

March 8, 2019

Ms. Sheri Young
Secretary of the Board
National Energy Board
Suite 210, 517 Tenth Avenue SW
Calgary, AB T2R 0A8

Dear Ms. Young

**Re: National Energy Board
Draft Pipeline Financial Requirements Guidelines,
And Implementation of Financial Resources Requirements
Centra Pipelines Holdings, Inc.
Response and Comments**

By letter dated 15 February 2019 to all Pipeline Companies regulated under the National Energy Board and all interested parties, the Board set out a process to gather feedback and comments on Draft Pipeline Financial Requirements Guidelines (“Draft Guidelines”). In particular, the Board indicates it was seeking comments with respect to the following areas:

- Are there any areas where the Draft Guidelines could help to provide further clarity on the financial resources’ legislation or regulations?
- Are there areas where the Draft Guidelines are unclear?
- Are there areas in the Draft Guidelines where definitions, interpretations or expectations should be adjusted?
- Are there areas where more information would be helpful?

Following is the feedback and comments of Centra Transmission Holdings Inc. (CTHI) with respect to the matters the Board is seeking input.

Background

CTHI is a relatively small natural gas transmission pipeline operator regulated by the National Energy Board as a Group 2 pipeline, with connecting facilities located in the United States held by Centra Pipeline Minnesota Inc. (CPMI) regulated by the Federal Energy Regulatory Commission. The combined, integrated system is comprised of a total of approximately 270 km of largely NPS 12-inch pipeline with compression at two locations along its system, with metering, regulating and isolation block valve facilities

at a total of 11 locations across the system. The vast majority of the pipeline system in Canada is designated by the NEB as a Class 1 Location, with approximately 1% of the pipeline designated as a Class 3 Location. The portion of CTHI's pipeline system operating in the Class 3 location is downstream of the system primary gate station located outside the town of Fort Frances Ontario. Those facilities (downstream of the gate station) have pipeline design characteristics and operating pressures that are materially different than CTHI's mainline by virtue of where they are located.

As CTHI indicated in its submission to Natural Resources Canada by letter dated October 28, 2016, the company agrees with the underlying objectives of the Pipeline Safety Act and the promulgation of appropriate Pipeline Financial Requirements Regulations to achieve those stated objectives. As delineated in Canada Gazette, Part II, Volume 152, Number 14, the stated objectives of these regulations are as follows:

- **Support the establishment of the no-fault" absolute liability regime for companies operating federally regulated pipelines;**
- **Ensure pipeline companies are adequately prepared to cover response, remediation costs and liability claims, in the event of an unintended or uncontrolled release from their pipeline, and**
- **Ensure that liability and financial resource requirements for the pipeline operator are commensurate with the risks associated with their respective operations.**

Feedback and Comments

As a general matter, CTHI believes that it is appropriate that the Board is afforded flexibility and discretion to administer the regulations to meet the objectives as outlined above. Although the regulations are prescriptive, the Board's Draft Guidelines at 1.2 state that "Each company's information will be assessed on a case-by-case basis". CTHI agrees with this principle which it believes will help ensure that the financial resources requirements imposed on an operator are both adequate and commensurate with the specific risks associated with its operation.

Definitions, Interpretations and Expectations

At section 3.3(c) "Gas Pipelines" of the Guidelines, it indicates that for gas pipelines, the "Absolute Liability" level and resulting Absolute Liability Class will be determined based on "Risk Value". The Risk Value is calculated by multiplying the square of the pipeline outside diameter by the Board approved maximum operating pressure. Capacity is defined as a pipeline's maximum daily capacity assuming the pipeline is operating at 100% of design specifications. The Guidelines indicate that capacity resulting from voluntary, temporary, or Board mandated pressure or flow restrictions will not determine Capacity for purposes of a company's Absolute Liability Class.

CTHI respectfully submits that the Board should consider the prevailing actual operating pressures and flows for a given pipeline operation in the determination of Risk Value. As indicated in the Canada Gazette, Part II, Volume 152, Number 14 document issued 25 June 2018, “There is no single variable that reasonably represents the risk and associated cost of a natural gas pipeline line incident... The relationship between pipeline diameter, pipeline operating pressure and the proximity to a populated area are considered the primary factors...”

In CTHI’s specific instance for example, the Ontario section of the pipeline is currently subject to a Board ordered pressure restriction which limits the maximum allowable operating pressure across its entire system to 78% of its maximum design pressure. Considering this factor alone would reduce the company’s Risk Value for purposes of determining Absolute Liability and the Absolute Liability Class within which the company falls.

To the extent that it is the objective of the Board’s implementation of the regulations to ensure the liability and financial resource requirements for a given pipeline operator are commensurate with the risks associated with their respective operations, CTHI respectfully submits that it would be appropriate and within the Board’s discretion to consider Class Location and the applicable operating conditions of the pipeline as part of its Guidelines, particularly within the high consequence (Class 3), arguably the highest risk areas on the system, in the determination of Risk Value. This will allow consideration of both incident risk (probability of occurrence) and potential significance (impact) as the Risk Value is intended.

The portion of CTHI’s system that is designated as Class 3 based on the company’s class location study would, in our view be the most critical to evaluate in terms of potential impact. This portion of CTHI pipeline system represents just 1% of the entire linear pipeline length. In addition, this segment of pipeline was constructed with pipe of wall thickness that is approximately two times that of the mainline pipe which is located primarily in Class 1 locations. In addition, this Class 3 portion of CTHI’s pipeline system operates at a maximum line pressure of approximately 385 psig or 2.65 Mpa, less than 50% of the mainline MAOP, a maximum pressure which is less than 25% of the pipe’s Specified Minimum Yield Strength (“SMYS”). All these factors taken together allow for a more refined assessment of risk, potential impact and ultimately, the financial resources CTHI should have available to meet the objectives of the Pipeline Safety Act.

CTHI’s theoretical Risk Value as calculated in accordance with the Guidelines is approximately 587,165, which places the company in Gas Class 2 category, between 100,000 and 999,000. The Risk Value calculation for CTHI assumes an outside diameter of 12.75 inches or 325.85 millimetres, and an associated maximum operating pressure of 802 psig, or 5.53Mpa. However, based on its recent operating environment and delivery requirements, there has been virtually no circumstance in which system demand has required the pipeline system to operate at its maximum operating pressure and its

contractual flows are well below its current theoretical design capacity. These are factors in CTHI's view that are relevant to the Board's interpretation of the Risk Value analysis.

If the Board were to consider the determination of the company's Risk Value for purposes of determining Absolute Liability Limits, considered CTHI's highest potential consequence area in the event of an uncontrolled or unplanned release, it would be CTHI's Class 3 pipeline facilities and critical design and pressure values. In that instance, CTHI's Risk Value would be less than half that which is noted above.

CTHI would note that the designated minimum and maximum Risk Value thresholds prescribed in the Draft Guidelines which delineate each Absolute Liability Class into which a natural gas pipeline operator falls are broad and somewhat arbitrary, and as a consequence, do not consider the system specific risk factors and characteristics of a given operator that would differentiate the liability and financial resources that should be provided for in the context of the regulations' objectives.

As is the case with the application of the current draft regulations, with the exception of very large systems, virtually all gas pipeline operators other than very small facilities, will have a Risk Value ascribed that places them in the Gas Class 2 Absolute Liability Class with an associated Absolute Liability Limit of \$50 million. CTHI respectfully submits that the Board in implementing the regulations should consider the aforementioned factors to ascribe a Risk Value to an operator that is more commensurate with the specific risk characteristics pipeline systems.

CTHI would note that in the Canada Gazette, Part II, Volume 152, Number 14 issued 25 June 2018, the feedback provided to Natural Resources Canada suggested that compliance cost associated with the readily accessible resource requirement could potentially be burdensome for some small businesses, with approximately eight small businesses identified. CTHI respectfully submits that it is one of those small businesses.

In CTHI's specific situation, A Risk Value that places the company in the Gas Class 2 category would require CTHI to substantial additional resources in the form of third-party instruments from the market. CTHI's current level of liability insurance coverage has been assessed by insurance professionals and subject matter experts. As a point of reference, the level of Absolute Liability coverage for a Gas Class 2 (\$50M) pipeline is approximately 3.3 times CTHI's current level of liability coverage. In addition, CTHI's Readily Accessible Resources (cash) as a Gas Class 2 operator would need to increase significantly from current levels and as a result increase the company's total rate base by approximately 43%.

As CTHI has indicated, we support the underlying objectives of the Pipeline Financial Requirements Regulations. In the same regard, CTHI respectfully submits that the Board has discretion and authority to exercise latitude in the definitions, interpretation and expectations within its final Guidelines in the implementation of the regulations as it evaluates each operator and their respective Financial Resources

Plan. CTHI's compliance with the requirements of a Risk Value Gas Class 2 will in our submission, visit excess financial burden on CTHI and its Shippers.

It is our hope that the Board will consider CTHI's comments and suggestions and make such changes to the draft Guidelines as deemed appropriate. We believe the regulations provide the National Energy Board with sufficient flexibility, latitude and authority to implement and administer these regulations pursuant to the NEB Act with consideration for the specific characteristics of each pipeline operator it regulates.

CTHI respectfully makes its submission to the National Energy Board in accordance with the comment procedures outlined in its letter dated 15 February 2019.

Sincerely,

J. P. Todd Karry

President - Centra Transmission Holdings, Inc.

cc: CTHI Shippers