net plant in service for the North Suffield Pipeline alone is \$14,028,463 in 2018.

- Request:**
- a) Provide the individual prices for each of the pipelines and facilities described in reference i) and the method for calculating these prices.
 - b) Explain the difference between the purchase price of the North Suffield Pipeline provided in a) to the average net plant in service that was provided in reference ii).
 - c) Explain why the purchase price of the North Suffield Pipeline was not used on schedule 1.3.1 in reference ii).

Response: a) No amount of the purchase price listed in reference i) (the “Transfer Application”) was allocated directly to the North Suffield Pipeline, as explained below.

Birch Hill Equity Partners (“Birch Hill”) is the owner of Campus Energy Partners LP (“CEP LP”), which in turn is the owner of Campus Energy Partners Suffield LP (“Campus”). The pipelines and facilities (the “NEB Regulated Assets”) described in Transfer Application were part of a larger bundle of natural gas processing and transmission assets acquired by Birch Hill from AltaGas Ltd. and certain of its affiliates (collectively “AltaGas”), pursuant to a Purchase and Sale Agreement, dated September 9, 2018 (the “PSA”).

The transaction was structured so that, prior to closing, ownership of the NEB Regulated Assets was first transferred by AltaGas to Suffield Processing Limited Partnership (“Suffield LP”), a new limited partnership created by AltaGas for the purposes of the PSA. The Transfer Application—which was administered by AltaGas prior to the closing of the PSA transaction—was part of this process. It sought NEB approval to transfer legal title to the NEB Regulated Assets to 2133151 Alberta Ltd., the general partner of Suffield LP. At the time of the Transfer Application 2133151 Alberta Ltd. was still owned and controlled by AltaGas.

Once the NEB Regulated Assets were transferred Suffield LP, Birch Hill then acquired 100% of AltaGas' equity interest in Suffield LP, including 100% of the shares of 2133151 Alberta Ltd. Only 14.5% of the total purchase price under the PSA was allocated to the Suffield LP equity interest—an allocation determined exclusively by AltaGas for its own purposes and was not the result of a fair market value, arms-length transaction. This allocation is the “purchase price” stated in the Transfer Application.

Notably, this allocation did not reflect the capital value of the NEB Regulated Assets at the time Suffield LP equity interest was sold to Birch Hill. According to AltaGas, as noted in row 26 of the Transfer Application, “[t]he current assessed value of the [NEB Regulated Assets] is \$60.6 million based on the original cost of \$103.9 million and depreciation of \$43.3 million.” The Suffield Pipeline system represented nearly all of this assessed value (90%+).

Post-acquisition, the partnership entities acquired by Birch Hill were renamed:

- 2133151 Alberta Ltd was renamed to Campus Energy Partners Operations Inc.
- Suffield LP was renamed Campus Energy Partners Suffield LP, the applicant in this proceeding.

The acquisition cost of the Suffield Pipeline System as a whole is recorded in CEP LP and Campus's 2019 financial statements at a book value of \$34,574,000. This amount was determined by Campus's management using the “acquisition method” whereby the purchase price paid by Birch Hill to AltaGas under the PSA “is allocated to the assets acquired based on their fair value”. Management's fair value assessment was audited as part of preparing CEP LP's 2019 Audited Financial Statements. In the normal course of its business, Campus does not track the book value nor the net book value of the North Suffield Pipeline separately from the total value of the Property, Plant and Equipment recorded in Campus's financial statements.

A reasonable estimate of the book value of the North Suffield Pipeline to Campus would be \$17.96 million. This number is derived by applying the 52.055% capacity ratio used in the Illustrative Cost-of-Service Toll Model (Schedule 0.0 of Appendix B of the Application) to the \$34.574 million book value for the Suffield system as a whole recorded in Campus's financial statements. However, Campus did not use this number in its Illustrative Cost-of-Service Toll Model—even though it would have yielded a higher unit cost of service—because Campus does not believe that it necessarily reflects what the pipeline's rate base would be under hypothetical cost-of-service tolls.

- b) As outlined in 1.1(a), the purchase price listed in the Transfer Application reflects the portion of the purchase price payable under the PSA for AltaGas' equity interest in Suffield LP. By contrast, the \$14,028,463 average 2018 net plant in service that Campus used to estimate rate base in reference ii) (the “Illustrative Cost-of-Service Toll Model”) is based upon the estimated \$22,300,000 cost to construct the North Suffield Pipeline (the “Estimated Construction

Cost”) stated by AEC Suffield Gas Pipeline Inc. (“AEC Suffield”) in the original Application for Public Need and Convenience to the NEB for the North Suffield Pipeline (the “Suffield North NEB Application”), as well as a share of additional capital subsequently invested in the Suffield system. Campus believes that the Estimated Construction Cost is the best available proxy for an opening plant in service value for the North Suffield Pipeline, because that is the cost that would have been used for the opening plant in service had the North Suffield Pipeline operated under cost-of-service tolls from inception.

- c) Campus did not use the “purchase price” stated in the Transfer Application because it is not reflective of, nor was it meant to reflect, the asset value of the North Suffield Pipeline or what the average net plant in service of the pipeline would have been at the time of the Transfer Application under hypothetical cost-of-service regulation.

Campus notes that the Commission directed Campus to file a toll application for the North Suffield Pipeline, including the cost-of-service information required in Filing Manual – Guide P – Tolls and Tariffs, and to provide its best estimate for any information that is not available. One of the challenges Campus confronted in preparing its application is that the North Suffield Pipeline has never operated as a cost-of-service pipeline. As such, there was never an approved rate base, capital structure, or return on rate base for the pipeline; and cost-of-service information was never tracked for Suffield North because it was never necessary. Campus has therefore had to estimate certain information used in the Illustrative Cost-of-Service Toll Model.

To estimate an opening plant in service value for the North Suffield Pipeline, Campus assumed that the Estimated Construction Cost stated in the Suffield North NEB Application was the actual capital cost of the pipeline. Campus believes that this constitutes the best available evidence upon which to estimate the present net plant in service for the purpose of calculating illustrative cost-of-service tolls.

1.2 Depreciation

- Reference:**
- i) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline, section 26, page 8 of 43, [C07022-1](#)
 - ii) Campus Energy Partners Suffield LP, Financial Statements (unaudited) for the year ending 31 December 2019, summary of significant accounting policies, page 6 of 9, [C07022-6](#)

Preamble: Reference i) states Campus has assumed that the estimated capital cost of Suffield North Pipeline was depreciated at a rate of 2.5% per year. Since 2019, Campus has applied a depreciation of 10% per year, based upon the estimated remaining economic life of the pipeline.

Reference ii) states that property, plant and equipment are carried at cost. The Pipelines depreciate the cost of capital assets, net of salvage value, on a straight-line basis over the estimated useful life of the assets, repairs and maintenance costs are expensed in the period incurred. The estimated useful lives of property, plant and equipment range from 15 to 40 years.

- Request:**
- a) Provide the total estimated life of the North Suffield Pipeline from inception and its remaining useful life.
 - b) Provide the current net book value if AltaGas and Campus had depreciated the pipeline, net of salvage value, on a straight-line basis over the estimated useful life of the assets.
 - c) Explain why the estimated life of the North Suffield Pipeline would not have been adjusted over time.
 - d) Explain whether adjusting depreciation rates from 2.5% for the first 16 years of operation to 10% now indicates intergenerational inequity.
 - e) Reconcile the 10% rate of depreciation in reference i) with the minimum 15-year useful lives of property, plant and equipment and use of straight-line depreciation.

- Response:**
- a) Campus has assumed that the North Suffield Pipeline would have had an estimated life at inception of approximately 40 years. Campus presently estimates the remaining useful economic life of the Suffield North Pipeline to be 10 years, which yields a total useful life for the pipeline of 26 years.
 - b) The current net book value of the North Suffield Pipeline if depreciated on a straight-line basis, net of salvage value, over the estimate useful life of the pipeline is:
 - 2018: \$9,325,664
 - 2019: \$8,437,505
 - 2020: \$7,549,347See CER IR 1.4(a.1) – Attachment 1 – Recalculated Toll Model Straight Line Depreciation.
 - c) Because the North Suffield Pipeline never operated on a cost-of-service basis, and would therefore never have been amortized or depreciated over any particular period of time for toll purposes, there would never have been a need to “adjust” the estimated life of the North Suffield Pipeline.

- d) Adjusting the depreciation rate to 2.5% to 10% after the first 16 years of operation does not indicate intergenerational inequity. First, the North Suffield Pipeline has never operated on a cost-of-service basis. There has never been an approved rate of return, and the market-based tolls charged to shippers have never been premised on any particular depreciation rate or affected by changes in the pipeline owner's costs.

Second, because the actual capital cost to construct the North Suffield Pipeline is unknown and because there has never been an approved rate of return, it is unknown the extent to which the successive pipeline owners have recuperated the initial (and any additional) capital investment in the pipeline. This highlights the artificiality and difficulty with now trying to estimate cost-of-service tolls for a pipeline that has operated on market-based tolls since inception.

In addition, because the Suffield Pipeline was approved by the NEB as a "market based toll" pipeline supported by shippers that were prepared to take on the risks of long term contracts it is difficult to say what level of risk the long term shippers took on compared to short term shippers that were not accepting the financial risks inherent in long term contracts. The North Suffield Pipeline also took on greater risks under the long term contracts than it would otherwise have had to under cost of service regulation. Any consideration of inter-generational equities would likely take into consideration the fact that long term shippers provided differing levels of financial support to the Pipeline than short term shippers and accepted differing and higher levels of risk than shippers that do not have long term contracts.

- e) Campus's Illustrative Cost-of-Service Toll model is premised on the North Suffield Pipeline having useful life of 26 years from inception. Using this lifespan for straight-line depreciation would result in a depreciation rate of 3.85% per year. A recalculation of the unit cost of service using this rate is provided in response to IR 1.4(a.1).

1.3 Abandonment Funding

- Reference:**
- i) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline, section 89, page 19 of 43, [C07022-1](#)
 - ii) AltaGas Holdings and 2133151 Alberta Ltd., NEB Transfer Application, Section 29, Abandonment Funding, Page 8 of 9 (PDF page 8 of 9), [A94251-2](#)
 - iii) Campus Energy Partner LP, Abandonment Funding Report, Method of Assuring Funding, Page 7 of 21, [C04266-1](#)
 - iv) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline – Appendix B, Schedule 1.1, Operating and Maintenance Expenses, PDF page 4 of 21, [C07022-3](#)

Preamble: Reference i) states if cost-of-service tolls were charged for North Suffield Pipeline, Campus would seek to recover an abandonment surcharge as part of its cost-of-service tolls to cover future abandonment obligations.

Reference ii) states that AltaGas Holdings had a surety bond for the abandonment cost of the pipelines it transferred to 2133151 [now Campus] and that 2133151 intended to rely on a surety bond to backstop its obligation to pay for abandonment.

Reference iii) indicates that in 2020 Campus has used a surety bond to assure funding for abandonment.

Reference iv) includes a surety bond premium of \$612,789 per year in the operating and maintenance expenses.

- Request:**
- a) Explain why Campus would seek to recover the entire abandonment obligation for the North Suffield pipeline of \$13,466,387 through an abandonment surcharge over the remaining economic life of the pipeline.
 - b) Explain how Campus and its predecessors have been setting aside funds for their abandonment funding obligations over the operational life of the pipeline.
 - c) Indicate the purpose of the surety bond referred to in reference iv).

Response: a) To be clear, Campus would only seek to collect an abandonment surcharge from shippers if the North Suffield Pipeline were converted to cost-of-service tolls, which is not the relief requested by Campus in its Application. Rather, Campus requests approval of its proposed market-based tolls, pursuant to which no abandonment surcharge is to be collected. The Illustrative Cost-of-Service Toll Model was provided in accordance with the Commission's direction that Campus provide cost of service information as part of its Application.

Campus, like its predecessor AltaGas, is presently self-funding the abandonment liabilities for the North Suffield Pipeline. Performance of that obligation is secured by a surety bond posted in accordance with NEB Reasons for Decision MH-001-2013. The decision to self-fund the abandonment liability of the pipeline was consistent with the pipeline's market-based tolling methodology, where the tolls paid by shippers are not linked to any costs or liabilities (i.e. revenue requirements) of the pipeline owner.

If, however, the North Suffield Pipeline were now converted to cost-of-service tolls, it would fundamentally change the bargain upon which the pipeline has operated since inception—and in particular, it would be a fundamental change in circumstance from the time when AltaGas elected to self-fund the abandonment liability of the pipeline. The Commission should infer that, had the North Suffield Pipeline been operating on a cost-of-service basis at the time MH-001-2013 was released AltaGas would have elected to establish an abandonment liability trust mechanism that would have been funded through an abandonment surcharge. There is no logical or commercial reason why a cost-of-service pipeline owner would have elected to bear the abandonments costs of its pipeline itself rather than passing that cost along to shippers along with all other costs of service.

Therefore it is just and reasonable that if the CER determines that the North Suffield Pipeline should now be converted to a cost of service pipeline for the remainder of its useful life it is appropriate for the Pipeline to recover its abandonment costs as would any other cost of service Pipeline. The result of this would be that the Complainants, and other shippers would be responsible for the increased tolls that result from collection of abandonment costs.

- b) Campus cannot speak to the practices of its predecessors. Given that a surety bond has been posted in accordance with MH-001-2013, Campus is not required to specifically set aside funds for future abandonment liabilities. Campus's accounting policies with respect to asset retirement obligations are outlined in Note 2 of Campus's unaudited 2019 Financial Statements (C07022-7).
- c) The surety bond referred to in reference iv) is posted in accordance with MH-001-2013 as security for Campus's performance of its abandonment obligations in respect of, *inter alia*, the North Suffield Pipeline.

1.4 Unit cost of service

- Reference:**
- i) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline – Appendix B, [C07022-3](#)
 - ii) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline, section 78, page 17 of 43, [C07022-1](#)

Preamble: In reference i), Campus calculates its cost of service using its estimated average net plant in service. Campus also calculates unit cost of service by subtracting committed contract revenue from its revenue requirement before dividing the net revenue requirement by annual throughput.

In reference ii), Campus provides total North Suffield Pipeline throughput from 2017-2020.

- Request:**
- a) Recalculate cost of service tolls using:
 - a.1) the net book value if the pipeline had been depreciated since inception over the current estimated total life of the pipeline (as calculated in response to IR 1.2b) in place of the estimated average net plant in service.
 - a.2) Recalculate cost of service tolls using the purchase price of the pipeline (as calculated in response to IR 1.1a) in place of the estimated average net plant in service.

In both cases calculate the unit cost of service by dividing the total revenue requirement (line 1 of Schedule 5.0) by the total throughput in GJ/year based on the annual throughput provided in reference i).

- Response:**
- a)
 - a.1) Based on the stipulated parameters, the recalculated unit cost-of-service (excluding the abandonment surcharge) is:
 - 2018: \$0.18/GJ
 - 2019: \$0.19/GJ
 - 2020: \$0.19/GJ

See CER IR 1.4(a.1) – Attachment 1 – Recalculated Toll Model Straight Line Depreciation (RR/Total Throughput)

However, Campus does not believe that simply dividing its total revenue requirement by the total annual throughput would result in a unit-cost-of-service adequate to meet its revenue requirement. There are two contributing factors.

First, International Petroleum Corporation (“IPC”) is currently the only firm service shipper on the North Suffield Pipeline. IPC receives service at a fixed toll of \$0.142/GJ. So, unless the Commission were prepared to override the IPC contract, IPC would continue to pay its fixed toll rather than the resulting unit cost-of-service. To the extent the unit cost-of-service calculated with IPC’s volumes were greater than the fixed toll payable under its contract, Campus would not collect sufficient tolls to meet its revenue requirement.

Second, the North Suffield Pipeline is presently underutilized. As outlined in paragraph 78 of Campus's Application, since 2018 an increasing majority of total throughput on the pipeline has been under interruptible service only. However, because of the pipeline's underutilization, shippers using interruptible service have the same certainty that their nominated volumes will be accepted for transportation as they would if they contracted for firm service, but without having to make a long-term financial commitment to the pipeline's revenues. Therefore, shippers can essentially obtain the benefits of firm service without having to pay for it.

This would leave Campus in a precarious position under cost-of-service tolling. After accounting for the revenue from IPC (which is the only guaranteed revenue), Campus would be left to recover the remainder of its revenue requirement from interruptible service tolls (which revenue is not guaranteed). This is why Campus's Illustrative Cost-of-Service Toll Model calculated the unit cost-of-service by dividing its revenue requirement net of firm service revenues by interruptible volumes. While this results in a higher unit cost relative to dividing the total revenue requirement by total annual throughput, it would appropriately price interruptible service on the North Suffield Pipeline to ensure Campus's revenue requirement is met and it would incentivize shippers currently taking advantage of the underutilization of the pipeline to subscribe for firm-service.

However, if a 3.85% straight-line depreciation rate were used in Campus's Illustrative Cost-of-Service Toll Model instead of the 2.5% and 10% rates originally used, the resulting cost of service would be:

- 2018: \$0.22/GJ
- 2019: \$0.22/GJ
- 2020: \$0.22/GJ

See CER IR 1.4(a.1) – Attachment 2 – Recalculated Toll Model Straight Line Depreciation (Net RR/Uncommitted Throughput)

- a.2) Campus cannot provide the requested recalculation. For the reasons outlined in response to IR 1.1(a) and (c), the no amount of the purchase price listed in the Transfer Application, nor any amount of the purchase price paid by Birch Hill to AltaGas under the PSA, was specifically allocated to the North Suffield Pipeline..

Alternatively, using the estimated \$17.96 million book value for the North Suffield Pipeline outlined in response 1.1(a) above, along with the other specified parameters in this request, the recalculated unit cost of service for 2019 and 2020 would be:

- 2018: \$0.279/GJ
- 2019: \$0.290/GJ
- 2020: \$0.285/GJ

See CER IR 1.4(a.2) – Attachment 1 – Recalculated Toll Model Suffield North Book Value (RR/Total Throughput)

However, for the same reasons outlined in response 1.4(a.1), Campus does not believe that simply dividing its total revenue requirement by the total annual throughput would result in a unit-cost-of-service adequate to meet its revenue requirement.

If the estimated \$17.96 million book value for the North Suffield Pipeline were used in Campus's Illustrative Cost-of-Service Toll Model instead of the gross plant in service originally used, the resulting unit cost of service would be:

- 2018: \$0.385/GJ
- 2019: \$0.381/GJ
- 2020: \$0.366/GJ

See CER IR 1.4(a.2) – Attachment 2 – Recalculated Toll Model Suffield North Book Value (Net RR/Uncommitted Throughput)

Markets

1.5 Competition

Reference: i) Campus Energy Partners Suffield LP, Application for Approval of Tolls and Terms of Service for the North Suffield Pipeline, section 54(c), page 12 of 43, [C07022-1](#)

Preamble: In reference i), Campus indicates that the Suffield system competes directly with the NGTL system to transport gas to the TransCanada Pipelines Mainline.

Request:

- a) Do the shippers that use the North Suffield Pipeline have physical access to the NGTL pipeline?
- b) Is service available on the NGTL pipeline in the area of the North Suffield Pipeline or is it fully contracted?
- c) Compare tolls on NGTL to tolls on North Suffield Pipeline from the production source to the end markets.

Response:

- a) To the best of Campus’s knowledge all of its shippers, other than IPC, are physically connected to the NGTL system, such that they may alternatively ship the volumes transported on the North Suffield Pipeline on the NGTL system. To the extent any of its shippers are not physically connect to the NGTL system, such shippers should be free to request service from NGTL in accordance with its service connection requirements and policies.
- b) Campus understands that services is presently available on the NGTL system in the area of the North Suffield pipeline, either directly from NGTL or in the secondary market. Indeed, as documented in GH-2-98 and GH-2-2000, NGTL originally opposed the construction of the Suffield System on the basis that it had adequate capacity to serve the gas producers that would alternatively be served by the Suffield system. Campus further understands that some or all of the Complainants have redirected their volumes from the North Suffield Pipeline to the NGTL system.

c)

	IT	1 year	1-3 year	3-5 year	> 5 year
NGTL Princess Receipt*	\$ 0.134	\$ 0.128	\$ 0.123	\$ 0.117	\$ 0.112

	IT	1-2 year	3-4 year	> 5 year
NGTL Empress Delivery*	\$0.205	\$0.187	\$0.178	\$0.169

* posted tolls as of May 1,2019 (including abandonment surcharge)

<http://www.tccustomerexpress.com/2766.html>

	IT	2 year	5 year	10 year	20 year
Campus Proposed	\$0.32	\$0.24	\$0.22	\$0.21	\$0.20
Market Based Tolls					
NGTL Combined Receipt and Delivery Tolls	\$0.34	\$0.31	\$0.29	\$0.28	\$0.28