

NATIONAL ENERGY BOARD

**IN THE MATTER OF AN APPLICATION BY
WESTCOAST ENERGY INC., DOING BUSINESS AS SPECTRA ENERGY TRANSMISSION
FOR APPROVAL OF T-SOUTH WINTER FIRM SERVICE**

**ARGUMENT OF
BP CANADA ENERGY GROUP ULC
23 SEPTEMBER 2016**

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I. INTRODUCTION

1. BP Canada Energy Group ULC ("BP Canada") is a shipper on the Westcoast Energy Inc. ("Westcoast") gas transmission system ("Westcoast System"). BP Canada holds 132, 403 MMcf/d of Firm Transportation Service-Southern ("FT-S") between Compressor Station No. 2 to Huntington-NWP.¹ BP Canada has also relied upon Interruptible Transmission Service-Southern ("IT-S") and Authorized Over-run Service ("AOS") to ship additional gas volumes. Westcoast's proposed T-South Winter Firm Service ("WF Service") will have a significant impact on the services BP Canada has contracted for and relied upon. BP Canada urges the National Energy Board ("NEB" or "Board") to deny Westcoast's application to implement WF Service ("the Application").

II. WF SERVICE IS UNNECESSARY

2. In proposing WF Service Westcoast is not creating any incremental capacity. The Westcoast System capacity is built to accommodate the annual firm transportation requirements of FT-S contracts. Ambient air temperatures in the winter create the potential for capacity in the winter season to exceed FT-S contract requirements. This winter ambient capacity is fundamentally different than annual capacity.
3. Westcoast's assertion that it should contract as much capacity as it possibly can on a firm long-term basis should not apply to winter ambient capacity.² While it is in the public interest for all existing capacity to be used fully and efficiently, WF Service is not necessary to achieve this purpose on the Westcoast System. The evidence on the record is that winter ambient capacity on the Westcoast System is highly valued and currently utilized through the provision of IT-S and AOS.³ Additionally, Short Term Firm Service ("STFS") is currently available under the Tariff and is a common method used to award capacity for various types of services, including seasonal

¹ BP Canada Response to Westcoast Energy Inc. ("Westcoast") Information Request ("IR") No.1 (A79366-2).

² Final Argument of Westcoast, September 16, 2016 ("Westcoast Argument") at para 18 (A76830-2).

³ Westcoast Application to the National Energy Board ("Board") for Approval of T-South Winter Firm Service, May 11, 2016 ("Application") at para 12; Written Evidence of Powerex Corp. ("Powerex Evidence") at 3 (A79040-2); BP Canada Response to Export Users Group IR No.1.7 (a) (A79366-3).

services, on many pipelines in North America.⁴ WF Service is not required for winter ambient capacity to be used and useful.

4. Westcoast concedes the value of this winter ambient capacity given its coincidence with peak demand on its system.⁵ Westcoast asserts that the alternative to WF Service would be an expansion project supported through long-term annual capacity, which it says would be a "considerably more expensive, less timely and less efficient option than WF Service for all shippers".⁶ Westcoast does not cite any evidence to support this assertion, leaving the Board without evidence on the record that would allow it to give Westcoast's argument any weight.
5. Westcoast has not conducted an open season for an expansion so we do not know how much expansion capacity would be supported by the peaking demand Westcoast references. In turn, we have no idea of the cost of an expansion and whether incremental revenue from expansion capacity would lower FT-S tolls for all shippers. Westcoast is vague as to whether its assertion that tolls would be considerably more expensive in the event of an expansion is relative to future FT-S tolls or its proposed WF Service tolls. If the latter, the benchmark against which to assess this proposition would be WF Service tolls relative to annualized FT-S tolls. Current FT-S tolls are 160% of the proposed WF Service rates on an annualized basis.⁷ This demonstrates the inefficiency of selling long-term firm capacity for less than its market value, which in turn results in higher FT-S tolls.
6. What Westcoast's argument establishes is that through WF Service, it will be selling winter peaking capacity at 63% of the annualized price of FT-S.⁸ It is simply not possible for Westcoast to characterize its WF Service as constituting an efficient option for anyone other than a shipper

⁴ BP Canada Response to Export Users Group IR No. 1.3.1(b).

⁵ Application at paras 30-31.

⁶ Westcoast Argument at para 13.

⁷ Where x = the FT-S toll (based on a one-year service term); $1.5x$ = WF Service toll (see the Application at para 24); WF Service is offered for the 5 winter months (see the Application at para 27); and a = throughput: $[(x * 12 \text{ months} * a) / (1.5x * 5 \text{ months} * a)] * 100\% = 160\%$.

⁸ Where x = the FT-S toll (based on a one-year service term); $1.5x$ = WF Service toll (see the Application at para 24); WF Service is offered for the 5 winter months (see the Application at para 27); and a = throughput: $[(1.5x * 5 \text{ months} * a) / (x * 12 \text{ months} * a)] * 100\% = 62.5\%$.

that has peaking requirements which would otherwise have to be met through FT-S service on an expansion.

7. Also, by asserting that the alternative to WF Service is an expansion, Westcoast has turned a blind eye to the fact that another alternative to WF Service already exists in the Tariff. That alternative is STFS.⁹ It is a service option that is timely, more efficient and less costly which can be offered to shippers to meet the firm seasonal needs.¹⁰ STFS is a firm service that can be contracted on a firm basis for terms of more than one day and less than one year. In its argument, Westcoast erroneously states that STFS is more similar to IT service than firm service.¹¹ This is inaccurate. STFS is a firm service that most efficiently allocates the limited available capacity through an open season process.¹² The STFS open season process would result in allocating capacity in a way that reflects the market value, since capacity would be allocated to shippers that value it most,¹³ and is compatible with changing operational circumstances because it can be offered on an as-available basis.
8. BP Canada acknowledges that contracting the winter ambient capacity on an STFS basis will not resolve the matter of the prejudice to FT - S shippers associated with WF Service. In both cases, the risk of availability of winter ambient capacity is the same. However, the consequences of such risk being borne out are much less with STFS than they would be with WF Service because Westcoast could adjust the amount of seasonal capacity offered each winter season since it would not be committed to any set capacity level contracted for multiple years. In comparison to WF Service, STFS offers a lesser risk of prejudice that would be suffered by FT-S shippers due to curtailment.¹⁴

⁹ Written Evidence of BP Canada Energy Group ULC, 19 August 2016 ("BP Canada Evidence") at 2 (A79043-2).

¹⁰ BP Canada Evidence at 2.

¹¹ Westcoast Argument at para 20.

¹² BP Canada Response to Export Users Group IR No. 1.3.1 (b).

¹³ BP Canada Response to Export Users Group IR No. 1.9 (a).

¹⁴ BP Canada Response to Export Users Group IR No. 1.7 (d).

III. WF SERVICE PREJUDICIALLY IMPACTS FT-S SHIPPERS

9. WF Service impacts the value of FT-S. It does so in two distinct ways. First, it creates risk of curtailment when FT-S has its highest market value. Secondly, it would reduce the availability of AOS, which is an important attribute of the FT-S. While Westcoast admits the latter point,¹⁵ it does not, at least expressly, admit the risk of FT-S curtailment.
10. Westcoast attempts to assuage concerns of curtailment in its argument by noting that over the last three winter seasons T-South capacity has not been curtailed below its total FT-S committed capacity of 1,450 MMcf/d "due to operational causes or maintenance" and that it has only been constrained below the additional capacity of 1,610 MMcf/d that would flow from WF Service on account of taking advantage of "opportunistic maintenance activities".¹⁶
11. Westcoast does not explain what constitutes opportunistic maintenance. The evidence cited by Westcoast concedes that operational causes and maintenance resulted in Westcoast being unable to operate at the 1,610 MMcf/d for 37 days last winter season.¹⁷ Undertaking this opportunistic maintenance was apparently important enough to Westcoast that it decided to forego incremental revenue from IT-S and AOS during this period. Further, Westcoast does not explain why giving up its ability to undertake "opportunistic maintenance activities" will not have an effect on system reliability in the future and the risk of operational upsets and unplanned maintenance. Although Westcoast appears to deny it, offering WF Service cannot help but make FT-S service less reliable and in turn less valuable.
12. Westcoast is proposing to give WF Service equal priority to FT-S¹⁸ notwithstanding that WF Service is effectively discounted relative to FT-S and undermines the reliability of FT-S. Westcoast's argument that it may be at risk for Contract Demand Credits¹⁹ provides little comfort

¹⁵ Westcoast Argument at para 15.

¹⁶ Westcoast Argument at para 25.

¹⁷ Westcoast Response to BP Canada IR 1.1 (c) (A78935-3).

¹⁸ BP Canada Evidence at 7.

¹⁹ Westcoast Argument at para 29.

to FT-S shippers with contractual commitments to supply gas to markets during periods of peak demand.

13. Westcoast concedes the second aspect of the devaluation of FT-S that would accompany the provision of WF Service.²⁰ It is well understood that the value AOS brings to the FT-S contract depends on the shippers' ability to actually use the AOS.²¹
14. BP Canada submits that the value of the AOS attribute of FT-S is relevant to any decision to make long-term commitments to contract for FT-S. The devaluation of FT-S service and long-term removal of a block of firm winter ambient capacity from the market is unfair to shippers who contracted for FT-S. When contracting for FT-S, shippers would reasonably have expected that any seasonal capacity would have been made available through IT, AOS or STFS. This potential would have been known to and considered by all FT-S shippers. It would not have been expected that this winter ambient capacity would be removed in perpetuity as proposed under WF Service.
15. Ironically, Westcoast concedes this type of unfairness in its argument where it suggests that the conversion provisions of its proposed WF Service that results in WF Service shippers becoming annual FT-S shippers, for reasons outside of their control, would not be unfair because the "shipper understands the nature of the service at the time that it enters into the contract with the full knowledge that those outside factors may affect the service in the future".²²
16. Westcoast purported to restrict its ability to offer STFS in its 2016-2017 Settlement ("Settlement") by effectively delegating to its Tolls and Tariffs Taskforce ("TTTF") the decision to offer FT-S service.²³ The appropriateness of such delegation seems questionable; regardless, the Settlement left it open to Westcoast to apply to the Board to offer STFS where TTTF support for such offering was not unanimous.²⁴ Effective August 2016, Westcoast has majority TTTF support

²⁰ Westcoast Argument at para 15.

²¹ BP Canada Response to Export Users Group IR No. 1.7 (b).

²² Westcoast Argument at para 37.

²³ BP Canada Evidence at 5.

²⁴ BP Canada Evidence at 5.

for using STFS to market winter seasonal capacity but to date has not applied to the Board to exercise the option to operationalize the service for the 2016-2017 winter season.

IV. WF SERVICE IS OVERLY COMPLEX AND CREATES SUBSTANTIAL UNCERTAINTY

17. The advantage of STFS over the proposed WF Service goes well beyond the fact that it is already provided for in the Tariff. STFS avoids the complexity and uncertainty associated with WF Service.²⁵
18. Westcoast has put forward WF Service as an alternative to meeting further firm service requirements through an expansion.²⁶ In suggesting that WF Service is an alternative to an expansion, Westcoast posits that potential bidders for WF Service would be prepared to make long-term commitments to underpin an expansion. It is easy for such shippers to be attracted to WF Service because if the service ends up being converted to FT-S following review, the shipper is getting the type of service that it was prepared to contract for in the first place (i.e., FT-S).²⁷
19. Since the WF Service toll is fixed, the success of any bid will be determined by the length of term bid.²⁸ Thus, it is reasonable to assume that successful WF Service bidders would be prepared to commit to terms similar to those associated with expansion contracts (i.e. 10-15 years with renewal rights). However, WF Service will not provide the certainty of capacity associated with an expansion and, as discussed above, this could create a risk of FT-S curtailment. Shippers are exposed to a far lesser risk of curtailment under STFS since available capacity is assessed on an annual basis which helps reduce an occurrence of overestimated seasonal capacity. Even assuming Westcoast has accurately assessed its current seasonal capacity, which seems doubtful on the evidence,²⁹ over the lengthy terms that could be associated with WF Service, significant changes in contracting and in the pipeline's prevailing operating parameters, such as increased operating and maintenance requirements, can occur which will affect the capacity

²⁵ BP Canada Evidence at 2-4; 7-8.

²⁶ Application at para 30; Westcoast Argument at paras 12-13.

²⁷ BP Canada Evidence at 2; Application at paras 19-20.

²⁸ BP Canada Evidence at 2; Application at para 16.

²⁹ Westcoast response to BP Canada IR 1.1 (c).

available for the contracting of FT-S and for seasonal firm contracting. Curtailment risks posed to FT-S shippers, pending any expansion that may be pursued by Westcoast, could be significant. STFS provides a reasonable basis for parties requiring seasonal firm capacity to obtain it, while pursuing any expansion that may prove necessary.

20. In addition to the comparatively limited risk of FT-S curtailment, STFS is more efficient than WF Service in marketing seasonal winter capacity.³⁰ As discussed above, WF Service is proposed to be locked in at a significant discount to FT-S service on an annualized basis and would result in higher FT-S tolls. By Westcoast's own admission, WF Service was developed as an alternative to an expansion in order to meet the demand for long-term firm service in the winter months.³¹ If this is true, WF Service is being sold at a considerable discount to its current market value. Such discount, in effect, implies higher FT-S tolls, which means that FT-S shippers are, in effect, subsidizing WF Service shippers.
21. WF Service further affects the prospect of obtaining market value for seasonal winter capacity by limiting the type of shippers that can successfully bid for the service to those with peak demand requirements that cause them to be indifferent to the conversion of WF Service to FT-S (e.g., local distribution companies). These are the only types of shippers that can manage the uncertainty associated with the conversion of WF Service to FT-S. By limiting the number of shippers in a position to bid for WF Service, the revenue from that service may not be based on its market value, which is best established by making the services attractive to as many bidders as possible. Offering winter ambient capacity through STFS would ensure that revenue obtained from such capacity is derived in a manner consistent with its market value, and could result in lower FT-S tolls.
22. Remarkably, Westcoast asserts the WF Service proposal has the "support of key stakeholders".³² In doing so, Westcoast appears to characterize the stakeholders for whom the proposed WF

³⁰ BP Canada Evidence at 1-4.

³¹ Application at 30; Westcoast Argument at paras 12-13.

³² Westcoast Argument at para 8.

Service was designed as its key stakeholders. Westcoast is ignoring the significant FT-S capacity held by BP Canada and other shippers opposed to the Application and downplays Fortis BC Energy Inc.'s objection to the Application.³³

V. CONCLUSION

23. In conclusion, BP submits that Westcoast failed to accomplish many of its stated objectives in developing the proposed WF Service.³⁴ The service may provide stability and certainty of tolls and service offerings for a few select shippers but in doing so it has introduced uncertainty and risk for many other shippers. This suggests that FT-S shippers pay more and get less. FT-S tolls would increase relative to what the tolls should be if winter ambient capacity is actually sold at market value, taking into account operational realities at the time. At the same time a loss of access to AOS and the reduced level of service reliability due to FT-S curtailment erode the value of FT-S service.
24. BP Canada agrees that Westcoast ought to maximize long-term firm contracting of available annual pipeline capacity which underpins the cost-of-service of the pipeline. Long-term firm contracting of winter ambient pipeline capacity, however, will likely effect system reliability in the future and increase the risk of operational upsets. This winter ambient capacity is fundamentally different than annual capacity and should not be contracted at the risk of FT-S shippers.
25. Additionally, service offerings that are practically only available to a select group of shippers are not consistent with the principle of open access. The only shippers that can successfully bid for this capacity are those shippers requiring more FT-S service that can tolerate the uncertainty associated with the conversion of WF Service to FT-S. As such, WF Service would not promote open access on the pipeline.

³³ Written Evidence of FortisBC Energy Inc. (A79042-1).

³⁴ Application at para 14 and Westcoast Argument at para 8. These objectives include: (a) providing long-term stability and certainty of tolls and service offerings; (b) maximizing long-term firm contracting of available pipeline capacity; (c) providing open access to all interested parties; (d) designing a simple service that could be integrated with Westcoast's existing suite of services; (e) implementing the service in a timely fashion; and (f) enhancing the viability and competitiveness of the western Canadian natural gas market. Respectfully, WF Service accomplishes none of these objectives.

26. In designing WF Service, Westcoast also missed the mark in establishing “a simple service that could be integrated with Westcoast’s existing suite of services”.³⁵ Instead, Westcoast could have applied to offer STFS, a comparatively simple service already integrated with Westcoast’s existing suite of services under the Tariff, to market seasonal capacity. As the terms of STFS were already set out in the Tariff, Westcoast could also have implemented this service in a timelier way. Alternatively, Westcoast could have proposed an STFS-like service model having a maximum term of 2-3 years and without renewal rights to meet the demand for long-term firm service in the winter months. An STFS-like winter service without the highly contentious elements of renewal, reversion, and conversion would achieve much of the beneficial goals of a winter-firm service but without the negatives inherent in the WF Service.
27. Finally, the viability and competitiveness of the western Canadian natural gas industry is not enhanced by offering an overly complex and uncertain service that is practically only available to a limited group of shippers and sold at a considerable discount to its market value, which would result in higher FT-S tolls. This is particularly so when STFS is available to market seasonal capacity on a price and term biddable basis thereby reflecting the market values for that capacity, which would result in lower FT-S tolls.

VI. RELIEF

28. BP Canada requests that the Board dismiss the Application and direct that Westcoast offer and make STFS available, in accordance with the Tariff, for incorporation in the next regular monthly capacity posting process following the Board’s decision.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 23RD DAY OF SEPTEMBER, 2016



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³⁵ Application at para 14 and Westcoast Argument at para 8.