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Utilities Commission

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July 20, 2018

Sent via email **Letter L-21-18**

Ms. Janet P. Kennedy
Vice-President, Regulatory Affairs & Gas Supply
Pacific Northern Gas Ltd.
2550-1066 West Hastings Street
Vancouver, BC V6E 3X2
jkennedy@png.ca

Re: Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd. – 2018 Annual Gas Contracting Plan

Dear Ms. Kennedy:

On June 8, 2018, 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 from November 1, 2018 to October 31, 2019 (2018-19 ACP). PNG's 2018-19 ACP outlines plans to meet the natural gas requirements for PNG's service areas, including PNG-West (west of Summit Lake) and Pacific Northern Gas (N.E.) Ltd. [PNG (N.E.)] as well as propane requirements for its Granisle service area. PNG (N.E.) includes the Fort St. John and Dawson Creek and Tumbler Ridge service areas. PNG also provided a non-confidential executive summary of the 2018-19 ACP.

The British Columbia Utilities Commission (BCUC) has reviewed the filing and accepts PNG's 2018-19 ACP as in the public interest.

Page 2 of the attached non-confidential Executive Summary states PNG's intention to renew its existing storage position during the 2018-19 ACP. Should PNG submit an application in relation to its storage contract renewal, the BCUC requests the following information to be included:

- a thorough evaluation of the proposed gas storage contract and related transportation and gas purchase arrangements;
- a summary evaluation of the previous gas storage contract for comparison; and
- a thorough evaluation of alternative gas storage arrangements.

In PNG's next ACP for the period November 1, 2019 to October 31, 2020 (2019-20 ACP), the BCUC requests PNG to include further updates on transportation service developments and the impact of such developments on PNG's supply procurement plans, including a review of alternative options if necessary.

As directed by Order E-12-16, the 2019-20 ACP should include an analysis of the performance of PNG's storage contract and related transportation and gas purchase arrangements to date together with an updated evaluation of the projected value of the storage contract for the remaining term of the storage contract. If PNG is successful in renewing its gas storage position, the BCUC also requests an analysis of the performance of the renewed gas storage contract and related transportation and gas purchase arrangements that follows the example as set out in Order E-12-16.

PNG is encouraged to meet with BCUC staff prior to submitting the 2019-20 ACP to ensure the filing adequately addresses BCUC requests and directives.

The BCUC will hold the 2018-19 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 2018-19 ACP is attached to this letter and is available to the public.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

RQ/dg
Enclosure

EXECUTIVE SUMMARY

General

Pacific Northern Gas Ltd. (PNG) hereby submits and seeks acceptance from the British Columbia Utilities Commission (BCUC or Commission) of its Annual Gas Contracting Plan, (ACP 2018) that covers the period from November 2018 to October 2019 (2018/19 Gas Year). ACP 2018 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 Pacific Northern Gas (N.E.) Ltd. (PNG(NE)), which includes the Fort St. John and Dawson Creek (FSJ/DC), and Tumbler Ridge (TR) service areas.

The objectives of ACP 2018 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 Annual Gas Contracting Plan for 2017 (ACP 2017) that were accepted by the Commission under Letter L-18-17. Previous ACPs have been successful in meeting these objectives and PNG submits that ACP 2018 will enable PNG to continue to meet these objectives in the best interests of customers for the 2018/19 Gas Year and on a go-forward basis.

Demand Forecast – Peak Day Demand

The forecast aggregate peak day demand for PNG-West and FSJ/DC systems for the 2018/19 Gas Year is 66,800 GJs, which is a decrease of 903 GJs from the peak day forecast from the 2017/18 Gas Year of 67,703 GJs. The peak day forecast has remained relatively unchanged from the previous year as residential customer additions are offset by declining average annual per-customer demand, and large customer demand has remained flat.

PNG(NE) TR peak day demand for the 2018/19 Gas Year is forecast at 1,739 GJs, essentially the same as the prior year forecast of 1,727 GJs.

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 and monthly priced supply. PNG may also look to secure longer term supply contracts of two to three years if doing so meets the objectives set out above.

PNG has included natural gas storage in its gas supply portfolio since 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.

Storage has remained a cost-effective resource for PNG and continues to support PNG's objectives related to its ACP. PNG notes that utilities across North America continue to rely heavily on storage for the many benefits it provides.

Gas Storage

On April 19, 2016, PNG submitted for acceptance by the Commission, a storage agreement with Tenaska Marketing Canada. The Commission approved this submission under Order E-12-16 and PNG subsequently contracted for a three-year storage service that expires March 31, 2019. Storage provides PNG with some cost certainty heading into the winter season and acts as insurance against winter weather events. Therefore, it is PNG's intent to renew its storage position for another three years under terms consistent with the current agreement.

Transportation Service

PNG is required to contract for firm transportation service on the Westcoast Energy (Westcoast) pipeline system to move its gas supply to its load centres. Currently, PNG has contracted for sufficient T-South capacity, which is slightly higher than is required, to meet its load requirements on the PNG-West system as T-South firm capacity is currently fully contracted.

PNG also makes use of a locational swap to receive its Station 2 supply at the McMahon Plant outlet. PNG has T-North Short Haul transportation service agreements in place to deliver this gas to the PNG(NE) FSJ/DC service area, saving PNG the cost of contracting for T-North Long Haul capacity along with the associated fuel. Under a peak day scenario, the maximum amount of 23,954 GJ/d would be re-delivered to the FSJ/DC service area. PNG also contracts for a small amount of T-North Short Haul capacity on the Ft. Nelson Mainline to serve the community of Pink Mountain. It is PNG intent to renew the transportation agreement for capacity serving Pink Mountain for an additional two-year term.

PNG will continue to seek discounted third party capacity for the necessary T-North Long Haul capacity to facilitate injections and withdrawals from storage. This capacity has proven to be reliable and cost effective in the past and PNG believes this will continue in the near future.