



VIA E-MAIL

jkennedy@png.ca

August 11, 2016

Ms. Janet P. Kennedy
Vice-President, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
950, 1185 West Georgia Street
Vancouver, BC V6E 4E6

Dear Ms. Kennedy:

Re: Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd.
2016 Annual Gas Contracting Plan (November 2016 – October 2017)

On June 8, 2016, Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. (PNG) filed on a confidential basis its Annual Gas Contracting Plan (ACP) for the period of November 2016 to October 2017 (2016/17). PNG's 2016/17 ACP outlines plans to meet the natural gas requirements for all of PNG's service areas, including PNG-West (west of Summit Lake) and Pacific Northern Gas (N.E.) Ltd. [PNG(N.E.)]. PNG(N.E.) includes Fort St. John and Dawson Creek (FSJ/DC) and Tumbler Ridge (TR). PNG also provided a non-confidential executive summary of the 2016/17 ACP.

The British Columbia Utilities Commission (Commission) reviewed the filing and accepts the 2016/17 ACP as in the public interest. The Commission requests PNG include the following in its annual contracting plan for the 2017/18 year:

1. An update on the outcome of efforts to achieve harmonization of the peak day forecast methodology used for annual contracting plan purposes with the methodology used for the 2016 PNG and PNG(N.E.) revenue requirements peak day forecasts including ensuring consistency of the input data and an analysis of operational historical data used to support PNG's conclusions;
2. A discussion of the methodology used by PNG for developing its load duration curves including any plans to update the methodology to ensure recent data can be accommodated as inputs; and
3. An update on transportation service developments such as Spectra's proposed Winter Firm service offering and alternative transportation options and the impact of such transportation service developments on PNG's supply procurement plans.

PNG is requested to meet with Commission staff prior to submitting the 2017/18 ACP to ensure the filing adequately addresses the issues identified above.

The Commission will hold the 2016 ACP and associated documents confidential as requested by PNG as they contain market sensitive information. A copy of the non-confidential executive summary of the ACP is attached to this letter and is available for public review.

Yours truly,

*Original signed by
Doug Chong for:*

Laurel Ross

CM/cms
Enclosure

EXECUTIVE SUMMARY

Pacific Northern Gas Ltd. ("PNG") hereby submits and seeks acceptance from the British Columbia Utilities Commission (the "Commission") of its Annual Gas Contracting Plan, dated June 2016 ("ACP 2016") that covers the period from November 2016 to October 2017 ("2016/17 Gas Year"). ACP 2016 encompasses PNG's plan to meet the natural gas requirements for all of PNG's service areas, including PNG-West (west of Summit Lake) and PNG (N.E.), which includes the Fort St. John and Dawson Creek ("FSJ/DC") and Tumbler Ridge ("TR") service areas.

The objectives of ACP 2016 are as follows:

- 1) To provide cost-effective gas supply resources that ensure secure and reliable gas deliveries to customers;
- 2) To provide a balanced mix of price diversity and cost effectiveness in the portfolio; and
- 3) To diversify PNG's supply portfolio and transportation capacity contracts to incorporate longer and shorter terms to allow for contracting flexibility.

These objectives are consistent with those of ACP 2015 that were accepted by the Commission under Letter L-29-15. Previous ACPs have been successful in meeting these objectives and PNG submits that ACP 2016 will enable PNG to continue to meet these objectives in the best interests of customers for the 2016/17 Gas Year and on a go-forward basis.

Demand Forecast – Peak Day Demand

The forecast aggregate peak day demand for PNG-West and PNG(N.E.) FSJ/DC for the 2016/17 Gas Year is 65,897 GJs, which is decrease of 779 GJs from the peak day forecast for the 2015/16 Gas Year of 66,676 GJs. The peak day forecast has remained relatively unchanged from the previous year as demand has been stagnant among PNG's residential, commercial and industrial customers.

The forecast PNG (N.E.) TR peak day demand for the 2016/17 Gas Year is forecast to decrease to 1,716 GJs, down 561 GJs from 2,277 GJs for the prior year.

Gas Supply Resource Portfolio

PNG will meet its gas demand requirements using a balanced approach taking into consideration cost effectiveness, security, diversity, and reliability of gas supply. In order to achieve this, PNG will continue to contract for supply from different counterparties and contract for both daily priced, monthly priced supply and natural gas storage. The small reduction in the peak day demand requirement is being addressed by reducing PNG's reliance on line pack as a short term peaking resource. PNG will continue to maintain a balance of Monthly and Daily priced supply to meet the peak day demand.

Gas Storage

PNG has included natural gas storage in its gas supply portfolio beginning in 2004, when it entered into a synthetic gas storage agreement with FortisBC from 2004 to March 2012. After deciding not to contract for storage for the 2012/13 winter period, PNG once again included storage services in its gas supply portfolio beginning in 2013, after receiving Commission approval of its Amended ACP 2013 and Proposed Storage Agreement.¹

In ACP 2015, PNG again incorporated storage as a supply resource in its portfolio and indicated that it would be seeking the renewal of its 3-year storage service, which expired March 31, 2016. The Commission accepted PNG's 2015 ACP via Letter L-29-15. PNG has subsequently renewed the storage agreement, under the same profile and terms, out to March 31, 2019 and has filed this agreement with the Commission on April 19, 2016.

Storage has provided PNG with a cost-effective resource that has achieved price diversity, certainty and stability while ensuring reliable deliveries to customers. PNG notes that utilities across North America continue to rely heavily on storage for the many benefits it provides.

Transportation Service

PNG is required to contract for firm transportation service on the Spectra system to move gas supply to its load centres and pipeline transmission system. Currently, PNG has contracted for sufficient T-South capacity to meet its load requirements on the PNG West system. The T-South system is currently fully contracted and no new capacity to either the PNG delivery point at Summit Lake or to the Huntingdon Delivery Area (HDA) is available. For additional capacity to be available, Spectra would have to expand the system or current shippers would have to turn back their service. Spectra is currently looking at options to increase capacity on the system including different expansion options to Huntingdon/Sumas as well as a T-South Winter Firm Service to optimize the utilization of firm capacity on T-South. If load growth occurs on the PNG West system, then PNG would need to request an expansion by Spectra to Summit Lake or alternatively contract for significantly more expensive Backhaul service from the HDA.

PNG will continue to contract for discounted third party capacity for the necessary T-North Long Haul capacity to facilitate its storage contract. This capacity has proven to be reliable and cost effective over the past three years. However, if the availability of reliable third party capacity decreases, PNG may look to contract directly with Spectra.

PNG's contracted T-North Short Haul service remains ample and IT capacity is used as needed.

Conclusion

The primary objectives of PNG's ACP 2016 are to contract for a gas supply portfolio with a balanced mix of cost effectiveness and price and term diversity that will ensure safe, secure and reliable gas deliveries to its customers. PNG has proposed a supply portfolio that meets these objectives.

¹ Pursuant to BCUC Letter E-12-13.