British Columbia Utilities Commission

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ORDER NUMBER
E-18-16

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Pacific Northern Gas Ltd.
Application for Acceptance of the Energy Management Services Agreement
with Tenaska Marketing Canada

BEFORE:
D. J. Enns, Commissioner

on September 2, 2016

ORDER

WHEREAS:

A. On May 18, 2016, Pacific Northern Gas Ltd. (PNG) filed an application (Application) for acceptance of a five-year energy management services agreement with Tenaska Marketing Canada (Tenaska) dated May 1, 2016 (2016 EMS Agreement) by the British Columbia Utilities Commission (Commission) under section 71 of the *Utilities Commission Act.* The 2016 EMS Agreement includes a mechanism for the sharing of the optimization value realized by Tenaska in the utilization of certain third party storage and transportation assets (Optimization Value);

B. In the Application PNG also seeks Commission approval to share a percentage of PNG's portion of the Optimization Value with PNG's shareholder (Sharing Arrangement) for the first three years of the 2016 EMS Agreement;

C. In Order G-26-11 issued February 23, 2011, the Commission denied Terasen Gas Inc.'s (TGI, now FortisBC Energy Inc.) application for approval of a revised Gas Supply Mitigation Incentive Program (GSMIP), which set out a mechanism for the sharing of TGI's mitigation revenues with TGI's shareholders and established guiding principles to guide in the design of future GSMIPs;

D. On April 4, 2013, the Commission issued Order E-4-13 accepting a five year energy management services agreement with Tenaska dated March 18, 2013 (2013 EMS Agreement);

E. In the Application PNG states that it exercised its right of early termination and terminated the 2013 EMS Agreement effective April 30, 2016;

F. PNG requests that the Application and the 2016 EMS Agreement and the information contained in and enclosed in the Application be held confidential on the basis they contain market-sensitive information, the disclosure of which may adversely affect its ability to secure the most competitively-priced gas supply in the future;

G. On July 15, 2016 and August 29, 2016, PNG submitted its responses to Commission staff information requests;

H. In the August 29, 2016 response to Commission staff questions, PNG confirmed that it does not consider it necessary to keep confidential the general concept that the 2016 EMS Agreement provides for sharing of Optimization Value between Tenaska and PNG or that PNG is seeking approval to allocate a portion of PNG's share of the Optimization Value to PNG's shareholder; and

I. The Commission reviewed the Application, the 2016 EMS Agreement and the responses to the staff questions, and is satisfied that the 2016 EMS Agreement is in the public interest and that the details of the 2016 EMS Agreement and the Application should be held confidential. The Commission considers the Sharing Arrangement with PNG's shareholder acceptable, but limits the approval to the first year of the 2016 EMS Agreement.

NOW THEREFORE the British Columbia Utilities Commission:

1. Accepts for filing, pursuant to section 71 of the *Utilities Commission Act* and the Commission's Rules for Natural Gas Energy Supply Contracts, the five year Energy Management Services Agreement between Pacific Northern Gas Ltd. (PNG) and Tenaska Marketing Canada (Tenaska) dated May 1, 2016 (2016 EMS Agreement).

2. Approves, pursuant to section 63 of the *Utilities Commission Act* and for the reasons attached as Appendix A, the arrangement to share a percentage of PNG's portion of the Optimization Value with PNG's shareholder (Sharing Arrangement) but only for the first year of the 2016 EMS Agreement such that the Sharing Arrangement applies only to the Optimization Value realized by PNG for Tenaska's mitigation activities from May 1, 2016 to April 30, 2017. The Commission denies PNG's request for the Sharing Arrangement term to extend beyond April 30, 2017.

3. Directs PNG to file a report with the Commission by July 1st of each year reporting on the year ending the preceding April 30th for the term of the 2016 EMS Agreement. The report shall set out the details of the Optimization Value realized by PNG for each month of the reporting period for each of the transportation and/or storage capacity assets mitigated by Tenaska and the amount, if any, paid to PNG's shareholder under the Sharing Arrangement.

4. The Commission will keep the details of the Application, the 2016 EMS Agreement and response to the Commission staff questions confidential as requested by PNG as they contain commercially sensitive information.

DATED at the City of Vancouver, in the Province of British Columbia, this 6th day of September 2016.

BY ORDER

Original signed by:

D. J. Enns
Commissioner

Attachment

Pacific Northern Gas Ltd.
Application for Acceptance of the Energy Management Services Agreement
with Tenaska Marketing Canada

REASONS FOR DECISION

1.0 BACKGROUND

On May 18, 2016, Pacific Northern Gas Ltd. (PNG) filed an application for acceptance of a five-year energy management services agreement with Tenaska Marketing Canada (Tenaska) dated May 1, 2016 (2016 EMS Agreement) by the British Columbia Utilities Commission (Commission) under section 71 of the *Utilities Commission Act* (Application). The 2016 EMS Agreement includes a mechanism for the sharing of the optimization value realized by Tenaska in the utilization of certain third party storage and transportation assets (Optimization Value). The Commission considers the 2016 EMS Agreement to be in the public interest.

In the Application PNG also seeks Commission approval to share a percentage of PNG's portion of the Optimization Value with PNG's shareholder (Sharing Arrangement) for the first three years of the 2016 EMS Agreement. These reasons address the request for approval of the proposed Sharing Arrangement.

2.0 ESTABLISHMENT OF GUIDING PRINCIPLES FOR FEI GSMIP

FortisBC Energy Inc. (FEI) has a Gas Supply Mitigation Incentive Program (GSMIP) that has been in place for a number of years. FEI mitigates gas portfolio costs by generating revenue related to transportation, storage, and off-system sales as part of the overall gas portfolio optimization. FEI's GSMIP model is used to calculate an incentive payment to FEI's shareholder. FEI's total incentive earned and collected from ratepayers and paid to its shareholder is a portion of the total mitigation revenue, based on the terms set out in the Commission approved GSMIP model.

In Order G-26-11 the Commission denied Terasen Gas Inc.'s (TGI, now FEI) application for approval of a revised GSMIP for the November 1, 2010 to October 31, 2013 period. The Commission concluded that a re-examination of the overall objectives and structure of GSMIP was warranted "to improve the alignment of interests between customers and shareholders." In the reasons for decision attached to the order, the Commission identified the following guiding principles to guide in the establishment of FEI's GSMIP (Guiding Principles) commencing November 1, 2011:

1. The incentive program must demonstratively deliver value to ratepayers and reward ongoing innovation and true value added over and above what is reasonably expected in the normal stewardship of TGI's business.
2. Execution of the incentive program must not put the prudently planned gas supply portfolio at risk nor promote a departure from prudent gas supply management for core customer's requirements.
3. The incentive plan should fairly and appropriately align ratepayer and shareholder interests.
4. There should not be an upper limit on TGI's potential to earn an incentive but there must be a test of reasonableness and the amount earned must be justified.
5. The incentive program should apply to all mitigation activities that use commodity supply resources that represent a cost and risk to ratepayers (i.e. gas supply, storage, transportation).

6. The incentive plan should reward TGI for its innovation rather than for opportunities that arise from events that impact the industry in general (e.g. hurricanes).
7. Any incremental administrative costs must be considered and charged against the benefits of the plan.
8. The incentive payment should be the smallest amount required to obtain the desired core customer benefit.

The Guiding Principles were used to review the GSMIP model that was ultimately approved by the Commission in Order G-163-11 dated September 22, 2011. In Order G-141-16 dated August 29, 2016 the Commission approved the extension of the GSMIP model for the period from November 1, 2016 to October 31, 2019.

3.0 APPLICABILITY OF GUIDING PRINCIPLES TO PNG SHARING ARRANGEMENT

In a written question to PNG the Commission staff asked whether, in PNG's view, the Guiding Principles should be applicable in regard to the sharing of PNG mitigation revenue with PNG's shareholder. Without revealing confidential details of the 2016 EMS Agreement PNG, in its confidential July 15, 2016 response to Commission staff questions, responded that the Guiding Principles are sufficiently broad so as to be applicable regardless of the complexity of the sharing programs put before the Commission. PNG further submitted that the proposed Sharing Arrangement meets all of the Guiding Principles and provided specific rationale for each of the Guiding Principles.

4.0 COMMISSION DETERMINATION

The Commission considers that PNG's proposed Sharing Arrangement should be reviewed in the context of the Guiding Principles and concludes that the term of the Sharing Arrangement should be reduced from the three year term requested by PNG to be limited to the first year of the term of the 2016 EMS Agreement.

The Guiding Principles were established for the purpose of the Commission's review of FEI's GSMIP. While there are material differences between FEI's GSMIP and PNG's Sharing Arrangement that make it inappropriate to directly compare the two incentive mechanisms, the Commission agrees with PNG that the Guiding Principles are sufficiently broad so as to be applicable to PNG's proposed Sharing Arrangement. The Commission finds that the specific aspects of the Guiding Principles that are particularly applicable in the review of PNG's proposed Sharing Arrangement are that it should demonstratively deliver value to ratepayers, it should reward innovation and true value added over and above what is reasonably expected in the normal stewardship of PNG's business, it should fairly and appropriately align ratepayer and shareholder interests and it should deliver the smallest amount required to obtain the desired benefit for ratepayers.

The Commission finds PNG demonstrated innovation first by recognizing there was potentially additional value that could be realized for ratepayers and then in PNG's subsequent actions that led to a new energy management services agreement. The 2016 EMS Agreement delivers added value to its ratepayers over and above the terms of the previous energy management services agreement.

The Commission finds that the potential for PNG to add material value on an ongoing basis over and above what is reasonably expected in the normal stewardship of PNG's business is limited during the term of the 2016 EMS Agreement. The most notable material difference between FEI and PNG's mitigation of gas supply assets is that, in PNG's case it is a third party, specifically Tenaska, conducts the day-today mitigation activity rather than the utility itself. Once the 2016 EMS Agreement was executed, any significant incremental value and ongoing innovation will be delivered to PNG's ratepayers primarily through the ongoing mitigation activities of Tenaska. This characteristic limits PNG's ability to make further innovation or to add incremental value for ratepayers during the term of the 2016 EMS Agreement.

The Commission finds that, considering the one-time nature of PNG's actions to deliver incremental value to ratepayers with the 2016 EMS Agreement when compared to the previous agreement, it is appropriate to limit the term of the Sharing Arrangement. The Commission finds that sharing with the shareholder for the first year of the 2016 EMS Agreement fairly and appropriately aligns the ratepayer and shareholder interests and at a level reasonably required to obtain the desired benefit for ratepayers. **For the reasons set out above and pursuant to section 63 of the *Utilities Commission Act*, the Commission approves the Sharing Arrangement but only for the first year of the 2016 EMS Agreement such that the Sharing Arrangement applies only to the Optimization Value realized by PNG for Tenaska's mitigation activities from May 1, 2016 to April 30, 2017. The Commission denies PNG's request for the Sharing Arrangement term to extend beyond April 30, 2017.**