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Via E-Mail and Courier

July 21, 2017

B.C. Utilities Commission  
4<sup>th</sup> Floor - 900 Howe Street  
Vancouver, BC  
V6Z 2N3

File No.: 4.2(2017)

Attention: Patrick Wruck  
Commission Secretary and Manager Regulatory Services

Dear Mr. Wruck:

**Re: Pacific Northern Gas Ltd.  
Application for Approval of a New Sharing Arrangement for the  
Period May 1, 2017 to April 30, 2018**

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On June 30, 2017, Pacific Northern Gas Ltd. (PNG) made a submission to the British Columbia Utilities Commission (Commission) referenced “Compliance Filing and Application for Approval of a New Sharing Arrangement for the Period May 1, 2017 to April 30, 2018”. In this submission, PNG had made a request for confidentiality on the matters presented.

Further to recent discussions with Commission Staff, PNG accepts that it is not necessary to keep the general concepts contained in the application for a new sharing arrangement confidential. Consequently, PNG has extracted the elements from the June 30, 2017 submission pertaining to the application for a new sharing arrangement and has presented them herein as a separate submission, filed on a non-confidential basis.

PNG requests that the Commission continue to consider the information provided in PNG’s June 30, 2017 submission and presented as the required compliance reporting on the optimization value and sharing arrangement for the period May 1, 2016 to April 1, 2017, as confidential.

## **BACKGROUND**

On May 18, 2016, PNG filed an application with the Commission seeking acceptance of a five-year energy management services agreement with Tenaska Marketing Canada (Tenaska) dated May 1, 2016 (2016 EMS Agreement) under section 71 of the British Columbia *Utilities Commission Act* (UCA).

The 2016 EMS Agreement includes a mechanism for the sharing of the revenues generated by Tenaska arising from its optimal utilization of PNG's storage and transportation (S&T) assets (Optimization Value). Under the 2016 EMS Agreement, Tenaska pays PNG a monthly fixed charge (Fixed Charge) and partakes in a sharing mechanism whereby Tenaska retains the right to any revenues up to the annual amount of the Fixed Charge and shares with PNG any Optimization Value realized that exceeds the annual amount of the Fixed Charge.

In the May 2016 application, PNG also requested Commission approval to apportion a percentage of PNG's Optimization Value entitlement with PNG's shareholder (Sharing Arrangement) for the first three years of the 2016 EMS Agreement.

In Order E-18-16, the BCUC accepted the 2016 EMS Agreement and limited its approval of the Sharing Arrangement to a period of one year, from May 1, 2016 to April 30, 2017.

## **APPROVALS REQUESTED**

At this time, PNG applies for and seeks Commission approval, pursuant to Section 63 of the UCA, of a new sharing arrangement (New Sharing Arrangement) for the 12-month period beginning May 1, 2017 and ending April 30, 2018. Under the terms of the proposed New Sharing Arrangement, PNG proposes to pass 90 percent of the Optimization Value that exceeds a newly established performance benchmark on to PNG's sales customers, with the remaining 10 percent accruing to PNG's shareholder. PNG considers the proposed New Sharing Arrangement to be consistent with the Guiding Principles related to the development of an "enhanced incentive program" for FortisBC Energy Inc. (FEI) that were established by the Commission in its Reasons for Decision on Order G-26-11.<sup>2</sup>

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<sup>2</sup> Commission Order G-26-11, Appendix A: Reasons for Decision, p. 11

## **ESTABLISHING A NEW SHARING ARRANGMENT**

In Order E-18-16, the Commission limited its approval of the Sharing Arrangement of the Optimization Value realized by PNG for Tenaska's mitigation activities to a one year period, from May 1, 2016 to April 30, 2017. The Commission found that “the potential for PNG to add material value on an ongoing basis over and above what is reasonably expected in the normal stewardship of PNG's business is limited during the term of the 2016 EMS Agreement” and that “[o]nce the 2016 EMS Agreement was executed, any significant incremental value and ongoing innovation will be delivered to PNG's ratepayers primarily through the ongoing mitigation activities of Tenaska”. The Commission concluded that this “limits PNG's ability to make further innovation or to add incremental value for ratepayers during the term of the 2016 EMS Agreement”.<sup>3</sup>

PNG does not disagree with these statements, however PNG submits that establishing a New Sharing Arrangement for the period May 1, 2017 to April 30, 2018 that sets performance benchmarks (Benchmarks) and that is constrained to Optimization Value generated through activities solely under the control of PNG, is appropriate.

PNG submits that while this application, originally submitted on June 30, 2017, was made subsequent to the commencement of the period to which the New Sharing Arrangement would be applicable, i.e. after May 1, 2017, approval of the New Sharing Arrangement for the full period of May 1, 2017 to April 30, 2018 should be granted. This position is based on the fact that the New Sharing Arrangement applies only to Optimization Value realized in excess of the annual amount of the Fixed Charge, and that market conditions for natural gas supply and demand during the two month period from May to June are such that there is an extremely low probability of any such value being realized during this period.

### **Performance Benchmarks for 2017/2018**

PNG proposes establishing Benchmarks that define thresholds for a New Sharing Arrangement between PNG and its shareholder. These Benchmarks are a demarcation between Optimization Value generated by Tenaska during the normal course of managing PNG's S&T assets, and Optimization Value generated by Tenaska as a result of extraordinary efforts by PNG to create conditions that enhance Tenaska's ability to optimize PNG's assets.

PNG proposes a Benchmark for Optimization Value derived from PNG's T-South transportation capacity. Historically, Tenaska has been able to use a downstream diversion

of its firm Summit Lake transportation capacity in order to access the market at Sumas, and thereby monetize the basis spread between Station 2 and Sumas that occurs from time to time, particularly in the winter months. This is the mechanism by which Tenaska has generated Optimization Value from PNG's T-South capacity.

The introduction by Enbridge (formerly Spectra Energy), of a Winter Firm Service tariff (WF Service) on T-South beginning November 1, 2017 will reduce the availability of all non-firm services, including downstream diversions, during the winter period and will eliminate, or at least curtail to a very significant extent, Tenaska's ability to schedule a downstream diversion of PNG's capacity in order to access the market at Sumas.

PNG has and continues to evaluate ways of addressing the impact of WF Service on interruptible downstream diversions. PNG submits that its efforts in this regard fall outside of the scope of services provided by Tenaska pursuant to the 2016 EMS Agreement. Therefore, should PNG be successful in finding a means of restoring its access to the Sumas market, PNG respectfully submits that any Optimization Value generated as a result be subject to a New Sharing Arrangement of a form similar to what the Commission had approved for the 12 months ending April 30, 2017.

Table 1 presents PNG's proposed Benchmarks for 2017/2018. For the reason presented above, the Benchmark for Optimization Value generated by its T-South capacity during the period when WF Service is in effect is set to zero. PNG does not expect to be able to influence the generation of Optimization Value from its T-South capacity during the non-winter months and therefore PNG does not propose to establish a Benchmark for Optimization Value generated during this period. For the same reason, PNG is not proposing Benchmarks for Optimization Value generated by its storage and T-North transportation assets. PNG may, in subsequent years, determine that additional Benchmarks related to all of its S&T assets are justified, and PNG respectfully reserves the right to apply for approval of sharing arrangements in future periods that include a sharing of Optimization Value generated by all of its S&T assets.

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<sup>3</sup> Appendix A to Order E-18-16, pp. 2-3

Table 1 New Sharing Arrangement – 2017/2018 Benchmark

Sharing Arrangement Benchmark for 2017/18	
Storage Benchmark (2017/18)	Not applicable
T-North Benchmark (2017/18)	Not applicable
T-South Benchmark (May - Oct 2017, April 2018)	Not applicable
T-South Benchmark (Nov 2017 - Mar 2018)	\$ -
<b>Total of Benchmarks</b>	\$ -

PNG proposes a New Sharing Arrangement that has a structure consistent with that approved by the Commission by way of Order E-18-16 (Table 2). PNG respectfully submits that the proposed New Sharing Arrangement is, by design, simple in structure and nature, modest in amount and, as mentioned, consistent with the previously approved Sharing Arrangement.

Table 2 New Sharing Arrangement Mechanism

	Sharing Arrangement (12 mos ending April 30, 2018)	
	PNG Sales Customers	PNG Shareholder
Annual Fixed Charge paid to PNG	100%	nil
PNG Share of Annual Optimization Value Above 2017 Benchmark	90%	10%

### **New Sharing Arrangement Complies with Guiding Principles**

In its Reasons for Decision on Order G-26-11, the Commission identified Guiding Principles as those that were to guide the development of an “enhanced incentive program” for FEI.<sup>4</sup> PNG views the Guiding Principles as sufficiently broad so as to be applicable regardless of the complexity of sharing programs put before the Commission.

PNG submits that its proposed New Sharing Arrangement for the period from May 1, 2017 to April 30, 2018 meets all of the Guiding Principles:

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<sup>4</sup> Commission Order G-26-11, Appendix A: Reasons for Decision, p. 11

Table 3 Applicability of Guiding Principles to New Sharing Arrangement

Guiding Principle	New Sharing Arrangement
1. Must demonstratively deliver value to ratepayers and reward ongoing innovation and true value added over and above what is reasonably expected in the normal stewardship of business.	Shares value with ratepayers, only for that portion of Optimization Value that potentially can be influenced by PNG directly.
2. Must not put the prudently planned gas supply portfolio at risk nor promote a departure from prudent gas supply management.	No change to supply portfolio risk or any departures from historic gas supply management practices.
3. Should fairly and appropriately align ratepayer and shareholder interests.	Potential for providing a modest reward to PNG's shareholder for seeking innovative arrangements that address the changing circumstances on T-South during the winter months.
4. There should not be an upper limit on utility potential to earn an incentive but there must be a test of reasonableness and the amount earned must be justified.	No upper limit on utility potential; capped only by market conditions.
5. Should apply to all mitigation activities that use commodity supply resources that represent a cost and risk to ratepayers.	Applies to mitigation activities related to PNG's firm T-South transportation capacity.
6. Should reward the utility for its innovation rather than for opportunities that arise from events that impact the industry in general.	Applies only to a portion of the Optimization Value related that potentially can be influenced by PNG directly.
7. Incremental administrative costs must be considered and charged against the benefits of the plan.	Negligible incremental administrative costs.
8. The incentive payment should be the smallest amount required to obtain the desired core customer benefit.	Potential for shareholder incentive is considered a modest reward for seeking innovative arrangements that benefit customers.

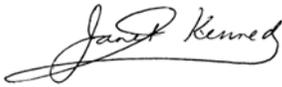
## REQUEST FOR COMMISSION APPROVAL

PNG respectfully requests Commission approval of the proposed New Sharing Arrangement pursuant to section 63 of the UCA. PNG further submits that its proposed New Sharing Arrangement between PNG's customers and PNG's shareholder is consistent with the requirements of section 60(1)(b)(iii) of the UCA in so far as the New Sharing Arrangement impacts PNG's commodity rates. PNG submits that the proposed New Sharing Arrangement passes the full benefit of the Fixed Charge received from Tenaska through to its sales customers. Furthermore, the sharing of some of the Optimization Value provides for a

modest reward to PNG's shareholder for its efforts to enhance the value of the 2016 EMS Agreement for the primary benefit of its sales customers.

Please direct any questions respecting this letter to my attention.

Yours truly,

A handwritten signature in cursive script that reads "J.P. Kennedy". The signature is written in black ink and is positioned above the printed name.

J.P. Kennedy