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April 16, 2020

Sent via email/eFile

PNG INDUSTRIAL FIRM TRANSPORTATION
RS 40 EXHIBIT A-3

Mr. Gordon Doyle
Vice President, Regulatory Affairs and Gas Supply
Pacific Northern Gas Ltd.
750 – 888 Dunsmuir Street
Vancouver, BC V6C 3K4
gdoyle@png.ca

Re: Pacific Northern Gas Ltd. Industrial Firm Transportation Rate Schedule 40 Application – Information Request No.1

Dear Mr. Doyle:

Further to your March 20, 2020 filing, please find enclosed British Columbia Utilities Commission Information Request No. 1. In accordance with the regulatory timetable established by Order G-78-20, please file your responses on or before Monday, May 4, 2020.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/aci
Enclosure

cc: regulatory@png.ca
votto@png.ca



Pacific Northern Gas Ltd.
Industrial Firm Transportation Rate Schedule 40 Application

INFORMATION REQUEST NO. 1 TO PACIFIC NORTHERN GAS LTD.

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A. APPLICATION OVERVIEW

- 1.0 Reference: Application Overview
Industrial Firm Transportation Rate Schedule 40 Application (Application),
Exhibit B-1, pp. 2, 5
Reactivated Capacity Allocation Process**

On page 2 of the Application, Pacific Northern Gas Ltd. (PNG) states:

PNG anticipates conducting an open season through its proposed Reactivated Capacity Allocation Process (RECAP) in the near future. PNG may receive sufficient bids resulting in the full utilization of its transmission system. As PNG has approximately eight industrial customers currently being served under the interruptible sales and transportation service tariff, PNG expects that some of these customers may wish to firm up transportation service for their operations as interruptible service would become subject to more interruptions if PNG’s system is fully contracted.

Further on page 5 of the Application, PNG states:

The proposed timeline will provide smaller industrial customers with an opportunity to firm up their transportation service requirements prior to the potential full allocation of presently unutilized capacity on PNG’s transmission system anticipated upon completion of the RECAP in early 2020.

- 1.1 Please discuss whether PNG still anticipates completing the RECAP in early 2020. If not, please identify the new anticipated completion date and briefly explain the reasons for the delay.
- 1.2 Please discuss whether the timing of the RECAP has any impact on the timing of when smaller industrial customers can firm up their transportation service requirements.
- 1.3 Please provide the earliest date that industrial customers can sign up for the proposed rate schedule (RS) 40 once it receives British Columbia Utilities Commission (BCUC) approval. As part of the response, please discuss whether there is a deadline to sign up for the proposed RS 40.

- 1.4 Please discuss whether the potential volume firmed up by industrial customers currently served under the interruptible sales and transportations service tariff could negatively impact the RECAP or the capacity available to customers eligible for Rate Schedule 80.

B. NEW INDUSTRIAL FIRM TRANSPORTATION RATE (RATE SCHEDULE 40)

- 2.0 Reference: New Industrial Firm Transportation Rate (Rate Schedule 40)
Exhibit B-1, p. 6; PNG Application regarding Process for Allocation of Reactivated Capacity and Approval of Large Volume Industrial Transportation Rate Proceeding (RECAP Proceeding), Exhibit B-4, BCUC Information Request (IR) 17.1
Industrial transportation service tariff**

On page 6 of the Application, PNG states:

PNG does not have an existing common industrial transportation service tariff for industrial customers since, historically, industrial transportation customers have negotiated different rates with PNG under their respective TSAs.

- 2.1 Please confirm, or explain otherwise, that the rate(s) currently under the interruptible sales and transportation service tariff are lower than the rate proposed under TS 40.
 - 2.1.1 If not confirmed, please provide the rationale for proposing a rate for firm service that is lower than a rate for interruptible service.

In response to BCUC IR 17.1 in the RECAP Proceeding, PNG stated:

For administrative simplicity and consistency among customers, it would be PNG's long term goal to have a single set of GTCs [general terms and conditions] apply to all industrial transportation service customers, not just those taking service under RS 80. However, PNG's current large industrial transportation contracts have been individually negotiated with each customer and these contracts embody the GTCs applicable to that customer. PNG does not have any contractual right to unilaterally impose new GTCs under these agreements and, therefore, there will be no immediate change to the GTCs that apply to existing customers. For PNG's small industrial interruptible transportation customers, PNG has an approved single set of GTCs which are incorporated by reference into each small industrial interruptible transportation contract.

Upon approval of the GTCs for RS 80 service, PNG suggests that it should approach its existing larger industrial transportation service customers to see if they would agree to amend their contracts and adopt the RS 80 GTCs. However, in PNG's experience, some customers would be unwilling to amend their contracts. PNG would also undertake to review the GTCs applicable to small industrial interruptible transportation customers to see if those could be consolidated with the GTCs for RS 80 service without material adverse impact on PNG or its customers.

- 2.2 Please discuss PNG's progress with consolidating the GTCs applicable to small industrial interruptible transportation customers with the GTCs for RS 80.
- 2.3 Please discuss whether PNG considered consolidating the GTCs for all of its industrial transportation service customers, aside from PNG's current large industrial transportation contracts, but including the proposed GTCs for RS 40.
 - 2.3.1 If yes, please discuss why PNG did not consolidate the proposed GTCs for RS 40 with one of its existing GTCs for industrial transportation service customers.

**3.0 Reference: Firm Industrial Transportation Service (RS 40)
Exhibit B-1, p. 6; Appendix B, C
Rate**

On page 6 of the Application, PNG states:

[I]t is appropriate that the same delivery charges apply to both industrial firm sales and industrial firm transportation service customers as the gas delivery service offered to both types of customers is the same.

On RS 4, under “Available”, it states: “[t]his Rate Schedule is available in all territory served by Pacific Northern Gas, provided adequate capacity exists in Pacific Northern Gas Systems.” [emphasis added]

3.1 Please explain why the provision “provided adequate capacity exists...” is not needed on RS 40 given that both rate schedules are offering the same gas delivery service.

The proposed RS 40 shows the “Firm Demand Charge” of \$3.714/GJ and the “Company Use Charge” of \$0.093/GJ. The sum of these two charges equals the “Delivery Charge” of \$3.807/GJ on RS 4.

3.2 Please explain why the delivery charge is separated into two charges on RS 40, but not on RS 4.

On RS 4, it states: “[t]he minimum charge per Month will be the aggregate of the Basic Charge and the Franchise Fee Charge.”

3.3 Please confirm, or explain otherwise, that the minimum charge per month for RS 40 is also the aggregate of the Basic Monthly Charge and the Franchise Fee Charge. If confirmed, please discuss whether this provision should be added to RS 40, consistent with RS 4.

C. GENERAL TERMS AND CONDITIONS

**4.0 Reference: General Terms and Conditions
Exhibit B-1, p. 8; Appendix E, p. 2
Company Use Gas**

On page 8 of the Application, PNG states:

PNG has made use of the GTCs incorporated into the draft RS 80 TSA as the basis for the General Terms and Conditions – Industrial Transportation Service for the proposed Rate Schedule 40 tariff...

PNG has made a few modifications to the previously approved GTCs. Many of the changes have been made to provide clarity or are administrative in nature. PNG proposes that RS 40 customers pay the Company Use Charge rather than providing a share of system gas in-kind. This will simplify administration of gas nominations and balancing for the RS 40 customers and is appropriate given the smaller size of the RS 40 customers relative to RS 80 customers. It is also consistent with the structure of the RS 4 sales rate structure.

4.1 Please identify and discuss the key differences between the GTCs applicable to RS 4, the GTCs applicable to small industrial interruptible transportation customers and the proposed GTCs for RS 40. As part of the response, please provide the rationale for the differences.

4.2 Please confirm, or explain otherwise, that the GTCs applicable to RS 4 and the GTCs applicable to small industrial interruptible transportation customers require customers to pay the “Company Use Charge”, rather than providing a share of system gas in-kind, consistent with RS 40.

4.2.1 If not confirmed, please provide the rationale for the inconsistency.

Article 1 of the blacklined GTCs states:

~~“System Company Use Gas” shall mean the quantity of Gas required by Transporter to operate the Pipeline, including compressor fuel Gas, line heater and compressor station heating Gas and unaccounted for Gas losses or gains;~~

On page 8 of the Application, PNG provides a summary of the key changes to the GTCs from the GTCs for RS 80, which includes the following:

Article 1 – Definition of “Company Use Charge” has been added to reflect the proposed toll.

Article 1 – Definition of “System Gas” and “System Gas Percentage” have been removed as they are not applicable.

Article 3.5 – Section has been removed as System Gas is not applicable

4.3 Please explain the differences between Company Use Gas and System Gas.

4.4 Please discuss why it was necessary to change the term “System Gas” to “Company Use Gas” given that the definition of the terms appear to be identical. As part of the response, please explain what the implications would be, if any, of using the term “System Gas” in the toll for RS 40.

**5.0 Reference: General Terms and Conditions
Exhibit B-1, pp. 8–9; Appendix E, pp. 3–4, 17–18
Credit Support**

Page 8 of the Application states:

Article 1 – Definition of “Credit Support” has been simplified.

Article 1 – Definition of “Minimum Acceptable Rating” has been changed to be consistent with the provisions in PNG’s most recent approved RS 4 contract

Article 1 of the blacklined GTCs states:

~~“Credit Support” means: (i) an Approved Letter of Credit for an amount equal to the sum of three (3) months of Firm Demand Charges; or (ii) one or more Guarantees, as determined by Buyer in its sole discretion, acting reasonably;~~

~~“Minimum Acceptable Rating” shall mean, with respect to an entity, on any date on determination, such entity’s issuer rating of: (i) “BBB-” or better by Standard & Poor’s Financial Services LLC; (ii) “Baa3” or better by Moody’s Investors Service, Inc.; (iii) “BBB (low)” or better by DBRS Limited; or (iv) other equivalent rating(s) from a recognized rating agency or agencies acceptable to Seller. In the event of a split rating among any of the foregoing, the highest rating shall prevail. “Minimum Acceptable Rating” shall mean at least two of the following: (i) “BBB-” or better by Standard & Poor’s Financial Services LLC; (ii) “Baa3” or better by Moody’s Investors Service, Inc.; (iii) “BBB(low)” or better by DBRS Limited; or (iv) other equivalent rating(s) from a recognized rating agency or agencies acceptable to Transporter. In cases where ratings of the aforementioned rating agencies are different, the lowest credit rating shall be used to establish the applicable rating in respect of any entity. In the event none of the aforementioned rating agencies publish relevant ratings, Transporter, acting in its sole discretion, may determine whether the applicable entity would meet the relevant ratings if such rating agencies were to publish such ratings;~~

5.1 Please provide the rationale for simplifying the credit support definition in the GTCs and explain how this new definition was determined.

- 5.2 Please discuss whether a simplified definition of “Credit Support” and simplified credit requirements would increase the credit risk exposure to PNG’s existing ratepayers.
- 5.2.1 If yes, please discuss how PNG will ensure that existing ratepayers are protected from any increased credit risk exposure.
- 5.3 Please explain why the definition of “Minimum Acceptable Rating” should be consistent with the provisions of PNG’s most recently approved RS 4 contract.
- 5.4 At a high-level, please discuss whether there are any differences in customer profile between those taking service from RS 4 compared to those taking service from RS 40.
- 5.5 Please explain the risks associated with amending the definition to “[i]n the event of a split ratings among any of the foregoing, the highest rating shall prevail” from “[i]n cases where ratings of the aforementioned rating agencies are different, the lowest credit rating shall be used.”
- 5.6 Please discuss if there are any risks associated with removing the sentence, “[i]n the event none of the aforementioned rating agencies publish relevant ratings, Transporter, acting in its sole discretion, may determine whether the applicable entity would meet the relevant ratings if such rating agencies were to publish such ratings.”
- 5.7 Please confirm, or explain otherwise, that the definitions of “Credit Support” and “Minimum Acceptable Rating” and the simplified credit requirements proposed in RS 40 are consistent with PNG’s interruptible sales and transportation service tariff for industrial customers.
- 5.7.1 If not confirmed, please identify and provide the rationale for the inconsistencies.

Further on pages 8 and 9 of the Application, it states:

Article 17.1 – Has been modified to simplify the credit requirements and to make them consistent with the credit requirement provisions in PNG’s most recent approved RS 4 contract.

Articles 17.2 to 17.8 – Have been removed as the credit requirements have been simplified and reflected under Article 17.1.

Article 17.1 of the GTCs states:

At any time during the term of this Agreement, Seller may require Buyer to provide financial information reasonably needed to ascertain Buyer’s ability to purchase Gas under this Agreement or to meet any other obligations which may accrue, and Buyer shall provide the requested information within five (5) business days of such request. If Seller has reasonable grounds for insecurity regarding the payment, performance or enforceability of any obligation of Buyer under this Agreement, Seller may demand Credit Support, and Buyer shall provide such Credit Support by the end of the fifth (5th) business day after the demand is received. Seller may, until such Credit Support is provided, withhold any amounts owed to Buyer under this Agreement (whether or not yet due) and setoff against such withheld amounts any amounts owed to Seller under this Agreement (whether or not yet due). For clarity, if the provider of any Approved Letter of Credit or Guarantee for Credit Support ceases to meet the applicable requirements therefor, Seller may demand new or replacement Credit Support, as the case may be.

- 5.8 Please explain the rationale for simplifying and modifying the credit requirements in the GTCs to be consistent with RS4 contract.
- 5.9 Please explain what is considered “financial information reasonably needed to ascertain Buyer’s

ability to purchase Gas...” If possible, please provide examples of this type of financial information.

5.9.1 Please discuss whether there are any risks associated with not defining the “financial information” mentioned in Article 17.1 and removing Article 17.6, which stipulates the form and timing of the Shipper’s financial information, from the GTCs.

D. TRANSPORTATION SERVICE AGREEMENT

6.0 Reference: **Transportation Service Agreement Exhibit B-1, Appendix F, Section 1.1, p. 2; Schedules A, B Definitions**

The draft form TSA defines, “General Terms and Conditions” to mean “Transporter’s General Terms and Conditions – Industrial Transportation Service, as filed with or otherwise approved by the BCUC and in effect from time and initially to be in the form of the General Terms and Conditions attached hereto as Schedule “C”. [emphasis added]

6.1 Please clarify if the definition included in the preamble should be amended as follows: “General Terms and Conditions” means Transporter’s General Terms and Conditions – Industrial Transportation Service, as filed with or otherwise approved by the BCUC and in effect from time to time and initially to be in the form of the General Terms and Conditions attached hereto as Schedule “C”.

The draft form TSA defines “Shipper’s Contracted Capacity” to mean “the volume of Gas, set out in Schedule “A”, that Transporter has agreed to deliver on the Pipeline on any Day on a firm basis and for which Shipper has agreed to pay the Demand Charge in accordance with the terms of this Agreement.”

Schedule A of the TSA shows the “Shippers Contracted Capacity” as “[.] 10³m³”.

6.2 Please discuss whether there are any minimum or maximum capacity commitments or restrictions to obtain service under RS 40. If applicable, please explain why these commitments or restrictions are necessary and how they were determined.

Schedule B of the TSA includes an “Interruptible Service Charge” for “Interruptible Sales Above Shipper’s Contracted Capacity.”

6.3 Please confirm, or explain otherwise, that “Interruptible Sales Above Shipper’s Contracted Capacity” would be provided under PNG’s interruptible sales and transportation service tariff.

6.3.1 If not confirmed, please provide the “Interruptible Service Charge” and how this rate was determined.

6.3.2 If not confirmed, please clarify whether the “Interruptible Service Charge” should be included in RS 40.

On pages 1 and 2 of the blacklined TSA, it states:

“Commencement Date” means the later of: (i) the first day after PNG has completed ~~the~~ Reactivation Project, any New Facilities as required to provide firm transportation service for the Shipper Contracted Capacity; or (ii) the Shipper Service Request Date;

“New Facilities” means additions and/or modifications to Transporter’s existing gas transportation facilities as required to provide firm transportation service to the Delivery Point, as approved by the BCUC;

“Permits” means all licences, permits, approvals and authorizations granted or issued by any Authorities as are necessary or may be desirable to construct, own, commission, and operate the Reactivation Project required New Facilities, and perform the Service;

6.1 Please clarify whether PNG requires or plans for “new facilities” in order to offer the proposed firm transportation services.

**7.0 Reference: Transportation Service Agreement
Exhibit B-1, Appendix G, p. 7
Tolls**

Article 5.1 of the TSA states:

Shipper Responsible for Basic Monthly Charge - Shipper shall pay the Basic Monthly Charge from the Commencement Date and shall continue to pay such Basic Monthly Charge during the Primary Term, including any extension to the Primary Term effected pursuant to Section 4.2, in accordance with the Toll Schedule and the General Terms and Conditions. The applicable Basic Monthly Charge will be the then current basic monthly charge for firm service under Transporter’s Rate 40 as filed with and approved by the BCUC from time-to-time. Notwithstanding anything to the contrary herein, this obligation of Shipper to pay the Basic Monthly Charge shall not be abated, removed, limited, or otherwise reduced under any circumstances, including events of Force Majeure.

7.1 Please confirm, or explain otherwise, that the obligation for the Basic Monthly Charge in events of *force majeure* is consistent with all of PNG’s rate schedules that have a basic monthly charge.

7.1.1 If not confirmed, please explain the rationale for charging the Basic Monthly Charge in events of *force majeure*.

**8.0 Reference: Transportation Service Agreement
Exhibit B-1, Appendix F, Sections 1.1, 4.1, pp. 2, 5
Term of Agreement & Conditions Precedent**

Section 4.1 of the draft form of TSA states:

The term of this Agreement shall be from the Effective Date until the end of the Primary Term, plus any extension effected pursuant to Section 4.2, unless this Agreement is terminated earlier in accordance with Section 4.5 or the General Terms and Conditions.

Section 1.1 defines “Primary Term” to mean:

[T]he period of time which commences on the Effective Date and ends on the anniversary of the Commencement Date following the number of years specified as the Initial Delivery Term on Schedule “A”.

8.1 Please clarify whether there is a minimum term or period of time that a customer receiving service under RS 40 must commit to.

8.1.1 If applicable, please explain why a minimum term or commitment is necessary.

8.2 Under a scenario where a customer commits to receiving firm transportation services under RS 40 prior to PNG’s completion of its open season through its proposed RECAP, please explain whether this customer would have the option to subsequently return to receiving service under

the interruptible sales and transportation service tariff without penalty.

E. TEMPORARY USE OF ICDDA FOR INDUSTRIAL CUSTOMERS

**9.0 Reference: Temporary Use of ICDDA for Industrial Customers
Exhibit B-1, p. 12
Industrial Customers Deliveries Deferral Account**

On page 12 of the Application, PNG states:

In this Application, PNG is also seeking approval to record the delivery margin impact due to rate variances for any existing industrial customers on interruptible service who choose to sign up for firm service under the proposed new RS 40 during 2020 and 2021 to the Industrial Customers Deliveries Deferral Account (ICDDA).

- 9.1 Please provide the forecast transportation volume, the rate and the expected revenue from each of PNG's approximately eight existing industrial customers currently served under the interruptible sales and transportation service tariff for 2020 and 2021, under the scenario that none of these customers switch to receiving service under RS 40.
- 9.2 Please discuss whether PNG expects industrial customers who choose to switch from the interruptible sales and transportation service tariff will maintain the same transportation volume under the proposed RS 40. If not, please discuss the expected differences.
- 9.3 Under the scenario that all of PNG's existing industrial customers currently served under the interruptible sales and transportation service rate takes service under the proposed new RS 40, what would be the anticipated delivery margin impact due to the rate differentials for 2020 and 2021 that would be recorded to the ICDDA? Please provide any assumptions used. Please ensure that the response to this IR reconciles with the responses to IRs 9.1 and 9.2, where applicable.
- 9.4 If the proposed new rate schedule is approved, please discuss whether PNG plans to separately track the amount deferred to the ICDDA that are related to the delivery margin impact due to rate variances for any existing industrial customers on interruptible service who choose to sign up for firm service under the proposed new RS 40 during 2020 and 2021. Why or why not?
- 9.5 Please discuss PNG's consultation process with the existing eight industrial customers currently served under the interruptible sales and transportation service. What is the level of interest or demand for a firm service transportation service?
 - 9.5.1 If no consultation was conducted, please explain why not.
- 9.6 Please discuss whether PNG anticipates any new customers to sign up for firm service under the proposed new RS 40 during 2020 and 2021.
- 9.7 Please confirm that any delivery margin impact from new customers who sign up for firm service under the proposed new RS 40 during 2020 and 2021 will also be recorded to the ICDDA. If not, please explain why not.