

**NATIONAL ENERGY BOARD**  
**HEARING ORDER RHW-001-2016**

**APPLICATION FOR APPROVAL OF T-SOUTH WINTER FIRM SERVICE**

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**FINAL ARGUMENT OF WESTCOAST ENERGY INC.,  
DOING BUSINESS AS SPECTRA ENERGY TRANSMISSION (WESTCOAST)**

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**September 16, 2016**

## Introduction

1. Following is the Final Argument of Westcoast regarding its May 11, 2016 Application pursuant to Part IV of the *National Energy Board Act* for approval to implement Winter Firm Service (WF Service) in Zone 4 (T-South) of the Westcoast pipeline system.
2. In the Application, Westcoast is seeking approval:
  - (a) to provide WF Service from Compressor Station No. 2 (CS No. 2) to the Huntingdon Delivery Area (HDA) on the T-South system;
  - (b) of the proposed tolling methodology for WF Service set out in paragraphs 24 and 25 of the Application;
  - (c) of the tariff provisions for WF Service set out in Appendix B to the Application;
  - (d) of the proposed adjustment to the tolling methodology for authorized overrun service (AOS) and interruptible service (IT) from CS No. 2 to the HDA set out in paragraph 27 of the Application; and
  - (e) of the creation of a cost of service deferral account to record any third party costs incurred by Westcoast in connection with the implementation of WF Service.
3. Approval of the Application will enable Westcoast to make available to the market an additional 160 MMcf/d of pipeline capacity from CS No. 2 to the HDA on a long-term firm basis in the winter months at a time when all available year-round capacity from CS No. 2 to the HDA is fully contracted. Westcoast, and a majority of the members of Westcoast's Toll and Tariff Task Force (TTTF), believe that this high value T-South capacity should be made available to the market on a long-term firm basis as proposed in the Application, rather than on a short-term or interruptible basis. Making this capacity available on a long-term firm basis will optimize utilization of existing T-South infrastructure without the need for any

facility upgrades or expansions, and enhance the long term competitiveness of the T-South system to the benefit of shippers, gas producers, end-users and Westcoast.

**WF Service will Utilize Available Winter Capacity on the T-South System**

4. The year-round design capacity of the T-South system from CS No. 2 and Kingsvale to the HDA is 1,542 MMcf/d. However, due to maintenance requirements in the summer months, the amount of year-round capacity available for contracting on a firm basis is limited to 1,450 MMcf/d, the level at which Westcoast is able to provide reliable year-round firm service.<sup>1</sup>
5. During the latter part of 2014, Westcoast experienced a significant increase in firm service contracts on the T-South system. The demand for firm service has continued, and the available year-round capacity of 1,450 MMcf/d remains fully contracted.<sup>2</sup>
6. However, due to seasonal differences in ambient temperatures, there is approximately 160 MMcf/d of additional firm capacity available from CS No. 2 to the HDA in the winter months (November to March) compared to the summer months (April to October).<sup>3</sup> As with other daily capacity that is not utilized by firm service shippers, this additional winter capacity is currently made available by Westcoast to shippers on an interruptible basis, either for downstream diversions from the PNG and Inland delivery points to the HDA by shippers

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<sup>1</sup> Application, para. 11 and Westcoast response to BP Canada IRs 1.1(a) and (b).

<sup>2</sup> Application, paras. 11 and 17.

<sup>3</sup> Application, para. 12 and Westcoast response to BP Canada IR 1.1(b). Consequently, the winter design capacity from CS No. 2 and Kingsvale to the HDA is 1,702 MMcf/d (1,542 MMcf/d + 160 MMcf/d); Westcoast response to Fortis IR 1.1(a), BP Canada IR 1.1(a) and Powerex IR 1.2 (f).

who hold firm service from CS No. 2 to those upstream locations, or as AOS or IT from CS No. 2 to the HDA.

#### **WF Service is the Result of an Extensive Stakeholder Consultation Process**

7. In the fall of 2014, in response to the increase in firm service contracting and requests for additional T-South service to meet higher winter loads, Westcoast initiated discussions with a sub-committee of the TTTF (the T-South Transportation Services Sub-Committee) regarding a potential winter only service offering that would utilize the additional winter capacity between CS No. 2 and the HDA. The sub-committee includes 21 members who broadly represent virtually all parties who use or depend on the T-South system, including shippers, gas producers, marketers and end-users.<sup>4</sup>
8. Between October 2014 and February 2016, Westcoast engaged in numerous meetings and discussions with the sub-committee. Throughout these discussions, the attributes of the proposed winter only service offering were considered and developed in keeping with the following stated objectives:<sup>5</sup>
  - (a) To provide long-term stability and certainty of tolls and service offerings.
  - (b) To maximize long-term firm contracting of available pipeline capacity.
  - (c) To provide open access to all interested parties.
  - (d) To design a simple service that could be integrated with Westcoast's existing suite of services.
  - (e) To implement the service in a timely fashion.

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<sup>4</sup> Application, para. 13.

<sup>5</sup> Application, para. 14.

- (f) To enhance the viability and competitiveness of the western Canadian natural gas market.

9. This extensive stakeholder engagement process resulted in the WF Service proposal that is the subject of the Application. The proposal, described in TTTF Issue Resolution Sheet (IRS) No. 2015-02, was voted on by the TTTF at a meeting held in February, 2016. While the TTTF vote on IRS No. 2015-02 resulted in an “opposed resolution” under the TTTF voting rules, this means that a majority of the TTTF members who voted at the meeting were in fact in favour of the resolution with one or more members indicating that they may actively oppose the resolution and/or propose an alternative resolution to the Board.<sup>6</sup>
10. Since the filing of the Application, the Canadian Association of Petroleum Producers,<sup>7</sup> the Export Users Group (comprised of Cascade Natural Gas Corporation, Northwest Natural Gas Company and Puget Sound Energy, Inc., each of which is a natural gas distribution utility in the U.S. Pacific Northwest),<sup>8</sup> and AltaGas Ltd.<sup>9</sup> have each expressed support for the Application. Tenaska Gas Marketing Canada has indicated that it is not opposed to the WF Service proposal as applied-for by Westcoast, provided the Application is approved without modification.<sup>10</sup> While Fortis BC Energy Inc. (Fortis), the largest shipper on the T-South system, opposes the proposed conversion and reversion provisions that form part of the WF Service proposal, Fortis nonetheless “supports the effort to make all contractible transportation capacity on Westcoast’s system available to shippers to contract for on a

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<sup>6</sup> Application, para. 7.

<sup>7</sup> CAPP comment letter dated June 3, 2016.

<sup>8</sup> EUG comment letter dated June 2, 2016.

<sup>9</sup> AltaGas comment letter dated June 1, 2016.

<sup>10</sup> Tenaska Evidence.

firm basis” and “supports the offering of winter seasonal capacity as firm transportation service as it returns existing capacity on the T-South system to firm service”.<sup>11</sup>

11. Consequently, while the Application (or some aspects of the Application) has been opposed by a few parties in this proceeding, the WF Service proposal has the support of key stakeholders and a majority of the members of Westcoast’s TTTF.

#### **WF Service Will Provide Significant System Benefits**

12. WF Service will optimize utilization of the existing T-South infrastructure by allowing firm long-term gas transportation needs (which are greatest during the colder winter months) to be met by existing facilities without the need for any facility upgrades or expansions. Negating the need for facility upgrades or expansions, along with the long-term firm commitments and stable and predictable revenue stream from WF Service, will enhance the long term competitiveness of the T-South system.
13. Peak market demand off the Westcoast system occurs during the winter months, and WF Service will provide holders of the service with the supply certainty they require during this peak period. For those requiring incremental reliable long-term firm service during the winter months, the alternative would be to support a pipeline expansion project by signing up for long-term year-round service, which is a considerably more expensive, less timely and less efficient option than WF Service for all shippers.

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<sup>11</sup> Fortis comment letter dated June 2, 2016 and Evidence, page 1, line 23.

14. Based on the current tolls for service from CS No. 2 to the HDA and the proposed WF Service attributes, WF Service is expected to generate a secure revenue stream of \$12 million annually, with no accompanying incremental facility investments. The annual revenue expected from WF Service will contribute almost 6 percent to the current T-South revenue requirement.<sup>12</sup>
15. Contracting winter capacity as WF Service will result in some decrease in capacity available for interruptible services (i.e., AOS, IT and downstream diversions) in the winter months. This is true anytime the level of firm service on a pipeline system increases. However, since the tolls associated with WF Service are higher than the tolls associated with interruptible services, and since WF Service holders will pay those tolls every day of the winter months, the increase in firm revenue will be greater than any offsetting decrease in revenue from interruptible services.<sup>13</sup>
16. Since interruptible services are billed on a commodity basis, contracting winter capacity on a firm basis as WF Service will provide a more consistent contribution to the T-South cost of service and result in lower and more stable tolls for all shippers. Interruptible services are only paid for and contribute to the cost of service when they are used, and there is no assurance year over year of the extent to which they will be used. A key benefit of WF Service is that it will provide for an ongoing commitment and contribution to the T-South revenue requirement by the holders of the service.

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<sup>12</sup> Application, para. 31.

<sup>13</sup> Application, para. 31; Westcoast response to Powerex IR 1.2(s).

### **Firm Pipeline Capacity Should be Used to Provide Firm Long-Term Service**

17. The fundamental issue raised by the Application is what is the best use of the 160 MMcf/d of firm capacity that is available from CS No. 2 to the HDA in the winter months. This is the same issue considered by the T-South Transportation Services Sub-Committee in developing the WF Service proposal.
18. In Westcoast's submission, firm pipeline capacity should be used to meet firm long-term market needs. If there is a firm long-term market demand for the capacity, then it should be made available to shippers to contract on a firm long-term basis and not be set aside and effectively reserved for interruptible or short term services for those with short term interests or needs. WF Service achieves this objective and will maximize long-term firm contracting of available T-South pipeline capacity. Accordingly, the incremental 160 MMcf/d of available T-South capacity from CS No. 2 to the HDA should be made available to the market for contracting on a long-term firm basis as WF Service as proposed in the Application.
19. BP Canada has proposed that the winter capacity be used to provide Short Term Firm Service (STFS), and not WF Service.<sup>14</sup> However, the proposed WF Service and STFS are different services designed to meet different objectives.<sup>15</sup> WF Service is intended to make use of the firm capacity available on the T-South system in the winter months, and to allow that capacity to be contracted for longer terms. WF Service can meet the needs of those shippers requiring reliable long-term firm service during winter months. All persons will

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<sup>14</sup> BP Canada Evidence, pages 1 to 5.

<sup>15</sup> Westcoast comment letter dated June 9, 2016, page 6.



have the opportunity to bid for WF Service through the open season process and the service will be awarded based on the highest unit economic value of the bids (essentially the longest term of service that is bid), with a minimum term of one year. Securing term commitments on WF Service will provide for a consistent and stable contribution to system costs and therefore lower and more stable tolls over time.

20. Conversely, under Westcoast's tariff STFS is limited in term to periods less than one year and the service does not have renewal rights.<sup>16</sup> As a result, STFS does not provide long-term revenue consistency or certainty. In this respect, STFS is more similar to interruptible service than firm service given that it is not contracted long-term. Also, because it is limited in term to periods of less than one year and is not renewable, unlike WF Service STFS does not provide shippers who have long-term market needs with certainty that their long term needs will be met.
21. Powerex has asserted in its evidence that Westcoast should not be providing WF Service at all because "the Westcoast pipeline cannot support a firm HDA delivery of 1,610 MMcf/d (1,450 MMcf/d of annual firm plus 160 MMcf/d of WF) without frequently curtailing existing shippers' firm service".<sup>17</sup>
22. However, Powerex's assessment of the capacity of the T-South system to provide WF Service in the winter is simply wrong because it is based on gas delivery data at the HDA which includes deliveries from CS No. 2 to the HDA and from Kingsvale to the HDA. WF

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<sup>16</sup> Westcoast response to BP Canada IR 1.3(c), Westcoast's General Terms and Conditions, Article 24 and Section 2.04.

<sup>17</sup> Powerex Evidence, page 1, line 19.

Service will be service from CS No. 2 to the HDA and therefore what is relevant from a capacity perspective is the capacity of the system on the full CS No. 2 to the HDA path.

23. The firm capacity that is contracted from CS No. 2 and Kingsvale to the HDA is 1,450 MMcf/d, which consists of 1,345 MMcf/d from CS No. 2 to the HDA and 105 MMcf/d from Kingsvale to the HDA.<sup>18</sup> Accordingly, contracting 160 MMcf/d of WF Service will increase the firm contracts from CS No. 2 to the HDA to 1,505 MMcf/d during the winter months,<sup>19</sup> not 1,610 MMcf/d as Powerex has assumed in its evidence.<sup>20</sup>
24. Westcoast asked Powerex to calculate the percentage of time that HDA deliveries net of receipts on to the T-South system at Kingsvale were above 1,505 MMcf/d during the three coldest months last winter (December, January and February), when in Powerex's words "the pipeline capacity should be operating at a maximum"<sup>21</sup>, rather than the 1,610 MMcf/d used in Powerex's evidence. Powerex "objected" to responding to Westcoast's question,<sup>22</sup> even though the answer is readily available from the data provided by Westcoast in the attachment to Westcoast's response to Powerex IR 1.2 (i) and (j). The data shows that there were virtually no days in December, January or February last winter when deliveries to the HDA net of receipts at Kingsvale (i.e., deliveries to the HDA that do not include gas deliveries

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<sup>18</sup> Powerex response to Westcoast IR 1.1(a) regarding the 105 MMcf/d of firm service between Kingsvale and Huntingdon. The 105 MMcf/d of firm service between Kingsvale and Huntingdon is provided by Westcoast to Fortis pursuant to a firm service agreement dated April 15, 2002 between Westcoast and Fortis which is referred to at page 20 of the Board's GH-1-2002 Reasons for Decision and in Appendix A to Westcoast's Toll Schedule for Transportation Service – Southern (Westcoast response to BP Canada IR 1.3(a)).

<sup>19</sup> Powerex response to Westcoast IR 1.1(c). With regard to Powerex's response to Westcoast IR 1.1(c), the firm contract volumes shown in the second and third columns of Appendix A to the Application (Illustrative WF Service Contracting Scenario) includes the 105 MMcf/d of firm service from Kingsvale to Huntingdon.

<sup>20</sup> Powerex Evidence, page 5, lines 19 to 22.

<sup>21</sup> Powerex Evidence, pgs 5 and 6, lines 26 and 1, respectively.

<sup>22</sup> Powerex response to Westcoast IR 1.1(g).

on to the T-South system at Kingsvale that are also delivered to the HDA) were less than 1,505 MMcf/d.<sup>23</sup> Accordingly, had WF Service been fully contracted during this peak period last winter there would have been no curtailments of firm service.

25. With regard to Westcoast's ability to meet its total firm delivery obligations for gas transported from both CS No. 2 and Kingsvale to the HDA (currently 1,450 MMcf/d), on no days over the last three winters was the T-South capacity constrained below 1,450 MMcf/d due to operational causes or maintenance. Operating and maintenance decisions take into account existing firm contract levels. For example, while the capacity was constrained below 1,610 MMcf/d (1,450 MMcf/d plus 160 MMcf/d) on some days last winter, the cause was opportunistic maintenance activities undertaken by Westcoast during the lower demand months of November and March with no impact to firm service.<sup>24</sup> If firm contract levels on the T-South system increase in the winter months following the implementation of WF Service, Westcoast will take the higher contract levels into account in scheduling maintenance activities so as not to impact the higher firm contract service level.
26. Powerex's assessment of T-South capacity is also based exclusively on physical delivery volumes rather than authorized nominations. As explained in Westcoast's response to Powerex IR 1.3, on any given day Westcoast authorizes nominations up to the amount

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<sup>23</sup> Deliveries to the HDA net of receipts at Kingsvale on each day are the sum of volumes shown for Terasen Lower Mainland, Enco, Arco, Cascade and Northwest Pipeline (which collectively comprise the "Huntingdon Delivery Area" under Westcoast's General terms and Conditions – Service; Westcoast response to BP Canada IR 1.3(a)) under "Metered Deliveries – November 1, 2015 to March 31, 2016", minus the volume shown for Terasen Kingsvale under "Metered Receipts – November 1, 2015 to March 31, 2016" in the attachment to Westcoast's response to Powerex IR 1.2(i) and (j). On only one day in December, January and February last winter were deliveries to the HDA net of receipts at Kingsvale below 1,505 MMcf/d (that day was December 20, 2015, when the net deliveries to the HDA were 1,504 MMcf/d).

<sup>24</sup> Westcoast response to BP Canada IR 1.1(c).

which it is capable of transporting on the system on that day.<sup>25</sup> For a variety of reasons, including operational requirements, current account imbalances or linepack conditions, the downstream party may physically take less or more gas than what was authorized on that day. Nevertheless, the capacity of the system is properly assessed based on the volumes of gas authorized for delivery by Westcoast, and not reported delivery volumes.

27. Accordingly, there is no merit to the assertion in Powerex's evidence that Westcoast does not have the system capacity to provide WF Service in the winter months or that "WF Service will increase the risk of disruption to existing firm service shippers by converting variable capacity sales (i.e., AOS, DD and IT) into firm capacity sales".<sup>26</sup> WF Service will make use of available firm T-South capacity in the winter months, not "variable capacity".
28. Powerex, which of course does not operate and never has operated the Westcoast pipeline system, is the only party to assert that Westcoast does not have the capacity to provide WF Service. No other party has made such a claim, and the T-South Transportation Services Sub-Committee would not have spent a year and a half discussing a winter only service offering that Westcoast was not able to provide.
29. Moreover, Westcoast has no incentive to contract 160 MMcf/d of WF Service if it had any doubt about its ability to provide the service. Westcoast will receive no additional return on common equity as a result of providing WF Service, as the additional WF Service revenue and allocation units will simply serve to reduce the tolls payable by all T-South shippers. Westcoast will in fact be penalized if it is not able to meet all of its T-South firm service

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<sup>25</sup> Westcoast response to Powerex IR 1.3.

<sup>26</sup> Powerex Evidence, page 9, line 17.

obligations in the winter months (including WF Service) as a result of providing WF Service.

Under Westcoast's tariff, the Transmission Reliability Percentage applicable to all firm services on T-South is 100% in the winter months. Consequently, if Westcoast is required to curtail any firm service in the winter months as a result of insufficient pipeline capacity, firm shippers will be entitled to Contract Demand Credits as set out in the tariff, which are to Westcoast's account and would therefore reduce Westcoast's return on common equity.<sup>27</sup>

30. While Powerex's assertions regarding Westcoast's capability to provide WF Service may serve Powerex's objective to preserve the maximum amount of T-South capacity that is set aside and available to it in the winter months as interruptible service in order for it to take advantage of short-term market opportunities<sup>28</sup>, there is no factual basis for Powerex's assertions and there is no incentive whatsoever for Westcoast to offer incremental firm T-South service that it is not capable of providing.

#### **The Conversion/Reversion Provisions are Appropriate**

31. The proposed attributes of WF Service include the conversion and reversion provisions that are described in paragraphs 19 to 20 and 21 to 23, respectively, of the Application.
32. Under the conversion provisions, in the event a shipper holds both year-round firm service from CS No. 2 to the HDA and WF Service, any non-renewal by the shipper of its year-round service on that path will result in an equivalent volume of the shipper's WF Service

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<sup>27</sup> Westcoast comment letter dated June 9, 2016, page 3; Westcoast's General Terms and Conditions, Article 8 (Westcoast response to BP Canada IR 1.3(a)).

<sup>28</sup> Powerex acknowledges on page 8 of its Evidence that it has contracted firm service to the PNG (TSPNG) and Inland (TSIND) delivery areas upstream of the HDA for the purpose of diverting gas downstream from these locations to the HDA on a priority interruptible basis. Contracting winter capacity as WF Service will result in some decrease in capacity available for these interruptible downstream diversions by Powerex.

converting to year-round service. The conversion provisions also give a shipper who holds WF Service the right, subject to the availability of capacity and in accordance with the existing capacity allocation procedures in Westcoast's tariff, to convert its WF Service to year-round firm service from CS No. 2 to the HDA at any time.

33. Under the reversion provisions, Westcoast will conduct a review of WF Service every three years. If at the time of the review the amount of uncontracted year-round capacity from CS. No. 2 to the HDA exceeds the amount of contracted WF Service for each month of the next winter season, then effective the next November 1 all WF Service will be designated as "Revertible WF Service" and become year-round firm service from CS No. 2 to the HDA. If the uncontracted year-round capacity from CS No. 2 to the HDA subsequently decreases to less than the amount of Revertible WF Service, then an amount of Revertible WF Service will lose its designation as Revertible WF Service (and therefore revert back to undesignated WF Service during the winter months) on a pro rata basis (based on each shipper's share of WF Service) that will maintain the total amount of Revertible WF Service at the same level as the total amount of uncontracted year-round capacity from CS No. 2 to the HDA.
34. The objectives of the conversion and reversion provisions are to ensure that when there is available year-round capacity, shippers who need access to firm capacity from CS No. 2 to the HDA during peak periods pay for the annual costs related to that capacity, to maintain the value of year-round firm service, and to avoid migration away from year-round service to winter only service.<sup>29</sup>

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<sup>29</sup> Westcoast comment letter dated June 9, 2016, page 4.

35. WF Service is only being proposed because the year-round capacity from CS No. 2 to the HDA is now fully contracted. The conversion and reversion provisions ensure that winter only long-term firm service is essentially only available for so long as, and to the extent that, the system remains fully contracted on a year-round basis. The conversion and reversion provisions provide a reasonable mechanism to restore the original intent of the service offering should year-round capacity from CS No. 2 to the HDA become available in the future. These provisions do so on terms either under the direct control of the holder of the WF Service (i.e., the conversion provisions) or based on a review conducted by Westcoast every three years that provides holders of WF Service a reasonable opportunity to plan their ongoing business (i.e., the reversion provisions).
36. Fortis has expressed the concern that, should it acquire WF Service, the conversion provisions will prevent it from releasing year-round T-South capacity that it does not require in non-winter months.<sup>30</sup> Fortis is correct that this is the effect of the conversion provisions. However, WF Service is not intended to give the holders of year-round service an option to convert their year-round service to winter only service, since that could result in less, not more, long-term firm contracting on the system. This would undermine the objectives in offering winter only service in the first place, including the objectives to “maximize long-term firm contracting of available pipeline capacity” and “provide long-term stability and certainty of tolls and service offerings”.
37. Fortis has also expressed the concern that the reversion provisions will have the same effect as the conversion provisions and render WF Service conditional on the contracting activities

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<sup>30</sup> Fortis Evidence, page 7.

of other shippers on the system<sup>31</sup>. However, there are many external factors that can impact the services offered by a regulated pipeline that are not controlled by any single shipper on the system. Future firm service contract levels and future flow rates change based on market demand, supply levels and other factors. Tolls charged on the system and the availability of interruptible services vary based on outside factors over the term of an individual shipper's contract, and are not controllable by that individual shipper. However, that shipper understands the nature of the service at the time it enters into the contract with full knowledge that those outside factors may affect the service in the future.

38. BP Canada claims that the conversion and reversion provisions are “overly complex” and “result in substantial uncertainty and risk for any shipper contracting for WF Service”<sup>32</sup>. However, the terms and conditions under which Westcoast proposes to offer WF Service are clearly set out in the Application and the proposed tariff provisions. Parties bidding for WF Service pursuant to the open season process will bid with full knowledge of the nature and terms and conditions of the service.
39. WF Service would be “less complex” without the conversion and reversion provisions, but more simplicity needs to be balanced with the need to ensure that WF Service is offered on terms and conditions that enhance, rather than undermine, the objectives in offering the service in the first place. The conversion and reversion provisions achieve this.

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<sup>31</sup> Fortis Evidence, page 8, line 20.

<sup>32</sup> BP Evidence, page 4, line 1.



## **Conclusion**

40. The proposed WF Service is the result of an extensive stakeholder consultation process regarding the optimal use of the 160 MMcf/d of firm winter capacity available on the T-South system from CS No. 2 to the HDA. While some parties do not support or fully support the outcome, the proposal does have significant stakeholder support, including a majority of the members of the TTTF. The proposed service offering will best achieve the objectives set out by the T-South Transportation Services Sub-Committee and will provide significant benefits to all stakeholders.
41. For all of the foregoing reasons, Westcoast respectfully submits that the Board should approve the proposed WF Service on the basis set out in the Application.

DATED at the City of Calgary this 16<sup>th</sup> day of September, 2016.