

NATIONAL ENERGY BOARD

**WESTCOAST ENERGY INC., CARRYING ON BUSINESS AS SPECTRA ENERGY TRANSMISSION
(WESTCOAST)
APPLICATION FOR APPROVAL OF T-SOUTH WINTER FIRM SERVICE (APPLICATION)
HEARING NUMBER RHW-001-2016**

ARGUMENT OF PACIFIC NORTHERN GAS LTD.

1. Pacific Northern Gas Ltd. (PNG) and its wholly-owned subsidiary Pacific Northern Gas (N.E.) Ltd. (PNG(NE)) are natural gas distribution utilities operating within British Columbia. PNG owns and operates a gas transmission and distribution system in the west-central portion of northern B.C. (PNG West) serving approximately 21,000 customers. This system is connected to the Westcoast pipeline system near Summit Lake. PNG(NE) provides gas service to close to 21,000 customers in the Fort St. John, Dawson Creek and Tumbler Ridge areas in northeast B.C.
2. PNG and PNG(NE) obtain almost all of their gas supply through interconnections with the Westcoast pipeline system. In order to provide secure and reliable gas supply to its customers, PNG holds approximately 626,000 m³/day of firm transportation service on T-South (FT-S) from Compressor Station (CS) No. 2 to the PNG Delivery Point located near Westcoast CS4A near Summit Lake that is sufficient to meet the peak winter demand of its existing customers. As is the case with many gas distribution utilities, a significant portion of deliveries serves a seasonal heating load with the result that PNG is faced with selling its firm gas supply in excess of its requirements on most days of the winter in order to recover and reduce some of the associated costs on behalf of its customers.
3. Historically, PNG has been able to use an attribute of its FT-S, namely a downstream diversion, to access the market at Sumas, in addition to the market at Station 2, in order to sell its excess supply. PNG is therefore concerned that the inception of T-South Winter Firm Service (WF Service) will reduce the availability of non-firm capacity south of Summit Lake to the Huntingdon Delivery Area (HDA) and impede to a significant degree, PNG's ability to participate in the market at Sumas, leaving it with only a single gas market, at Station 2, in which to sell gas in excess of its requirements during the winter heating season. PNG's customers therefore may be burdened with higher gas supply costs as a result. PNG West's customers currently pay the highest burner tip rates for natural gas in B.C.

4. PNG's reduced ability to mitigate the costs of both its natural gas supply and its transportation capacity is symptomatic of the loss of efficient allocation of T-South capacity that would occur with the introduction of WF Service, which PNG submits is currently well served by the existing firm and non-firm services. The current level of firm year-round contracting, along with interruptible flows under services associated with those firm contracts, such as Authorized Over-run Service (AOS) and downstream diversions, along with Interruptible Transportation Service (IT-S) have fully utilized the available capacity on T-South to the HDA and have done so in a manner that is flexible and responsive to changing market conditions. Information provided in response to PNG IR 1.1(d) shows that T-South had no, or negligible, unutilized capacity most days during the 2015 to 2016 winter period. WF Service is therefore not necessary for maximizing the utilization of T-South.

5. While Westcoast states that the WF Service will generate additional, stable revenues that serve to reduce the tolls for all customers¹, PNG notes that these revenues are at least partially, if not wholly, offset by revenues lost from interruptible deliveries that would have otherwise flowed in place of WF Service, and by the lower toll premium charged the AOS.² The benefits accruing to shippers on T-South, including those not otherwise able to take advantage of the WF Service proposed by Westcoast, are therefore nominal.

6. Westcoast concedes that contracting winter capacity as WF Service will result in a decrease in capacity available for interruptible services including AOS and downstream diversions during the winter months.³ PNG agrees with BP Canada that the introduction of WF Service therefore erodes, to a significant extent, the availability of the AOS attribute of the FT-S service, and therefore devalues existing FT-S.⁴ PNG adds that the coincident reduction in the availability of the downstream diversion attribute of FT-S further erodes the inherent flexibility, and therefore the value, of FT-S service.

7. PNG acknowledges that the availability of its downstream diversions is based on the utilization of firm service and is not a "right to firm service delivery to the HDA", and that downstream diversions

¹ Application, para 31.

² PowerEx Evidence, p. 7, lines 1 and 14, and p. 9, line 6.

³ Westcoast Argument, para. 15

⁴ BP Canada Evidence, para. A.8(a)

are assigned higher priority than IT-S service.⁵ However, downstream diversions are not assigned a higher priority than AOS.

8. Under Westcoast's current Tariff, AOS is an interruptible service that allows T-South firm contract holders to flow up to 10% of their contracted capacity with priority below FT-S, but above downstream diversions and IT-S. As with other interruptible services, Westcoast does not reserve capacity for AOS, charges a commodity-based toll for AOS, and the availability of AOS is impacted by both sales of firm service and the utilization of firm services. For all intents and purposes, AOS is simply another interruptible service which is available only to shippers holding firm capacity at the relevant delivery point.

9. PNG submits that it is clearly in the public interest to provide a reasonable opportunity for PNG to mitigate its unutilized demand charges and fully utilize all attributes of its firm service for the benefit of its customers. Accordingly, PNG respectfully requests that, were the Board to approve Westcoast's WF Service application, the Board also direct Westcoast to revise its tariff to set the priority of downstream diversions to be higher than all other interruptible services that include both AOS and IT-S.

10. Finally, PNG submits that WF Service provides preferential treatment to shippers to the HDA. If the Board accepts Westcoast's proposal to allocate all of the available firm winter capacity on T-South to deliveries at the HDA, absent a physical expansion of the pipeline, shippers to delivery points upstream will be unable to obtain additional firm transportation capacity to serve incremental winter load. Shippers having markets at Summit Lake and the Inland Delivery Area are therefore excluded from accessing any of the winter firm capacity that Westcoast proposes to make available.

11. PNG therefore submits that the existing interruptible services provide more equitable access to available capacity on all paths on T-South and not just to the HDA.

Conclusion

12. PNG submits that the firm and interruptible services currently offered are wholly adequate to ensure the optimal utilization of all of the capacity on T-South during the winter months and that they

⁵ Westcoast June 9, 2016 Reply to Comments, p.7

are flexible and responsive to changing market and load conditions to a degree that WF Service is not. PNG therefore submits that WF Service is not required.

13. However, were the Board prepared to accept the Westcoast application, then PNG respectfully submits that the Board consider the impact on PNG's customers and direct Westcoast to amend its tariff and set the priority of downstream diversions higher than all other interruptible services.

Respectfully submitted,

Pacific Northern Gas Ltd.