CANADA ENERGY REGULATOR

IN THE MATTER OF the *Canadian Energy Regulator Act*, SC 2019, c 28, s 10 (the "**Act**"), and the Regulations made thereunder;

AND IN THE MATTER OF File OF-Tolls-Group2-C1017-2020-01; an Application by Campus Energy Partners Suffield LP by its general partner Campus Energy Partners Operations Inc. ("**Campus**") for Tolls and Terms and Conditions of Service for the North Suffield Pipeline; and Rockpoint Gas Storage Canada Ltd. ("**Rockpoint**"), Pine Cliff Energy Ltd. ("Pine Cliff"), and Torxen Energy Ltd. ("**Torxen**") (the "**Complainants**") objections and complaints regarding Suffield Processing Limited Partnership and its general partner 2133151 Alberta Ltd. (now Campus) submission of new Transmission Tolls for the North Suffield Pipeline (the "**Complaint**")

Campus Reply Evidence

December 8, 2020

To Jean-Denis Charlebois
Secretary of the Commission
Canada Energy Regulator
517 – 10th Ave SW
Calgary, Alberta T2R 0A8

Table of Contents

I. Introduction ... 3
II. Market-Based Tolls ... 3
III. Complainants' Former TSAs With AltaGas ... 7
IV. Complainants' Supposed Reliance on the Transfer Application ... 8
V. Consultation with Shippers about Proposed Market-Based Tolls ... 10
VI. Shipper Support for Proposed Market-Based Tolls ... 11
VII. Firm Service Toll Certainty ... 12
VIII. ITp Service ... 12
IX. Effect of Under-Utilization on IT Service ... 12
X. Declining Throughput on North Suffield Pipeline ... 12
XI. Discretion over IT Toll ... 13
XII. Flaws in Complainants Cost-of-Service Toll Model ... 13
- i. Fixed versus Variable Expenses ... 13
- ii. Wrongly Imputing G&A Based on AltaGas Financials ... 14
- iii. Improper Allocation Ratio ... 14
- iv. Inappropriate Deemed Capital Structure ... 14
- v. Unreasonably Low Return on Equity ... 16
- vi. Ignoring Forecast Throughput ... 17

I. INTRODUCTION

1. Campus submits the following evidence in reply to:

   (a) the Evidence of the Complainants, dated October 30, 2020 (**Complainants' Written Evidence**);

   (b) Complainants Response to Information Request No. 1 of Campus Energy Partners Suffield LP (**Response to Campus IR**); and

   (c) Complainants Response to Information Request No. 2 of the Canada Energy Regulator (**CER**) (**Response to CER IR**);

   (collectively, the **Complainants' Evidence**).

2. The Complainants' Evidence contains numerous factual inaccuracies and a considerable amount of argument. Campus addresses the potentially material misstatements of the Complainants below. Campus will address the numerous arguments advanced by the Complainants throughout their evidence in Campus's final argument.

II. MARKET-BASED TOLLS

3. The Complainants erroneously deny that the North Suffield Pipeline has always operated on the basis of market-based tolls, and they attempt to draw a false distinction between market-based tolls versus complaint-based regulation.[1] The two are not mutually exclusive. In fact, the National Energy Board (**NEB**) expressly approved market-based tolls for the North Suffield Pipeline while at the same time subjecting the pipeline to complaint based regulation. This is patently clear from AEC Suffield's original application to the NEB for a certificate of public need and convenience for the North Suffield Pipeline (the **CPCN Application**),[2] and the NEB's approval of the CPCN Application,[3] as described below.

4. Under heading "7.0 Transportation Rates, Tariff and Financial Information," the CPCN Application stated:

> The North Suffield Pipeline is a commercially at-risk pipeline **with market-based charges for transmission services**. AEC Suffield is regulated by the NEB and is currently classified as a Group 2 company for the purpose of the toll and tariff regulation of the South Suffield Pipeline.
>
> The rate design for firm service on the North Suffield Pipeline will incorporate a long-term incentive approach, offering long-term certainty to shippers as well as to AEC Suffield. AEC Suffield

[1] Complainants' Written Evidence, para 74-78.

[2] North Suffield Pipeline Application to the National Energy Board, Volume 1 of 2, filed by AEC Suffield Gas Pipeline Inc., dated March 2000. Attached as Appendix A are extracts from Section 7.0 – Transportation Rates, Tariff and Financial Information of the CPCN Application.

[3] NEB Decision GH-2-2000.

> believes that the applied-for transportation rate design for firm service, which provides for lower rates for a longer term commitment, creates an appropriate risk-sharing arrangement between AEC Suffield and its shippers. However, **if rates are insufficient to generate a reasonable return, only AEC Suffield is at risk.**
>
> **The tolls and financing information requirements outlined in Parts Ill and X of the Guidelines pertain to cost-of-service regulated pipelines, and are therefore not applicable to AEC Suffield**. AEC Suffield's request for exemption from these requirements is set out in Section 1.1 of Volume 1.[4]

5. All of this remains true of Campus's proposed Market-Based Tolls.

6. Under the heading "7.1 Transportation Revenue and Rates", the CPCN Application stated: "Gas transportation rates on the North Suffield Pipeline for firm service will be determined **on the basis of transportation market demand** and the duration of the term of the firm service transportation agreements."[5]

7. Again, this is precisely what Campus did in June 2019 when it posted its proposed Market-Based Tolls. At the time, there was increasing demand for service on the North Suffield Pipeline.

8. Under heading "7.1.1 Firm Transportation Service", describing the tolling principles used to design the initial firm service rates, the CPCN Application states:

> AEC Suffield's objective in developing tolls is to attract sufficient volumes to ensure the viability of the North Suffield Pipeline while at the same time providing AEC Suffield with an acceptable rate of return on its investment. **AEC Suffield will be assessing the market requirements, the competitive alternatives (like NGTL), and the pipeline economics in establishing its tolls.**[6]

9. Campus has followed this same approach in setting its proposed Market-Based Tolls.

10. Under the same heading, the CPCN Application also stated:

> As of the date of the Application, AEC Suffield has not finalized its rates. The final rates are dependent on the final level of shipper commitment. AEC Suffield expects that its rates will be finalized by April 1, 2000 but AEC Suffield anticipates that the final rates will not exceed those which were charged to the original shippers on the

---

[4] CPCN Application at p. 7-1, emphasis added. See Appendix A at PDF page 3 of 5.
[5] CPCN Application at p. 7-1, emphasis added. See Appendix A at PDF page 3 of 5.
[6] CPCN Application at p. 7-1, emphasis added. See Appendix A at PDF page 3 of 5.

South Suffield Pipeline. The anticipated maximum rates are shown in Table 7-1.

Table 7-1
North Suffield Pipeline
Illustrative Maximum Firm Service Transportation Rates

Term-Years	$/GJ
20	0.147
15	0.153
10	0.162
5	0.175

Up until the earlier of, May 31, 2000 or until the capacity on the North Suffield Pipeline is fully subscribed, AEC Suffield is prepared to enter into a precedent agreement for firm service with any other prospective shipper at the rates which will be established in accordance with this Section 7.1.1. Firm service rates for any shippers on the North Suffield Pipeline which are not original shippers will be determined by commercial arrangements made between such shippers and AEC Suffield. All such arrangements will comply with the requirements of Section 62 of the NEB Act.[7]

11. As this passage makes clear, any firm service agreement on the North Suffield Pipeline entered into after May 31, 2000 would be by just and reasonable commercial arrangement between the pipeline owner and shipper.[8]

12. Under the heading "7.1.2 Interruptible Transportation Service" the CPCN Application states:

AEC Suffield will also offer Interruptible Transportation Service ("IT") to make the most effective use of the North Suffield Pipeline if there is available capacity after meeting the requirements of its firm service shippers. **In that there will be competition for the business of prospective IT shippers from NGTL, AEC Suffield considers that it would be appropriate to establish its IT rates, from time to time, on a market basis.** The initial IT rate will be

[7] CPCN Application at p. 7-2. See Appendix A at PDF page 4 of 5.
[8] Section 62 of the *National Energy Board Act,* RSC 1985, c N-7, provided: "All tolls shall be just and reasonable, and shall always, under substantially similar circumstances and conditions with respect to all traffic of the same description carried over the same route, be charged equally to all persons at the same rate."

> established based on a 10% premium to the 5 year firm service transportation rate.[9]

13. Campus continues to compete with NGTL for interruptible service (**IT**) volumes. Indeed, the Complainants have confirmed that they have the ability to divert volume between the North Suffield Pipeline and NGTL based on price (except a small proportion of Torxen production originating at the Tide Lake, Princess East and Princess West receipt points, which Torxen acknowledges could be connected to NGTL).[10] In setting the IT rate in its proposed Market-Based Tolls, and in requesting discretion to adjust its IT toll in response to market conditions, Campus is attempting to remain competitive with NGTL, with whom it competes for volumes.

14. Further, under the heading "7.2 Request Method of Toll Regulation", the CPCN Application stated:

> **<u>It is requested that the tolls for the North Suffield Pipeline be regulated on a complaints basis</u>** as are AEC Suffield's tolls on the South Suffield Pipeline. **<u>AEC Suffield's rates will be established on a market basis rather than being based on an established return on rate base as determined under a regulatory cost-of-service review.</u>** This approach has the advantage of reducing the need for regulatory involvement and ensures long-term rate certainty. There will be a limited number of shippers on the North Suffield Pipeline and AEC Suffield's toll design and its service offerings do not warrant an unnecessary administrative or economic burden on the company.[11]

15. The NEB approved completely the market-based tolling methodology proposed by AEC Suffield in the CPCN Application. Under heading "4.2 Tolls, Tariffs and Transportation" the NEB summarized the Application as follows: "AEC Suffield indicated that it is a commercially-at-risk pipeline and proposes **<u>market-based tolls</u>** for its transportation services."[12] Regarding AEC Suffield's proposed IT service, the NEB understood that "AEC Suffield considers it appropriate to establish its IT rates **on a market basis.**"[13] Notably, the NEB observed that "AEC Suffield's application was not contested in this regard."[14] Regarding method of regulation, the NEB agreed that AEC Suffield should continue to be regulated as a Group 2 company, stating: "In accordance with the Board's MOG, Group 2 Companies are regulated on a complaint basis. Accordingly, the Board does not consider it necessary to issue an order approving AEC Suffield's proposed tolls and tariff."[15] The ultimate disposition in Decision GH-2-2000 was approval of Application

---

[9] CPCN Application at p. 7-2, emphasis added. See Appendix A at PDF page 4 of 5.
[10] Complainants' Response to Campus IR 1.1(f); Torxen Response to Campus IR 1.2(k)(iii).
[11] CPCN Application at p. 7-3, emphasis added. See Appendix A at PDF page 5 of 5.
[12] NEB Decision GH-2-2000 at p. 11 (PDF Page 20 of 40), emphasis added.
[13] NEB Decision GH-2-2000 at p. 12 (PDF Page 21 of 40), emphasis added.
[14] NEB Decision GH-2-2000 at p. 12 (PDF Page 21 of 40).
[15] NEB Decision GH-2-2000 at p. 12 (PDF Page 21 of 40).

without any modification of the tolling methodology proposed in the Application, and which Campus applied in setting its proposed Market-Based Tolls.[16]

III. COMPLAINANTS' FORMER TSAs WITH ALTAGAS

16. Prior to the Transfer Application (discussed below), Pine Cliff was the only Complainant that held a transportation service agreement (**TSA**) for the North Suffield Pipeline:

(a) Pine Cliff entered into a TSA with AltaGas, dated January 1, 2018, only (the **Former Pine Cliff TSA**);

(b) Torxen did not have its own TSA for any type of service on the North Suffield Pipeline, but rather was shipping under a TSA, dated March 1, 2018, between BP Canada Energy Group ULC (**BP Canada**) and AltaGas (the **Former BP Canada TSA**);

(c) Rockpoint acknowledges that it did not enter into a TSA with AltaGas until January 1, 2019 (the **Former Rockpoint TSA**);

(collectively, the **Former TSAs**).

17. Each of the Former TSAs was for IT service only; none of the Complainants have ever subscribed for firm service on the North Suffield Pipeline.[17]

18. Pine Cliff falsely asserts that it negotiated a 15-month firm service term with AltaGas.[18] The alleged arrangement would have been an entirely new service offering as there has never been a filed tariff or NEB approval for a 15-month firm service term on the North Suffield Pipeline. No such agreement was ever concluded between Pine Cliff and AltaGas. Likewise, Campus never agreed to implement such a service for Pine Cliff. Pine Cliff also falsely asserts that it was "directed" that the 15-month firm service arrangement it was trying to negotiate with AltaGas would be "honoured" following the Transfer Application, which is why Pine Cliff claims it did not oppose the Transfer Application.[19] This is simply untrue, and Campus denies Pine Cliff relied on any such representation (from an unspecified person) because no such representation was ever made.

19. Each of the Complainants agree that the tolls payable under the Former TSAs were just and reasonable.[20] None of them contend that these were cost-of-service tolls,[21] and each Complainant acknowledges that it never sought or obtained cost-of-service financial information from AltaGas prior to entering into the Former TSAs.[22]

---

[16] NEB Decision GH-2-2000 at p. 27 (PDF Page 20 of 40).
[17] Complainants' Response to Campus IR 1.1(g).
[18] Complainants' Written Evidence, para 57.
[19] Pine Cliff Response to Campus IR 1.1(g)(a).
[20] Complainants' Response to Campus IR 1.5(c).
[21] Complainants' Response to Campus IR 1.5(a).
[22] Complainants' Response to Campus IRs 1.1(i) and 1.5(b).

20. For whatever reason, AltaGas never increased tolls on the North Suffield Pipeline.[23] Thus, when AltaGas entered into the Former TSAs, AltaGas agreed to tolls reflective of market prices and conditions that existed when the North Suffield Pipeline was first approved in the year 2000.

21. The Complainants acknowledge that the Former TSAs were terminable by either party on 30 days notice. Each of the Former TSAs contained the following clause:

> Subject to the provisions of this Agreement, the transportation of Customer Gas shall commence on [January 1, 2018/March 1, 2018/January 1, 2019] ("Date of Initial Delivery") and shall continue thereafter unless terminated by either Party by giving thirty (30) days prior written notice to the other Party, such termination shall be effective as of the first Day of the Month following the expiry of such thirty (3) day notice period.

22. While Pine Cliff and Torxen subsequently executed new TSAs with Campus after the Former TSAs were cancelled—and Campus denies either of them executed their new TSA under duress—neither is currently shipping under their TSA. To date, Rockpoint has not executed a new TSA with Campus. Thus, none of the Complainants are currently shippers on the North Suffield Pipeline; Torxen ships for an undisclosed price indirectly through IPC only.

IV. COMPLAINANTS' SUPPOSED RELIANCE ON THE TRANSFER APPLICATION

23. The Transfer Application[24] was filed on September 28, 2018.

24. In not opposing the Transfer Application, the Complainants each purport to have relied on the following statement in the Transfer Application: "2133151 has no immediate plans to alter or implement any changes to the tolls and tariffs on the Pipelines".[25]

25. In respect of this statement of fact, which was made as of September 28, 2018 in the context of an impending sale of 2133151 from AltaGas to Birch Hill Equity partners, which context was known to each of the Complainants at the time, none of the Complainants:

    (a) submitted any information requests to inquire about the meaning of the words "no immediate plans" or whether, once it assumed management, Birch Hill might have any future plans to change the tolls or tariff for the North Suffield Pipeline;

    (b) sought any assurance from AltaGas or Birch Hill that the tolls or tariff for the North Suffield Pipeline would not be changed for any period of time following approval of the Transfer Application; or

---

[23] A fact that is acknowledged in Rockpoint Response to Campus IR 1.1(i).
[24] [A94251-2]
[25] Complainants' Written Evidence, at paras. 26-30, 42, 59, and 67.

(c) requested that the NEB impose, as a condition of approval, a moratorium on any toll or tariff change for a period of time following approval of the Transfer Application.

26. The Complainants' Evidence also glosses over the fact that, prior to Campus's proposed Market-Based Tolls, there never was an IT toll in a filed tariff for the North Suffield Pipeline.

27. As noted by the Complainants,[26] on October 15, 2018 AltaGas filed a tariff for both the North and South Suffield Pipelines (the **2018 Tariff**).[27] The 2018 Tariff contained the same tolls, terms, and conditions as had always been in effect for the North Suffield Pipeline to that point in time. Notably—as also acknowledged by the Complainants—the 2018 Tariff did **not** provide for IT service and did **not** contain a posted IT toll.[28]

28. In terms of sequencing, the 2018 Tariff was filed *after* the execution of the Former Pine Cliff TSA, *after* the execution of the Former BP Canada TSA, and *after* AltaGas filed the Transfer Application., but *before* the execution of the Former Rockpoint TSA, and *before* the NEB approved the Transfer Application.

29. None of the Complainants objected to the 2018 Tariff at the time it was filed, nor have any of them suggested that it was inconsistent with the previous tariffs in effect for the North Suffield Pipeline.

30. So, to the extent any of them were relying on the *status quo*, the *status quo* at the time the Transfer Application was filed and approved was that the tariff for the North Suffield Pipeline did not provide for IT service nor did it contain a posted IT toll.

31. Rather, at the time of the Transfer Application the *National Energy Board Act,* RSC 1985, c N-7 (*NEB Act*) governed tolls and tariffs on the North Suffield Pipeline. Section 60 of the *NEB Act* provided:

> **Tolls to be filed**
>
> **60 (1)** A company shall not charge any tolls except tolls that are
>
> **(a)** specified in a tariff that has been filed with the Board and is in effect; or
>
> **(b)** approved by an order of the Board.

32. In the absence of any IT toll being posted in a tariff filed with the NEB, as has always been the case with the North Suffield Pipeline including at the time of the Transfer Application, the only basis upon which IT service could have been available on the North Suffield Pipeline was pursuant to a specific NEB approval. The only NEB approval related to IT

---

[26] Complainants' Written Evidence, para 31.
[27] AltaGas Holding Inc. on behalf of AltaGas Pipeline Partnership (AltaGas) NEB Tariff Filing, dated October 15, 2018 [A94813-1].
[28] Complainants' Written Evidence, Table 1.

service on the North Suffield Pipeline is contained in Decision GH-2-2000, referenced above, approving the use of market-based IT tolls to be set from time to time.

V. CONSULTATION WITH SHIPPERS ABOUT PROPOSED MARKET-BASED TOLLS

33. Pine Cliff's allegation that Campus failed to consult with it prior to terminating the Former TSAs is simply false.[29] Campus had several discussions with each of the Complainants about the proposed new tolls for the North Suffield Pipeline prior to terminating the Former TSAs. As detailed in paragraph 129 of Campus's Application for Approval of Tolls and Terms and Conditions of Service for the North Suffield Pipeline (the **Toll Application**),[30] Campus also specifically met with each of the Complainants twice before terminating the Former TSAs. Campus specifically advised the Complainants of its intention to terminate the Former TSAs during the course of these discussions and meetings.

34. Campus's discussions with shippers, including the Complainants, were not perfunctory. In March 2019 Campus circulated a proposed term sheet to its shippers so that Campus could have informed discussions with its shippers about contemplated changes to the tolls and tariff for the North Suffield Pipeline. Campus had meaningful discussions with shippers, including the Complainants, about the term sheet. Based on feedback from shippers, including the Complainants, in May 2019 Campus circulated a revised term sheet to shippers. This revised term sheet introduced a two-year firm service term and IT preferred service (**ITp**), as an added benefit to firm service. [31]

35. Campus finds Pine Cliff and Torxen's opposition to ITp service particularly surprising, as a two-year firm service term and ITp were introduced to accommodate the needs of shippers like Pine Cliff and Torxen, who both privately expressed support for these new service offerings to Campus. Indeed, the combination of firm and interruptible service that Torxen describes as desirable in its response to CER IR 2.8(d) is exactly what the introduction of ITp is meant to accommodate.

36. As also noted in paragraph 129 of the Toll Application, between July 22 and September 10, 2019 Campus meet with its shippers to provide background and provide a presentation of detailed financial information on the proposed market-based tolls. This presentation contained detailed cost-of-service financial information, similar to Campus's Illustrative Cost-of-Service Toll Model.[32] Campus presented this information to the Complainants on August 1, 2019. While most shippers were accepting of information provided, the Complainants took an adverse view.

37. In response to paragraph 54 of the Complainants' Written Evidence, Campus denies that Rockpoint engaged in good faith negotiations regarding updated tolls and terms of service on the North Suffield Pipeline. Campus attempted to engage Rockpoint in such negotiations, but Rockpoint did not reciprocate. Rather, Rockpoint took the position that

---

[29] Complainants' Written Evidence, at paras 61.
[30] [C07022-1].
[31] The March and May 2019 Term Sheets are reproduced at Attachment 5 to Pine Cliff Complaint [A99968-1].
[32] [C08291-13]

Campus was not entitled to revise its rates on the North Suffield Pipeline except in accordance with a particular provision of the Former Rockpoint TSA, which interpretation Campus disagrees with because it is legally incorrect.

38. In response to paragraphs 64-65 and 72-73 of the Complainants' Written Evidence, Campus denies that either Pine Cliff or Toxen was forced to enter into a new TSA with Campus under duress. Any business imperative that Pine Cliff or Torxen had to enter into a new TSA was of its own creation, each having entered into upstream or downstream obligations without having secured firm transportation service on the North Suffield Pipeline to ensure that they would be able to meet their respective obligations for a fixed price or term. Instead, each entered into a TSA for IT service only that was terminable on 30 days notice. By structuring their affairs as they did, they each exposed themselves to capacity and price risks.

VI. SHIPPER SUPPORT FOR PROPOSED MARKET-BASED TOLLS

39. Contrary to the suggestion in the Complainants' Evidence,[33] shippers other than the Complainants expressed support for Campus's proposed Market-Based Tolls. Campus provided details of this support in its prior correspondence. For example, in its letter of September 20, 2019, Campus explained that 2/3 of potential firm service shippers were satisfied with the level of financial disclosure that Campus had provided and viewed the proposed Market-Based Tolls as just and reasonable.[34]

40. Proof of shipper support for the proposed Market-Based Tolls is evidenced by GEX Resources subscribing for a 5-year term of firm-service.

41. Additionally, at the time the Complainants initiated this proceeding, Campus was in discussions with one of Canada's largest natural gas producers to bring tens of thousands of GJ/day in new volume onto the North Suffield Pipeline at the proposed Market-Based Tolls. However, this producer had no appetite to become embroiled in this proceeding, so it refrained from signing a new TSA. Then, when the price differential between the Alberta gas market and eastern gas markets steeply declined beginning in October 2019, this producer decided not to subscribe for new service.

42. Similarly, Campus was in discussions with a prominent mid-size gas producer who was interested in subscribing for new firm service on the South Suffield Pipeline. This producer also had no desire to become embroiled in CER proceedings, and, as the price differential between the Alberta and eastern gas markets began to decline in October 2019, decided not to subscribe for firm service.

43. Thus, as a result of the toll uncertainty created by the Complainants, Campus has lost out on significant, long-term firm service revenues that it would have been able to lock-in prior to the late 2019 market shift.

---

[33] Complainants Written Evidence, para 86.
[34] [C01739-1]

VII. FIRM SERVICE TOLL CERTAINTY

44. In response to paragraph 211 of the Complainants' Written Evidence, Campus wishes to clarify that under a firm-service TSA the toll is fixed for the entire term of the agreement, even if the posted firm-service tolls fluctuate during this period. By subscribing for firm-service, a shipper obtains toll certainty for the entire term of the firm-service TSA.

VIII. ITp SERVICE

45. The Complainants' incorrectly assert that the meaningful distinction between ITp and IT services is that ITp enjoys a higher priority of service than IT. The value of ITp service is that it provides additional flexibility for shippers who have agreed to firm service. For firm service shippers, both the volume they are permitted to ship under ITp service, and the toll for ITp service, are fixed for the duration of the shipper's firm service TSA. Thus, ITp would be an additional benefit to subscribing for firm service on the North Suffield Pipeline. The Complainants received term sheets and draft TSA agreements that explained all of this, clearly defining ITp service as a fixed quantity and fixed fee service, subject to the Firm service commitment, for the term of the associated firm commitment. By way of comparison Campus's proposed IT service would remain available to the Complainants at whatever the market based price would be.

IX. EFFECT OF UNDER-UTILIZATION ON IT SERVICE

46. As Complainants themselves note, Suffield North has averaged only 35% utilization over 2018 through mid-2020.[35]

47. This virtually guarantees to IT shippers, like the Complainants, that any IT volumes they nominate will be transported without interruption.

48. Indeed, each of the Complainants acknowledge that, despite having only ever held IT service on the North Suffield Pipeline, none of their IT shipments were ever interrupted in favour of higher-priority volumes.[36]

X. DECLINING THROUGHPUT ON SUFFIELD SYSTEM

49. Attached as Appendix B is a graph showing the declining throughput on the Suffield System. It is an expanded version of the graph Campus produced in response to Complaint IR 1.7(5). It shows an overall and steady decline in throughput on the Suffield System. [37] The temporary increase in throughput in 2018 and 2019 was attributable to temporary maintenance issues on NGTL and increased gas prices in eastern markets, particularly Ontario. Those market conditions have now subsided.

---

[35] Complainants' Written Evidence, para 167.

[36] Complainants' Response to Campus IR 1.1(q).

[37] The historical data available to Campus is not broken down between the North and South Suffield Pipelines. However, the overall trend of declining throughput applies equally to both pipelines.

XI. DISCRETION OVER IT TOLL

50. The Complainants express apprehension about Campus being granted discretion to adjust its IT toll.[38]Attached as Appendix C is a table demonstrating how Campus would have hypothetically exercised the IT toll discretion it requests, from February 2019 (following approval of the Transfer Application) to November 2020.

XII. FLAWS IN COMPLAINANTS COST-OF-SERVICE TOLL MODEL

51. The tolls proposed by the Complainants are not just and reasonable. They are blatantly one sided, divorced from both the market and that Campus's true cost of service would be. They are a transparent attempt to contrive low IT tolls for the Complainants' own benefit, thereby obviating the need for anyone of them to subscribe for firm service. The Complainants proposed tolls should not be accepted by the Commission.

52. There are several fundamental flaws in the Complainants' proposed cost-of-service model, including:

(a) treating all operating expenses as variable expenses when, in fact, many are fixed costs;

(b) imputing to Campus general and administrative (G&A) expenses based on certain AltaGas costs adjusted for inflation;

(c) using improper allocation ratios;

(d) using an inappropriate deemed capital structure based on the deemed capital structure of other pipeline utilities that are not reasonably comparable to Campus;

(e) using an unreasonably low return-on-equity for Campus's risk profile; and

(f) using average past volumes for calculating the unit-cost-of-service rather than forecast volumes.

53. Each issue is addressed below.

i. Fixed versus Variable Expenses

54. In an attempt to allocate a greater portion of operating and G&A expenses to the South Suffield Pipeline, the Complainants incorrectly state that all of Campus's operating and G&A costs are variable.[39] They are not. Regarding operating expenses, Campus's labour, vehicle, lease, and surety bond premiums are all fixed costs; while there is some minor variability in Campus's supplies and materials costs, and its repair and maintenance costs, based on throughput, these costs are also largely fixed and incurred regardless of throughput. Regarding G&A expenses, these are likewise fixed overhead costs that do not

---

[38] Complainants Response to CER IR 2.8(d).
[39] Complainants' Written Evidence, paras 111-115.

change with throughput. The Complainants concede these points in their Response to CER IR No. 2.9., and as such their approach to fixed vs variable expenses should not be used.

ii. Wrongly Imputing G&A Based on AltaGas Financials

55. Rather than using Campus's actual G&A expenses for 2019 or its forecast G&A expenses for 2020, the Complainants instead cherry-picked a figure from AltaGas's unaudited 2018 financial statements ($1.305 million), adjusted it for inflation, and then used the adjusted figure as the G&A expense to calculate their unit cost of service.[40] However, the figure used by the Complainants' is not the AltaGas equivalent of the G&A expenses shown in Schedule 1.2.1 of Campus's Illustrative Cost-of-Service Toll Model. Rather, the AltaGas figure used by the Complainants represents the equivalent of Campus's operating expenses shown on Schedule 1.1. of Campus's Illustrative Cost-of-Service Toll Model. In fact, AltaGas's 2018 financial statement does not allocate a share of AltaGas corporate G&A to the Suffield System. Thus, the G&A expense the Complainants have incorrectly used is meaningless and has no foundation in fact.

iii. Improper Allocation Ratio

56. The Complainants derived their own cost allocation ratios based on the gross margin and operating margin ratios between Campus Energy Partners LP (which they refer to as "Campus Corporate") and Campus Energy Partners Suffield LP (which they refer to as "Campus Suffield").[41] However, the reporting of gross margin does not include any costs; it is just revenue. It does not reflect the economic value of each Campus Corporate business segment, nor the effort (i.e. costs) required by each segment to earn such revenue. Using operating margin is equally inappropriate because it does not account for direct G&A expenses, and therefore does not account for all direct costs of the business. As a result, the Complainants attempt to use gross margins and operating margin ratios results in a gross distortion that is entirely disconnected from an appropriate factual foundation and should not be used.

57. Conversely, the EBITDA ratio used by Campus captures all the direct costs required to run each business. Allocating G&A staff expenses based on the EBITDA ratio or the PPE ratio between Campus Corporate and Campus Suffield accurately reflects the time that G&A staff devote to each business.

iv. Inappropriate Deemed Capital Structure

58. The Complainants' cost-of-service model is premised on Campus having a deemed 60-40 debt-to-equity ratio. In turn, this is based upon the deemed capital structures of certain other pipeline utilities that the Complainants baselessly allege are similar to the North Suffield Pipeline. To put this in context, the Complainants believe that Campus should have the same deemed capital structure as NGTL, the TC Mainline, which are both exponentially larger undertakings than the North Suffield Pipeline. Contrary to the Complainants' assertions, none of the allegedly comparable utilities relied upon by the

[40] Complainants' Written Evidence, para 120.
[41] Complainants' Written Evidence, para 123.

Complainants, except perhaps the Milk River Pipeline (which is still less risky that the Suffield System), have remotely similar risk profiles to Campus.

59. In response to paragraph 159 of the Complainants' Written Evidence, Campus disagrees that any of the pipeline utilities listed in Table 4 of the Complainants' Written Evidence are "similarly situated" to Campus. The descriptors "similarly situated" are the Complainants' words. Campus does not agree that these other companies are comparable to Suffield North (or South) in terms of risk, the ability to attract capital, credit ratings, and appropriate capital structure and return on equity.

60. For example, the tolls of the gas pipelines (NGTL, Westcoast, ATCO Pipelines,) are underpinned by shipper contracts and operate at very high throughput levels. ATCO Pipelines effectively collects it revenue requirement from NGTL and has very limited if any risk. When the throughput on the TC Energy Mainline dropped dramatically, in RH-003-2011 the NEB gave the pipeline virtually unlimited pricing discretion on interruptible pricing to motivate shippers to sign up for firm service while at the same time fixing firm service tolls at a rate that was reflective of the circumstances the pipeline found itself in. TC Energy has managed its mainline under the RH-03-2011 parameters very well to increase its revenue and decrease its revenue risk.

61. Trans Mountain Pipeline is the only oil pipeline to the west coast and benefits from the fact that oil production in the WCSB usually exceeds takeaway capacity, which means the pipe is almost always full, if not oversubscribed and engaging in capacity allocation. That is one of the reasons why the Trans Mountain Pipeline expansion was approved. Enbridge Southern Lights (a diluent pipeline) has firm contracts that guarantee recovery of 100% of its revenue requirement.

62. The "smaller utilities . . . located in Alberta" referenced by the Complainants are still much, much larger than the North Suffield Pipeline ATCO Gas is a distribution company with a fixed franchise area and it has a substantial and stable customer base. ATCO Gas (North and South) has a rate base of about $2.5 billion[42]—about 200 times as large as Suffield (North and South). ATCO Gas has total throughput of about 260,000,000 GJ/year, or about 10 times as much as Suffield. AltaGas has a rate base of $396 million—more than 15 times as large as Suffield.

63. Milk River Pipeline is the only one that is similar in size to Suffield, but it has a much more stable operating environment. Further, a basic issue in the 2001 Milk River proceeding was whether the pipeline operated in a competitive environment. The NEB found that:

> The evidence suggests that the **Milk River Pipeline** operates in a limited competitive environment and that **it exercises some level of market power**. As a result, the Board has decided that an

---

[42] http://www.auc.ab.ca/regulatory_documents/ReportDocuments/2017-Finance-ATCOGasSouth_distribution.pdf
http://www.auc.ab.ca/regulatory_documents/ReportDocuments/2017-Finance-ATCOGasNorth_distribution.pdf

> examination of the justness and reasonableness of its tolls is warranted.[43] [emphasis added]

By contrast, the North Suffield Pipeline operates in a fully competitive environment and competes directly with NGTL for volumes. Directionally, the North Suffield Pipeline has a higher risk and a correspondingly higher equity ratio and higher required return on equity than Milk River.

64. Moreover, the deemed capital structure suggested by the Complainants is inconsistent with the debt financing that the capital markets were *actually* willing to extend to Campus. There is no evidence to suggest that Campus would actually be able to secure more debt to capitalize its business to the deemed capital structure the Complainants suggest. Campus is already prudently operating its business with the greatest amount of debt capitalization that the market would allow. The fact that the Complainants have suggested completely inappropriate comparators suggest they should be given little to no weight in assessing the reasonableness of Campus's proposed risk, financing and capital structure.

v. Unreasonably Low Return on Equity

65. Using the same inappropriate comparable utilities described above, the Complainants' cost-of-service model uses a 10% return-on-equity only.[44] Given the risk-profile of the North Suffield Pipeline, Campus would not be able to attract equity investment with only a 10% ROE. As explained above, the North Suffield Pipeline is a riskier enterprise that the Milk River Pipeline which has an approved ROE of 13%. Investors would not invest in the riskier North Suffield Pipeline for a lesser return than they could achieve by investing in the less risky Milk River Pipeline.

---

[43] https://docs2.cer-rec.gc.ca/ll-eng/llisapi.dll/fetch/2000/90465/92837/94142/94143/94144/2001-08-01_Reasons_for_Decision.pdf?nodeid=94148&vernum=-2

[44] Complainants' Written Evidence, paras 163-165.

vi. Ignoring Forecast Throughput

66. The Complainants' cost-of-service model uses average capacity usage of the North Suffield Pipeline since 2018 to calculate the unit-cost-of-service rather than forecast throughput of the pipeline.[45] This approach is backwards looking and inconsistent with standard cost-of-service methodology. It assumes that throughput remains constant on the North Suffield Pipeline when in fact throughput has been steadily declining.

[45] Complainants' Written Evidence, para 168.