



October 5, 2017

Sent via eFile/email

<p>PNG NEW SHARING ARRANGEMENT EXHIBIT A-1</p>
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TO: Registered Interveners in the Pacific Northern Gas Ltd. 2016–2017 Revenue Requirements Application PNG-West Division and the Pacific Northern Gas (N.E.) Ltd. 2016–2017 Revenue Requirements Applications Fort St. John/Dawson Creek Division and Tumbler Ridge Division

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

The British Columbia Utilities Commission (Commission) is seeking comments from stakeholders regarding the Pacific Northern Gas Ltd. (PNG) application (Application) for approval of a new sharing arrangement (Sharing Arrangement). Optimal utilization of PNG’s storage and transportation assets generates revenue for the utility (Optimization Value), which mitigates PNG’s gas portfolio costs and flows through to PNG’s sales customers.

Under Order E-18-16, PNG had a Sharing Arrangement with guiding principles that rewarded PNG’s shareholders for delivering value to ratepayers, and for innovation and true value added over and above what is reasonably expected in the normal stewardship of PNG’s business. Further, the Sharing Arrangement should fairly and appropriately align ratepayer and shareholder interests and it should optimize the desired benefit for ratepayers. The Sharing Arrangement approved under E-18-16 ended on April 30, 2017.

In the Application, PNG submits that it is evaluating a strategy in the transportation market to increase Optimization Value. Under a new Sharing Arrangement, to reward PNG’s strategic efforts, PNG applies for approval to pass 90 percent of PNG’s portion of the Optimization Value that exceeds a performance benchmark onto PNG’s sales customers, with the remaining 10 percent accruing to PNG’s shareholder. The Application and related information is available on the Commission’s website under Current Proceedings.¹

Recognizing that the proposed Sharing Arrangement could have benefit and cost implications to PNG’s sales customers, the Commission is inviting stakeholder comments on the Application. **Any letters of comment from stakeholders are to be provided to the Commission by Thursday, October 19, 2017.**

Context

PNG contracts with a third party, Tenaska Marketing Canada (Tenaska), for its energy management services (EMS). Tenaska is responsible for PNG’s (i) gas supply planning and resource selection analysis; (ii) gas supply contract negotiation and administration; (iii) daily energy management services; and (iv) monitoring and reporting on credit, hedging positions and gas prices.

On September 2, 2016, by Order E-18-16, the Commission accepted a five year EMS Agreement between PNG and Tenaska dated May 1, 2016 (2016 EMS Agreement). Under the 2016 EMS Agreement, Tenaska pays PNG a

¹PNG New Sharing Arrangement for the Period May 1, 2017 to April 30, 2018 (October 2017) retrieved from: <http://www.bcuc.com/ApplicationView.aspx?ApplicationId=601>

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. The 2016 EMS Agreement was kept confidential due to its commercially sensitive nature.

By Order E-18-16, the Commission also approved an arrangement to share a percentage of PNG's portion of the Optimization Value with PNG's shareholder but only for the first year of the 2016 EMS Agreement from May 1, 2016 to April 30, 2017. The Commission approved the original Sharing Arrangement considering the one-time nature of PNG's actions to deliver incremental value to ratepayers with the 2016 EMS Agreement when compared to the previous agreement. However, 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, because Tenaska conducts the day-to-day mitigation activity rather than PNG itself. Therefore, the Commission denied PNG's request for the Sharing Arrangement term to extend beyond April 30, 2017. PNG was directed to file a report with the Commission by July 1st of each year on the Optimization Value.²

Application

On June 30, 2017, on a confidential basis, PNG submitted a report on the Optimization Value in compliance with Order E-18-16 and an Application to establish a new Sharing Arrangement for the period from May 1, 2017 to April 30, 2018. PNG submitted the Optimization Value in confidence because it contains commercially sensitive information about the 2016 EMS Agreement. On July 21, 2017, PNG filed the Application portion separately on a non-confidential basis and submitted that it was not necessary to keep the general concepts of its Application confidential.

In the Application, PNG states that it is evaluating ways of addressing the impact of the Enbridge (formerly Spectra Energy) Winter Firm Service (WF Service) on interruptible downstream diversions and restoring the ability of Tenaska to generate Optimization Value related to PNG's T-South capacity. PNG submits that its efforts in this regard fall outside of the scope of services provided by Tenaska pursuant to the 2016 EMS Agreement.

On September 5, 2017, PNG filed additional information in response to Commission staff questions on the Application.

Comments sought

Recognizing that the proposed Sharing Arrangement could have benefit and cost implications to PNG's sales customers, the Commission is inviting stakeholders to submit letters of comment on the following:

1. Should the Commission approve or deny PNG's proposed Sharing Arrangement? In your submissions, please provide the basis of your views, considering the guiding principles outlined in Appendix A of Order E-18-16 and the following:
 - a. PNG's rationale regarding its WF Service efforts as a basis to share PNG's portion of the Optimization Value with PNG's shareholder, rather than giving the full amount to PNG's sales customers;
 - b. the ways in which the Optimization Value of T-South transportation can be attributed to PNG's additional efforts versus Tenaska's normal scope of services. For example, whether the proposed performance benchmark is appropriate;

² PNG Application for Acceptance of the Energy Management Services Agreement with Tenaska Marketing Canada Order E-18-16 with Reasons for Decision (October 2017) retrieved from: <http://www.ordersdecisions.bcuc.com/bcuc/orders/en/item/179939/index.do?r=AAAAAQAHZS0xOC0xNgE>

- c. whether the 90/10 allocation between PNG's sales customers and PNG's shareholder is reasonable; and
 - d. any other factors that may be relevant to the Commission's consideration of the Application.
2. If parties view that additional information is required before forming a position, please state the nature of your questions and provide comments on any regulatory process.

Any letters of comment from stakeholders are to be provided to the Commission by Thursday, October 19, 2017. PNG may provide its reply submission by Thursday, October 26, 2017. Thereafter, the Commission will consider the submissions received before making a determination on the Application or establishing any further process.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

LC/ad
Enclosure

cc: Pacific Northern Gas Ltd.
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