National Energy Board
Office national de l'énergie

LETTER DECISION

File OF-Tolls-Group1-W102-2016-02 01
10 November 2016

To: Interested Parties to Written Hearing Process RHW-001-2016

Written Hearing Process RHW-001-2016
Westcoast Energy Inc., doing business as Spectra Energy Transmission (Westcoast)
Application for Approval of T-South Winter Firm Service

This letter provides our reasons and decision in respect of Westcoast's 11 May 2016 Application for Approval of T-South Winter Firm Service.

Background
Westcoast Energy Inc., doing business as Spectra Energy Transmission (Westcoast) owns and operates a natural gas pipeline system in Western Canada. Westcoast's system is divided into four zones for tolling purposes (Zones). Zones 1 and 2 are tolled under the Framework for Light-Handed Regulation and Zones 3 and 4, Westcoast's mainline transmission service, are tolled under the 2016-2017 Transmission Toll Settlement, approved by the National Energy Board in Order TG-003-2016 on 27 April 2016.

In Zones 3 and 4, Westcoast provides Firm and Interruptible Transmission services. In Zone 3, also referred to as T-North, there is Short Haul Service and Long Haul Service available. Zone 4, also known as T-South, provides service from:

- Compressor Station (CS) No. 2 to PNG Delivery Point
- CS No. 2 to Inland Delivery Area
- CS No. 2 to Huntingdon Delivery Area (HDA)
- Kingsvale to HDA (for FortisBC Energy Inc.)

(See Appendix 1 for map of Westcoast Pipeline System)

On 11 May 2016, the National Energy Board (Board or NEB) received an application from Westcoast, pursuant to Part IV of the *National Energy Board Act* (Act), for approval to implement a Winter Firm Service (WF Service) between CS No. 2 and the HDA (Application). On 16 May 2016, the Board invited comments on Westcoast's Application and the appropriate process for considering it. The Board received three letters of support from the Canadian Association of Petroleum Producers (CAPP), the Export Users Group (EUG) and AltaGas Ltd. (AltaGas).

Suite 210, 517 Tenth Avenue SW
Calgary, Alberta T2R 0A8

517, Dixième Avenue S.-O., bureau 210
Calgary (Alberta) T2R 0A8

Canada

Telephone/Téléphone : 403-292-4800
Facsimile/Télécopieur : 403-292-5503
www.neb-one.gc.ca
Telephone/Téléphone : 1-800-899-1265
Facsimile/Télécopieur : 1-877-288-8803

The Board also received four letters of opposition for the Application from FortisBC Energy Inc. (FEI), Powerex Corp. (Powerex), BP Energy Group ULC (BP) and Pacific Northern Gas Ltd. (PNG).

On 22 July 2016, the Board established a written hearing process to consider the issues raised by FEI, Powerex, BP and PNG in their comments. The written process included rounds of information requests between all the Parties, an opportunity for Interested Parties to file written evidence, final written argument by Interested Parties and reply argument by Westcoast.

The Application

As of 1 November 2015, the available year-round capacity of 1,450 million cubic feet per day (MMcf/d) between CS No. 2 and the HDA is fully contracted. However, due to seasonal differences in ambient temperatures, there is approximately 160 MMcf/d of additional capacity between CS No. 2 and the HDA during the winter months (November to March) compared with the summer months (April to October). At present, this additional winter capacity is currently made available on an interruptible basis through authorized overrun service (AOS) and interruptible service (IT). The Application makes available 160 MMcf/d of capacity from CS No. 2 to the HDA over 151 days from November 1 to March 31 each year (152 days in leap years) for WF Service.

WF Service will be priced at 150% of the applicable term-differentiated year-round firm service toll in effect at the time. Westcoast stated that the toll for WF Service will be the equivalent to the revenue from 7.5 months of service at a 100% toll and a discount relative to 12 months of service at a toll of 100%. Westcoast stated that WF Service is expected to secure a firm revenue stream of more than $12 million annually, with no accompanying incremental facility investments. Westcoast views this as providing significant revenue support to the system.

As the price is pre-determined, WF Service will be awarded based on bid term, specifically the unit economic value[1]. A minimum term of one year with an end date of October 31 will be required and there will be no maximum term. Both new and existing shippers are eligible to bid on the service.

By implementing WF Service, Westcoast aims to achieve the following objectives:

- Provide long-term stability and certainty of tolls and service offerings;
- Maximize long-term firm contracting of available pipeline capacity;
- Provide open access to all interested parties;
- Design a simple service that could be integrated with Westcoast's existing suite of services;
- Implement the service in a timely fashion; and
- Enhance the viability and competitiveness of the western Canadian natural gas market.

[1] Unit economic value is defined in section 9.08 of Westcoast's Tariff as the net present value of the currently applicable Demand Toll for the service, either Firm Transportation Service or Temporary Firm Service.

As part of the Application, Westcoast proposed a number of changes to the Tariff, discretionary services toll methodology and financial deferral accounts. These changes are outlined below. While CS No. 2 to the HDA is currently fully contracted on a year-round firm service basis, should year-round de-contracting occur, the Application describes attributes of WF Service that are intended to ensure that WF Service meets the objectives listed above.

Conversion
If a shipper holds both year-round CS No. 2 to HDA firm service and WF Service and that shipper does not renew any portion of their year-round CS No. 2 to HDA firm service, then an equivalent volume of its WF Service converts to year-round CS No. 2 to HDA firm service effective the date of the turn back. If a shipper turns back year-round CS No. 2 to HDA firm service as a result of a reverse open season process conducted as part of an open season for expansion service, then this capacity will be exempt from this conversion.

A shipper with WF Service will have the right at any time to convert its WF Service to year-round CS No. 2 to HDA firm service, provided year-round capacity is available and in accordance with the capacity allocation procedure described in Article 9 of the Tariff.

Reversion
When Westcoast is providing WF Service, it will conduct a review of the available capacity for year-round CS No. 2 to HDA firm service every three years on March 31. If the available capacity exceeds the aggregate Contract Demand for WF Service for each month during the winter season immediately following the review date, then all WF Service will be designated as Revertible WF Service effective November 1 of the year of the review. If designated as Revertible WF Service, then shippers will be tolled at the same rate and subject to the same terms and conditions as year-round CS No. 2 to HDA firm service and shippers will pay the toll for the entire year. Revertible WF Service differs from year-round firm service in that, if year-round firm service is contracted, then it may lose its designation as Revertible WF Service and revert back to WF Service. Removal of the Revertible WF Service designation will be effective the date of the change in uncontracted capacity, and is not restricted to three year reviews as the assessment will be performed monthly.

The Demand Toll applicable to Revertible WF Service will be based on the remaining term of such service from the effective date of the designation.

Toll for IT and AOS
Westcoast also proposed changes to the IT and AOS toll levels in the Application. Currently, the IT and AOS tolls for service from CS No. 2 to the HDA are set at 100% of the 1 year firm service toll for the summer months and 133% of the 1-year firm service toll for the winter months. Westcoast requested that, effective the in-service date of the proposed WF Service, IT and AOS tolls for service from CS No. 2 to the HDA equal 110% of the 1-year toll for year-round CS No. 2 to HDA firm service for all months of the year.

Additionally, Westcoast requested that IT and AOS tolls be subject to the same three year review as described for WF Service. If the uncontracted Year-Round HDA Capacity is greater than the aggregate contracted volumes of WF Service for each month during the winter season immediately following the review date, IT and AOS tolls will equal 100% of the 1-year toll for year-round CS No. 2 to HDA firm service in the summer and 133% of the 1-year toll for year-round CS No. 2 to HDA firm service in the winter, effective 1 November of the year the review is conducted. If the uncontracted Year-Round HDA Capacity subsequently decreases to less than the contracted WF Service volume, Westcoast proposed that the IT and AOS tolls will again equal 110% of the 1-year toll for year-round CS No. 2 to HDA firm service, effective the following 1 November; this potential change back to the 110% level for IT and AOS tolls is not restricted to three year reviews, as the assessment will be performed monthly. Westcoast submitted that these IT and AOS toll attributes will enhance the value of year-round firm service when the CS No. 2 to HDA path is not fully contracted (thereby protecting against de-contracting and promoting revenue stability), while also recognizing that when this path is fully contracted there is less reliability (and hence, value) associated with IT and AOS.

Deferral Account

Westcoast applied for a deferral account, which will record all external costs incurred by Westcoast to implement WF Service. These costs will include the cost associated with modifications to Westcoast's gas management system (including modifications to provide for nominating, allocating and billing WF Service) and external legal costs. Westcoast forecasts that it will incur $75,000 of external costs in 2016 and $65,000 of external costs in 2017 to implement WF Service.[2] The costs will be recorded in the deferral account in the year in which they are incurred. The costs incurred in 2016 will be recovered in the 2017 Zone 4 revenue requirement and an estimate of the costs to be incurred in 2017 will be recovered in the 2017 revenue requirement with any difference between the forecast and actual 2017 costs recovered in the 2018 Zone 4 revenue requirement.

Consultation

Westcoast stated that after shippers indicated interest in WF Service, it engaged in discussions between October 2014 and February 2016 with the T-South Transportation Services Sub-Committee, a sub-committee of its Toll and Tariff Task Force (TTTF), regarding a potential winter only service offering. The sub-committee is comprised of 21 members ranging from representatives from the producer, marketer, distribution utility and industrial user sectors of British Columbia, Alberta, the Yukon Territory, the Northwest Territories and the US Pacific Northwest. Following this consultation, TTTF members voted on WF Service at a TTTF meeting on 18 February 2016. Westcoast said the vote resulted in an "opposed resolution", with a majority of votes in favour of the proposed resolution and with one or more members indicating that they may actively oppose the proposed resolution and/or propose an alternate resolution to the Board.

[2] Based on a 1 November 2016 implementation date.

Relief requested
Westcoast requested Board approval pursuant to Part IV of the Act to implement WF Service, including:

- approval of the proposed tolling methodology for WF Service;
- the Tariff provisions for WF Service;
- the adjustment to the IT and AOS toll methodology for service from CS No. 2 to the HDA; and
- the creation of a cost of service deferral account to record any costs associated with the implementation of WF Service to be included in the revenue requirement calculation and tolls for 2017 and 2018, as applicable.

Initially, Westcoast requested the Board approve the Application by 12 August 2016 in order to implement WF Service by 1 November 2016. Westcoast stated that if the Application is approved by the Board as filed, then Westcoast could complete an open season and award service within six weeks from the issuance of the decision. Westcoast requires two weeks prior to commencing the open season, a two week open season for shippers to submit bids and two weeks following the open season to evaluate bids, confirm credit requirements and execute contracts. For the 2016-2017 year, Westcoast also stated that it could implement WF Service effective the first day of any month between December 2016 and March 2017 following the completion of the open season process and the execution of contracts.

Views of Parties

BP Energy Group ULC (BP)

BP, a firm service shipper on the Westcoast system, opposed the Application. BP disagreed with Westcoast that the Application will optimize existing utilization of infrastructure by allowing firm long-term gas transportation needs to be met. BP stated that WF Service is unnecessary, prejudicially impacts firm service shippers, and is overly complex and creates uncertainty.

BP argued that WF Service is unnecessary as the existing Short Term Firm Service (STFS) could meet the apparent need for seasonal winter firm service. STFS differs from WF Service in a number of ways: (1) STFS has a term of more than a day, but less than a year, while WF Service has a term of at least a year and no maximum term; (2) STFS is based on bid price and term, while WF Service is based on bid term only; (3) STFS has no reversion or conversion provisions, unlike WF Service; and (4) STFS cannot impact the tolls for other services, while the level of WF Service contract capacity impacts AOS and IT tolls. BP views STFS as a simpler and less risky option than WF Service.

BP argued that WF Service prejudicially impacts firm service shippers. Offering an additional 160 MMcf/d of firm service capacity during winter based on differences in temperature increases the risk of curtailments to Firm Service shippers, as WF Service and Firm Service have the same priority for curtailment. BP noted that 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. By offering WF Service, BP views Westcoast as making firm service less reliable and, therefore, less valuable.

BP also argued that by offering WF Service, Westcoast devalues firm service by decreasing the availability of AOS. AOS is an attribute of firm service and by introducing WF Service, Westcoast would limit the ability of firm service shippers to use AOS when its value is highest. Current firm service shippers contracted with the expectation that seasonal capacity would be available through IT, AOS or STFS. BP is of the view that by offering WF Service out of capacity that is currently utilized by AOS and IT, Westcoast shifts capacity reliability risk to existing firm service shippers while restricting shipper flexibility on a system that is currently capacity constrained.

Finally, BP argued that WF Service has terms that are overly complex and create substantial uncertainty for current firm service shippers, as well as those contracting for WF Service. BP took issue with the concept of Revertible WF Service, as it is premised on certain conditions being met which are beyond the control of any single shipper. The concept of Revertible WF Service results in commercial risk as it is uncertain as to what terms of service will govern when a shipper subscribes for the service. BP also expressed concern regarding the renewal provisions for WF Service and the tolls for IT and AOS. BP stated that Westcoast could eliminate this uncertainty by offering STFS instead of WF Service.

Tenaska Marketing Canada, a Division of TMV Corp. (Tenaska)

Tenaska filed evidence supporting the Application as filed. Tenaska specifically supports the conversion and reversion provisions, stating that these are crucial elements of the proposal and must be retained. If either of those features is eliminated or significantly modified, Tenaska suggested the Board reject the Application in its entirety and allow the "ambient" capacity that Westcoast says it will rely on to provide the WF Service to be marketed under the existing tariff.

Tenaska argued that the conversion and reversion provisions are important because there is a significant risk that WF Service will prove to be an attractive alternative to Firm Service for shippers who require long term firm capacity. In that case, Firm Service would actually decline relative to the status quo, because shippers could collectively substitute WF Service for Annual Firm Service. Because of the pricing on WF Service, Westcoast's total annual revenues would decline and tolls for Annual Firm Service would increase rather than decrease. Without the conversion and reversion provisions in place, Tenaska is of the view that the Application would result in the subsidization of WF Service shippers at the expense of other shippers.

Pacific Northern Gas Ltd. (PNG)

PNG opposed the Application. PNG currently contracts for approximately 22 MMcf/d of firm service capacity at Summit Lake to meet peak winter demand of its customers.

As peak winter demand exceeds average demand for contracted capacity, PNG has historically mitigated the cost of firm service by flowing gas to the HDA under a downstream diversion.

This provides PNG with an additional market for gas in excess of its requirements and allows PNG to benefit from any Sumas to Westcoast Station 2 gas price spread. PNG expressed concern that WF Service would limit its 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.

PNG acknowledged that the availability of its downstream diversions is based on utilization of firm service and is not a right to firm service delivery to the HDA. PNG also noted that downstream diversions are assigned higher priority than IT service. However, PNG submitted that downstream diversions are not assigned a higher priority than all interruptible services on T-South, referring specifically to AOS. As WF Service would decrease the availability of AOS, PNG argued that this would flow down and curtail its ability to use downstream diversions.

PNG stated that current services, like AOS and IT, are sufficient to ensure that winter capacity is used and, therefore, WF Service is not required. If the Board approved the Application, PNG requested that the Board 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. This would allow PNG a better opportunity to mitigate unused demand charges.

PNG also submitted that WF Service provides preferential treatment to shippers delivering to the HDA, as the Application allocates all of the available firm winter capacity on T-South to deliveries at the HDA and shippers to delivery points upstream will be unable to obtain additional firm transportation capacity to serve incremental winter load. PNG, as a shipper at Summit Lake, will be excluded from accessing any of the WF Service. PNG stated that the existing interruptible services provide more equitable access to available capacity on all paths on T-South and not just to the HDA.

Export Users Group (EUG)

EUG argued that WF Service remains the most practical, beneficial and stakeholder supported service option to offer the 160 MMcf/d of available winter firm capacity for contracting. EUG noted that this Application is the result of over two years of stakeholder engagement and discussion. EUG noted that the revenue stream of $12 million offers the most stability and predictability of the service options, especially in contracts to the intermittent and speculative revenue stream that may be generated by providing STFS. EUG noted that it is in the best interest of all stakeholders to ensure that this capacity is available for long-term contracts, not for short-term contracts for shippers to hold the capacity when it appears to be profitable.

EUG observed that the WF Service offering will not necessarily preclude an offering of STFS, but that such an offering will appropriately depend on the availability of short-term firm capacity. EUG argued that the value of STFS depends on the economics of intermittent periodic short-term opportunities to provide such a service, whereas the value of WF Service depends on a sustained long-term demand that underpins firm obligations to serve customers.

FortisBC Energy Inc. (FEI)

FEI, a local distribution utility and the largest shipper on the Westcoast T-South system, accounting for 45% of current firm contractible long-haul transportation capacity, generally supported Westcoast offering winter seasonal capacity as firm service but did not support the terms and conditions proposed in the Application, specifically the conversion and reversion provisions.

FEI explained that it manages gas supply to meet daily customer demand, including peak day demand and balances its contract requirements with minimizing the overall cost of its portfolio. FEI said that its contracting approach is to stagger contract terms over multiple years so that if decreases in forecast demand occur, transportation capacity renewals can be adjusted to accommodate these changes. FEI said that the ability to contract for WF Service as part of its overall portfolio would allow FEI to better match its baseload and seasonal resources and reduce fixed costs, potentially reducing rates for customers in the future.

FEI objected to the conversion provision, arguing that it penalizes existing year round firm service shippers like FEI, compared to shippers that do not currently hold year-round capacity. The conversion provision precludes FEI from releasing any year-round capacity as this capacity expires if it also contracts from WF Service. A shipper with no year-round capacity would not face this constraint.

FEI argued that Westcoast's only justification for the conversion provision is to avoid substitution away from year-round service to winter only service. However, FEI said that Westcoast has provided no evidence as to why that substitution must be blocked. FEI submitted that there is no evidence that year-round capacity that may be turned back in favour of winter service would remain uncontracted. Instead, Westcoast's evidence shows that the available year-round capacity is fully contracted and it was shippers' requests for additional capacity that led to the proposal for a winter firm service.

FEI also objected to the reversion provision, stating that it makes a shipper's contracted capacity conditional on how transportation capacity with other service attributes may be contracted, whether by it, or by other shippers on the system. FEI observed that the reversion provision includes the risk that some or all Revertible WF Service may revert back to WF Service at any time, without notice and for an unknown time. FEI suggested that this would interfere with mitigation arrangements between shippers and will render the functioning of the secondary market less liquid and efficient. FEI also observed that the reversion provision may also have the inadvertent consequence of incenting a shipper to "game" the available capacity on Westcoast's system, to the detriment of other shippers.
FEI provided an example where there is summer mitigation value and shippers that hold both WF Service and reverted year-round capacity. FEI explained that competing shippers not holding any firm capacity may be incented to contract for year-round capacity, and force the competitor from continuing to hold any reverted year-round capacity, preventing the reverted shipper from participating in the summer mitigation opportunity.

In FEI's view, there is unfairness inherent in the toll that Westcoast proposes for Revertible WF Service because a shipper that sought and was awarded long term WF Service (for example, 10 years) will not be afforded the benefit of the reduced toll that comes along with a service term of 5 years or more should its WF Service convert to Revertible WF Service.

FEI explained that the toll for Revertible WF Service will be determined based on the remaining term of the shipper's WF Service. This means that a shipper that makes a 10 year commitment to WF Service will pay a considerably less discounted toll if its WF Service is converted to Revertible WF Service in the last five years of its service term than it would have if it had simply contracted for year-round service for that same term.

FEI argued that tariffs should promote certainty, simplicity and the efficient operation of the market. FEI stated that terms that are overly complex, unstable or interfere with the economic efficiency of the market should not be included in a tariff if not justified.

FEI noted that the conversion and reversion provisions introduce uncertainty to orderly and efficient future capacity expansions on the T-South system due to the increased complexity and decreased transparency of contracting for WF Service. FEI stated that while it is clear how the conversion and reversion provisions will operate, the Tariff amendments result in the differential treatment of shippers and render it impossible for shippers to know how and when their service attributes may be varied.

FEI submitted that Westcoast has not demonstrated that WF Service is just and reasonable and that it does not operate to unjustly discriminate against FEI and other shippers. FEI stated that the conversion provision discriminates against existing firm service shippers by limiting their participation in the market. FEI said that the conversion provision would frustrate FEI's opportunity to optimize its year-round service over the term of any contracted WF Service. In FEI's view, Westcoast has not provided evidence to justify the discrimination.

Powerex Corp. (Powerex)

Powerex, a shipper on Westcoast between CS No. 2 and HDA, requested the Board deny the Application. Powerex argued that: (1) Westcoast could not reliably support firm service to HDA of 1,610 MMcf/d; and (2) the annual revenue impact of WF Service will likely result in increased toll levels that harm existing firm shippers. However, should the Application be approved, which Powerex opposes, the conversion and reversion provisions must be retained as attributes of the service offering. Powerex cited past Board decisions[3] on reliability of service and seasonal service offerings to support their recommendation that the Board dismiss the Application.

With respect to its position against the Application, Powerex first stated that there is a significant difference between Westcoast's stated system capacity and the demonstrated ability of the system to deliver that capacity to the HDA. In Powerex's view, Westcoast has not sufficiently supported its statements regarding the capacity of its system in three interrelated areas: the conversion between "Authorized Nominations" and "Authorized Volumes"; the heat value used, and the system receipts at Kingsvale.

[3] Including RH-002-2014 and RH-003-2011.

Powerex's evidence discusses Westcoast's Tariff to support its position that Westcoast is overestimating the capacity of its system. While shippers contract for service in volumetric units, Westcoast's firm nomination entitlements are determined by converting a shipper's contract demand volume (in 10^3m^3) to energy units (gigajoules (GJ) utilizing the applicable Estimated Yearly Heat Content Values.[4] As noted by Powerex, the firm nomination allocations (in GJ) have been determined by Westcoast using the shipper contracted volume converted to energy units using a heating value of 38.25 GJ per 10^3m^3, and this has not been revised in at least seven years. Powerex submitted that due to innovations in drilling technology and the liquids rich nature of the Montney formation in Northern BC, the actual heating value of residue gas arriving at the HDA is substantially higher than the 38.25 GJ per 10^3m^3 used by Westcoast in their nomination process.

Powerex submitted that Westcoast's use of an inaccurate heat value to perform this conversion overstates the volumetric capacity of the System by approximately 6% for the period in question. Therefore Powerex submitted that Westcoast is not capable of consistently delivering 1,610 MMcf/d natural gas between CS No. 2 and the HDA. Powerex submitted that Westcoast's System's winter design capacity along the flow path from CS No. 2 to the HDA is 1,702 MMcf/d but that metered volumetric deliveries to the HDA were well below the design capacity, averaging HDA deliveries of 1,573 MMcf/d last winter.

As a result of using an incorrect heating value, Powerex submitted that WF Service cannot be provided without frequently curtailing existing shippers' firm service. Powerex stated that if Westcoast had offered WF Service over the past winter using more accurate existing heating values, shippers would have experienced firm service curtailments for HDA deliveries on roughly 60% of the winter days. Additionally, Powerex argued that had Westcoast sold WF Service for the past winter, and "Authorized Nominations" reflected an accurate heat value, then shippers would have experienced firm service curtailments for HDA deliveries roughly 45% of the time in the three coldest months of December through February.

Powerex also addressed Westcoast's differentiation between gas receipts at CS No. 2 and Kingsvale and Westcoast's submission that Powerex is inaccurately assessing the System capacity to the HDA. Powerex submitted that Kingsvale is, in fact, irrelevant to HDA delivery capacity. System capacity concerns pertain to the final volume of gas delivered to the HDA irrespective of Kingsvale receipts onto the System. Powerex argued that Westcoast has incorrectly accredited metered receipts at Kingsvale as the only volumes capable of being nominated on the firm 105 MMcf/d contract from Kingsvale to the HDA. Powerex submitted that this does not represent the physical operation of the System.

[4] Section 4.16 of the Tariff explains this conversion. "Nominations" given by Shippers and "authorizations" given by Westcoast are given in energy units rather than volumetric units. Conversions of such nominations and authorizations from volumetric units to energy units and from energy units to volumetric units are be made utilizing the applicable Estimated Yearly Heat Content Values determined by Westcoast and posted on its public bulletin board in accordance with Section 4.02 of the Tariff.

Powerex argued that, though WF Service will provide a positive impact on revenue, there will be negative impacts on revenue from the displacement of revenues from AOS and downstream diversion. This would result from de-contracting of the TSIND and TSPNG service[5], as a result of the reduced economic incentive of holding these contracts for the purpose of downstream diversions, and the reduction in the AOS toll premium. Powerex estimated the net revenue loss to the system to be between $0.7 million and $3.0 million annually, depending on the level of de-contracting on the TSIND and TSPNG paths. Powerex concluded that the risk of disrupting firm service, without offering benefits through lower service costs, show that the system should remain as currently operated.

Powerex noted Westcoast's submission that it must pay Contract Demand Credits if Westcoast does not meet its reliability requirement. In Powerex's view, Contract Demand Credits exist as a financial remedy for firm nomination curtailments in the Tariff, but the reliability of firm gas deliveries to the HDA in the winter period, particularly on cold days, is of paramount importance.

Canadian Association of Petroleum Producers (CAPP)

CAPP supported the Application as filed. CAPP noted that, as a member of the Westcoast Toll and Tariff Task Force, it was an active participant in discussions regarding the proposed T-South Winter Firm Service.

AltaGas Ltd (AltaGas)

AltaGas supported the Application, stating that T-South is a critical transportation path out of British Columbia and WF Service will create additional market access over the winter period.

Westcoast

Reply to all parties

Westcoast submitted that the fundamental question raised by the Application is what is the best use of the 160 MMcf/d available from CS North No. 2 to the HDA in the winter months. Westcoast is of the view that the best use is to meet firm long term market needs if that demand exists.

Given that peak market demand occurs during the winter months, Westcoast argued that the proposed WF Service will provide supply certainty to WF Service shippers required during this peak period. It allows for incremental reliable long-term firm service during the winter months without requiring these shippers to support a pipeline expansion project by signing up for long-term year-round service. Westcoast argued that this alternative to the WF Service offering is more expensive, less timely and less efficient.

[5] Meaning the Transportation System South to the Inland Delivery Area and the Pacific Northern Gas Delivery Area, respectively.

Westcoast noted that any increase in the firm level of service on a pipeline system results in some decreased capacity for interruptible services, but concluded that the increased firm revenue would be greater than any revenue decrease from interruptible services. Westcoast further observed that the WF Service provides an ongoing commitment and contribution to the T-South revenue requirement, which is not the case with the current interruptible services.

Reply to BP

Westcoast disagreed with BP that STFS is a suitable alternative to WF Service. Westcoast stated that, unlike WF Service, STFS does not provide long-term revenue consistency or certainty. Securing term commitments on WF Service will provide for a consistent and stable contribution to system costs and therefore lower and more stable tolls over time. Westcoast said that BP's arguments relating to the complexity of WF Service terms essentially just advocated for the superiority of STFS over WF Service.

Westcoast also disputed BP's argument that by offering WF Service, Westcoast devalues firm service by decreasing the availability of AOS. Westcoast said BP's argument about eroded value of firm service is tantamount to saying that incremental firm capacity that is available on the system should be set aside and reserved as redundant capacity to actually further enhance the value of year-round firm service.

Reply to PNG

Westcoast noted that PNG requested that if the Board approved the Application, then it should also direct Westcoast to revise its Tariff to set the priority of downstream diversions to be higher than all other interruptible services. Tenaska also supported this change.

Westcoast said that there is no application before the Board to alter the priority of interruptible services on the T-South system. There has been no evidence in this proceeding, or opportunity for affected parties to assess and comment on the potential implications and consequences of such a change. Westcoast suggested that this proposal first be raised and discussed with Westcoast's TTTF and then adjudicated by the Board in the context of a formal application.

Reply to FEI

Westcoast noted that FEI supported the Application in principle but objected to the conversion and reversion provisions. Westcoast submitted that FEI's objections are focused on the observation that, because the system is currently fully contracted, these provisions are unnecessary. Westcoast submitted that the fact that the system is fully contracted today does not mean that the system will remain fully contracted in the future. If there was such an assurance then Westcoast would agree that these provisions are not required. Westcoast said that should the system not be fully contracted in the future, the reversion provision is a critical attribute to prevent WF Service shippers from receiving a discount, which would in turn be paid for by other shippers who would have to account for the discount in the tolls for year-round firm service.

With respect to FEI's position that Westcoast is not making a comparable commitment to providing service as WF Service shippers are making to the system, Westcoast submitted that it is committed to providing holders of WF Service with long-term firm service during the winter months (providing them with certainty their needs will be met when market needs are highest) and renewal rights for WF Service. Westcoast does not view the conversion and reversion provisions as diminishing that commitment. Additionally, Westcoast submitted that the conversion and reversion provisions appropriately increase the commitment that WF Service holders must make to the T-South system to a commitment level that is closer to what shippers who hold year-round firm service must make, to the benefit of the system generally.

Westcoast explained that the objectives of the conversion and reversion provisions are to ensure that when there is available year-round capacity, shippers who need access to firm capacity from CS No. 2 to the HDA during peak periods pay for the full year costs related to that capacity. Westcoast argued that this will maintain the value of year-round firm service and avoid migration away from year-round service to winter-only service. Westcoast noted that the WF Service proposal is a result of the CS No. 2 to HDA path being fully contracted on a year-round basis. Westcoast stated that the conversion and reversion provisions are reasonable because they act as a mechanism to restore the original intent of service offering should year-round capacity become available.

Westcoast acknowledged FEI's objections to their inability to optimize their existing firm portfolio by contracting for WF Service and de-contracting year-round capacity; however, Westcoast indicated that this is not the intent of the WF Service offering and that Westcoast said that this would undermine the objectives of providing WF Service.

With respect to the uncertainty associated with WF Service, Westcoast argued that there are many external factors that can impact the services offered by a regulated pipeline that are not in the control of any single shipper, and that a shipper enters a contract with full knowledge that outside factors may affect service in the future, as well as the terms and conditions of the service.

Reply to Powerex

Westcoast submitted that Powerex's assessment of the capacity of the T-South system is wrong because it is based on gas delivery data at the HDA which includes deliveries from CS No. 2 to the HDA and from Kingsvale to the HDA. Westcoast submitted that the relevant capacity to consider is only the CS No. 2 to the HDA. Westcoast noted that the firm capacity that is contracted from CS No. 2 and Kingsvale to the HDA is 1,450 MMcf/d, which consists of 1,345 MMcf/d from CS No. 2 to the HDA and 105 MMcf/d from Kingsvale to the HDA. Westcoast noted that the additional 160 MMcf/d of WF Service will increase the firm contracts from CS No. 2 to the HDA to 1,505 MMcf/d during the winter months, not 1,610 MMcf/d.

Westcoast explained that the data filed in response to information requests shows that there were virtually no days in December, January or February last winter when deliveries to the HDA, net of receipts at Kingsvale, were less than 1,505 MMcf/d. Westcoast noted that there was one day, 20 December 2015, when the net deliveries to the HDA were below 1505 MMcf/d, but this day was marginally below 1505 MMcf/d by 1 MMcf/d. Therefore, Westcoast submitted, that had WF

Service been fully contracted during this peak period last winter there would have been no curtailments of firm service. Furthermore, Westcoast noted that its operating and maintenance decisions take into account existing firm contract levels and will take into account any higher contract levels when scheduling maintenance activities in the future as to not impact the higher firm contract service levels. For example, Westcoast undertook maintenance activities in November and March of 2015, when demand is relatively lower, with no impact on service.

Westcoast further noted that Powerex's assessment of the T-South capacity is based on physical delivery volumes, not authorized nominations. Westcoast reiterated that due to operational requirements, current account imbalances or linepack conditions, the downstream party may physically take less or more gas than what was authorized on that day. Nevertheless, Westcoast submitted that the capacity of the system is properly assessed based on the volumes of gas authorized for delivery by Westcoast, and not reported delivery volumes as submitted by Powerex. As a result, Westcoast argued that there is no merit to Powerex's assertion that Westcoast does not have the capacity to provide WF Service or that WF Service can't be provided on a firm basis in the winter months.

Westcoast submitted that it has not responded to Powerex's arguments about heat value or its arguments about "Authorized Nominations" versus "Authorized Volumes" because volumetric deliveries on the T-South system to the HDA last winter raise no doubt as to Westcoast's ability to meet its firm volumetric contractual obligations to the HDA, even once WF Service is in place.

Westcoast noted that no party other than Powerex has asserted that it does not have the capacity to provide WF Service. Westcoast submitted that it has owned and operated the Westcoast pipeline system for almost 60 years and that it is their evidence, as the owner and operator of the pipeline system, that there is approximately 160 MMcf/d of additional firm capacity available from CS No. 2 to the HDA in the winter months compared to the summer months and that contracting this capacity as WF Service will not jeopardize the reliability of existing shippers' firm service.

Furthermore, Westcoast explained that it has no incentive to offer WF Service if it had doubts as to its ability to actually provide the service. Westcoast would be penalized if it cannot provide the service. Westcoast would receive no additional return on common equity as a result of providing WF Service, as the additional WF Service revenue and allocation units will simply serve to reduce the tolls payable by all T-South shippers. On the other hand, Westcoast submitted it would be penalized if it is not able to meet its firm service obligations (year-round and WF Service). Westcoast also noted that, under the Westcoast Pipeline Tariff, the Transmission Reliability Percentage is 100% in the winter months. If Westcoast curtails any firm service during the winter months due to insufficient capacity, shippers are entitled to contract demand credits as described in the Tariff. Westcoast stated that these credits are to Westcoast's account and would therefore reduce Westcoast's return on common equity. Westcoast said this means that there is no incentive to offer incremental firm service, which it is not confident it has the ability to provide.

Westcoast acknowledged that the proposed WF Service could reduce existing shippers' access to AOS and IT. However, the benefit to the system as a whole would be more consistent contributions to the Westcoast system cost of service and therefore would result in lower and more stable tolls. Because AOS and IT do not require any commitment to the system and only contribute to the system cost of service when used, WF Service would provide revenue stability to the system as a whole, benefiting all shippers.

With respect to the impact on revenues, Westcoast submitted that the WF Service revenue, should the service be fully contracted, will provide a consistent and reliable revenue stream, which is not the case currently. Westcoast submitted that Powerex's alternative revenue calculation assuming 100% load factor of discretionary services every day in the winter months is not reasonable. Westcoast also noted that Powerex has not provided evidence supporting the foregone revenue calculations should TSPNG and TSIND shippers adjust their existing contracts. Westcoast observed that Powerex has ignored the cost side of the equation because they did not consider the facility upgrades or expansions that may be required if WF Service is not first made available to the market. In Westcoast's view, WF Service will optimize utilization of existing T-South infrastructure by allowing firm long term gas transportation needs to be met by existing facilities without the need for facility upgrades or expansion.

Views of the Board

> The Board approves the Application as filed, including the proposed tolling methodology for WF Services and changes to AOS and IT tolling methodology, the Tariff provisions to implement WF Service, and the creation of a cost of service deferral account to record any costs associated with the implementation of WF Service. In addition, the Board requires Westcoast to publicly report on WF Service, as described below. Further details on the Board's approval are found in the attached toll order TG-010-2016. The Board finds that the WF Service benefits outweigh the costs to some shippers from the implementation of WF Service.
>
> *Efficient Allocation of Seasonal Capacity*
> The Board agrees with Westcoast that the fundamental question raised by the Application is how to efficiently allocate seasonal capacity available from CS North No. 2 to the HDA in the winter months. Currently, this capacity is used by AOS and IT. When the Westcoast system is fully contracted, as it is at present, this capacity is particularly valuable. In assessing the Application, the Board must evaluate the benefits to the system as a whole and in the long term, while ensuring that tolls remain just and reasonable. In the Board's view, Westcoast's evidence supports the conclusion that WF Service will provide reliable firm service from November to March and shippers will have more certainty contracting WF Service than using either AOS or IT. As WF Service capacity will be allocated based on length of term, the Board agrees with Westcoast that WF Service will also provide certain revenue to the system as a whole for a defined period of time. Shippers contracting for WF Service must pay for the length of their contracted term, providing significantly more stable revenue to the system as a whole when compared with AOS and IT. These two benefits resulting from the implementation of the

WF Service, namely increased certainty for shippers and stable revenue for the system, were important considerations in the Board's decision to approve the Application.

The Board acknowledges that a decrease in the availability to AOS and IT capacity may negatively impact some shippers; however, this is sufficiently mitigated by the benefits described above.

Innovation
The Board notes the efforts made over many months by Westcoast and some stakeholders to craft a WF Service that is innovative, offers a more reliable firm service in the winter months and ensures benefits to the system as a whole. The Board encourages innovative solutions to maximize the physical utilization of existing facilities, to the benefit of all shippers. FEI argued that past Board decisions regarding seasonal firm service and capacity support the Board rejecting the Application. In the Board's view, these decisions were based on the specific circumstances of the respective pipelines, and are not applicable to the circumstances in this Application.

The Board recognizes that the implementation of the WF Service may have some implications for existing shippers, new shippers and the operation of the system as a whole, and these implications may not be known immediately. The Board notes concerns raised by parties about how this may impact the secondary market. The Board's approval of the Application is informed by the overall benefits to firm shippers on the system and their ability to meet their firm needs, as well as the sustainable revenue that firm service provides the system as whole. Parties are reminded that they may make submissions to the Board at any time after the implementation of the WF Service if there are concerns regarding the service provided on the pipeline going forward.

Capacity and curtailment
Powerex raised concerns about the ability of the system to reliably deliver the firm capacity, both year-round firm and winter firm, and about Westcoast overestimating the capacity of the system by using an inaccurate heating value. In reply, Westcoast submitted that Powerex has used inaccurate assumptions on delivery numbers to the HDA, and that volumes nominated do not always translate into volumes delivered for many reasons and that this is normal. Westcoast also emphasized that it is in the best position to know how its system works and would not offer the service if it did not think it could provide the service. Westcoast would receive no additional return on common equity as a result of providing WF Service, as the additional WF Service revenue and allocation units will reduce the tolls payable by all T-South shippers. Furthermore, Westcoast would be penalized if it cannot provide the service.

The Board is of the view that Westcoast has a strong incentive to reliably offer WF Service and existing year-round firm service, and a strong disincentive to not curtail the firm shipments of year-round firm shippers any more than reasonable in the normal operation of its system. The concerns raised by Powerex about existing firm shippers having reliable access to service without excessive curtailment were reasonable.

However, the Board has relied on Westcoast's argument that it knows its system best and is not convinced by these concerns.

The Board accepts Westcoast's submission that the firm capacity from CS No. 2 to the HDA should be considered net of receipts from Kingsvale to the HDA. The Board was not convinced by Powerex's assertion that the inclusion of receipts from Kingsvale is relevant to determining the capacity to implement WF Service. The Board therefore accepts Westcoast's determination that during December, January and February of the last winter season, had WF Service been offered, only one day would have had insignificant capacity curtailment, and in the Board's view, this is reasonable. Given this determination, the Board does not view Powerex's submission that Westcoast is using inaccurate heat value of residue gas flowing on the System to be significant to the determination that Westcoast has the ability to reliably provide WF Service. Furthermore, the Board is not persuaded that historical curtailment data over many months predict what will happen if the Application is approved given that both the discretional nominations of existing year-round shippers and Westcoast's management of its system, are based on this historical context and are unlikely to be replicated if WF Service is also offered.

The Board recognizes that some existing shippers derive value from access to discretionary services in the winter months and that, by offering WF Service, these opportunities may become limited. However, in the Board's view, given the current full capacity of the pipeline, it is reasonable for shippers requiring access to incremental winter firm capacity to pay, at minimum, the 5-month winter firm cost of the service.

Revenue
The Board is not persuaded by Powerex's argument that there will be a net revenue loss to the system, and therefore an increase in tolls for all shippers, should the Application be approved. While the service may result in offsetting negative revenue impacts, the conversion and reversion provisions as well as the existing full capacity of the system will likely lead to positive revenue impacts to the system. However, Powerex's concerns have highlighted the importance of transparency in reporting the impact. The Board directs Westcoast, in consultation with its shippers, to develop a reporting mechanism on revenues raised by the WF Service in its surveillance reports filed with the Board. This is discussed further below.

The Board notes that no party raised concerns about the proposed toll level for WF Service of 150% of the year-round firm service level. No party raised concerns about the proposed change in the toll level of AOS and IT, although Powerex did note the potential decrease in overall revenues to the system. The Board found FEI's concern about WF Service shippers not receiving the benefits of a term-differentiated toll if their capacity becomes revertible to have some merit. However, the Board was not convinced that an adjustment to the Application was required because revertible WF Service capacity will not make as much financial contribution to the system as year-round firm capacity to warrant a term-differentiated discount.

Based on the evidence, the Board has determined that the proposed tolls are just and reasonable. The Board approves the applied-for tolls. The Board also approves the cost of service deferral account to record any costs associated with the implementation of WF Service to be included in the revenue requirement calculation and tolls for 2017 and 2018 as applicable. The Board notes that no party commented in the implementation of the deferral account.

Conversion and reversion provisions

The Board notes the comments made by parties, with the exception of FEI, that the conversion and reversion provisions are fundamental components and must be included for the WF Service offering to benefit all shippers on the system.

The Board recognizes that some shippers, for instance utilities, wish to optimize their existing portfolio of firm contracts, which may be impacted by the conversion provision of the WF Service offering. However, the Board agrees with Westcoast that converting existing year-round firm to winter-only firm service is not the intended purpose of the proposed service. The Board is also not persuaded that the conversion provision results in discrimination of service. In the Board's view the conversion provision appropriately and prudently reduce the risk of negative impacts to all shippers should there be de-contracting of year-round firm service, resulting in lower firm service revenue and higher tolls, to the detriment of the system as a whole.

Westcoast has stated that the conversion and reversion provisions provide a reasonable mechanism to restore the original intent of the service offering should year-round capacity from CS No. 2 to the HDA become available in the future. The Board agrees with this assessment. While the Board recognizes there is some uncertainty for these shippers if their capacity becomes revertible, in the Board's view this is balanced by the benefit of obtaining WF Service for 5 months to meet their firm needs without paying for year-round firm service. The Board notes that it is not uncommon for a shipper who needs firm service to end up paying firm tolls for service they do not need all of the time.

Some parties expressed concern that the reversion and conversion provisions create uncertainty for shippers choosing to contract for terms exceeding three years. Shippers on the Westcoast system are sophisticated commercial parties capable of entering into contracts with some risk. Provided a shipper is aware of the terms and conditions of the service when entering into a long-term contract, the Board is of the view that a shipper should be permitted to make that choice.

The Board approves the request to review provisions for revertible WF Service and the review process for AOS and IT tolls described in the Application. The Board is not convinced that the WF Service offering will provide a significant net benefit to the system in a situation where the circumstances of the system changed such that there is permanent, significant de-contracting of year-round firm service. Should that situation materialize, the Board expects Westcoast and its shippers to reevaluate the service offering.

Complexity and reporting
The Board notes the submissions of the parties opposed to the Application that it is complex and that the reversion provision increases uncertainty for shippers and that simplicity and certainty are important objectives for a service tariff.

However, to the extent that additional transparency and certainty for shippers can be introduced, the Board directs Westcoast to initiate a discussion with the TTTF and any interested persons to establish a public reporting framework for the WF Service. This could be incorporated into Westcoast's existing surveillance reports filed with the Board, or be a stand-alone report.

At a minimum, the Board expects this reporting to be consistent with the Board's Filing Manual Guidance, and to include, as applicable:

- WF Service revenue;
- WF Service throughput on T-South on a monthly basis;
- Contract profile of WF Service contracts;
- Appropriate breakdowns for revertible and non-revertible firm service, if applicable; and
- WF Service deferral account details.

The Board expects that Westcoast will make this information public starting the first month the service is offered, but recognizes that it may take some time for Westcoast to consult with shippers on the appropriate way to report the information. As a result, some surveillance reports for 2016 and 2017 may need to be restated once the WF Service information discussed above becomes available, should the surveillance report be the reporting mechanism supported by parties.

Devaluing Firm Service
BP argued that WF Service will decrease the availability of AOS and thereby devalue firm service. The Board agrees that introducing WF Service will likely decrease the amount of AOS available; however, a shipper that requires a certain amount of firm service should not be relying on AOS to meet its commitments. The nature of AOS or IT is that it is a service that can be interrupted. The Board recognizes that AOS is a valuable service to firm service shippers, but finds that there is more value to the pipeline in reliable, long-term revenue from WF Service.

STFS Request
There is no request for STFS before the Board at this time. If such an application comes before the Board, it will be evaluated on its merits based on the information available at that time.

Disposition

The foregoing constitutes our Decision in respect of Westcoast's Application for Approval of T-South Winter Firm Service considered by the Board in the RHW-001-2016 proceeding.

D. Hamilton
Presiding Member

S. J. Kelly
Member

K. Chaulk
Member

November 2016
Calgary, Alberta

Spectra Energy
BC and Alberta Systems Map with Other Pipelines