DECISION **2018 NSUARB 115**
M08473

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE GAS DISTRIBUTION ACT

- and -

IN THE MATTER OF AN APPLICATION by **HERITAGE GAS LIMITED** for approval of a Long-Term Natural Gas Transportation Contract and Cost Recovery Mechanism

BEFORE: Peter W. Gurnham, Q.C., Chair

COUNSEL:

HERITAGE GAS LIMITED
David MacDougall, LL.B.
Sarah Mahaney, LL.B.

CONSUMER ADVOCATE
William L. Mahody, Q.C.

NOVA SCOTIA POWER INCORPORATED
Matthew Gorman, LL.B.

NOVA SCOTIA DEPARTMENT OF ENERGY
Bill O'Halloran
Michael Bird

BOARD COUNSEL: S. Bruce Outhouse, Q.C.

HEARING DATE: April 18, 2018

FINAL SUBMISSIONS: May 11, 2018

DECISION DATE: **June 1, 2018**

DECISION: **Heritage's application is approved.**

TABLE OF CONTENTS

1.0 INTRODUCTION

[1] On January 11, 2018, Heritage Gas Limited (Heritage) applied to the Nova Scotia Utility and Review Board (Board) for approval of a Long-Term Natural Gas Transportation Contract and Cost Recovery Mechanism (Application). On January 29, 2018, Heritage submitted a revised Application reflecting Heritage's current growth estimate and revised assumptions for contracted storage.

[2] The Board notified interested parties and invited participation in accordance with an Order dated January 11, 2018.

[3] Intervenor evidence was filed on behalf of the Consumer Advocate (CA) by Scott J. Rubin, and on behalf of Board Counsel by Brian Byers. Mr. Byers was generally supportive of Heritage's decision to contract for 10,000 dekatherms (Dth) of capacity pursuant to the precedent agreement and the process Heritage undertook to come to that determination.

[4] Mr. Rubin, while acknowledging the desirability of contracting for capacity, argued that Heritage had over-committed and should only commit for a maximum 4,000 Dth.

[5] Heritage applied to the Board pursuant to Sections 30 and 22(1) of the *Gas Distribution Act* (*Act*) for approval of the following:

> (i) entering into a long-term upstream transportation contract with the Portland Natural Gas Transmission System ("PNGTS") (the "PXP Contract") and arrangements contemplated thereby;
>
> (ii) a proposed methodology for recovery of Heritage Gas' costs incurred under the PXP Contract and arrangements contemplated thereby in its rates, tolls and charges; and
>
> (iii) a proposed set of principles that will frame and guide the natural gas transportation assignment protocol and process for self-supply customers.

[6] As part of its awarded franchise in 2003, the Board required Heritage to confirm that gas supply, ancillary services, supplier of last resort, and backstopping arrangements are in place. As the supplier of last resort, Heritage has an obligation to ensure regulated service customers have access to secure supplies of natural gas.

[7] Until recently Heritage has been able to access natural gas from the two major offshore Nova Scotia developments and readily available transportation capacity on the Maritimes and Northeast (M&NP) Canada Pipeline.

[8] However, production from the offshore sources has declined to the point where the offshore producers are now decommissioning their fields and it is expected offshore supply will terminate in 2020. So, Heritage is moving from a situation adjacent to significant offshore supplies to one where Heritage is at the end of the North American pipeline system.

[9] Heritage argued it needs to plan for reliable access to natural gas resources in order to meet its supplier of last resort obligation. Heritage stated it must now secure natural gas supply from other regions and, in order to do so, argued it has to enter into firm transportation contracts to move that natural gas to the Heritage distribution network. Access to alternative supplies is limited due, in part, to restrictions on pipeline capacity in the Northeastern United States.

[10] Heritage signed a precedent agreement in October of 2017 which would allow it to enter into a long-term (22 year) contract with the Portland Natural Gas Transmission System (PNGTS) for natural gas transportation supply from the Dawn Hub in Ontario to an interconnection point with the M&NP U.S. system in the State of Massachusetts. The contract would, subject to regulatory approval, commence

November 1, 2018, with PNGTS coordinating for matching upstream capacity on the TransCanada and Union Pipelines for delivery to PNGTS. The project describing the entire path from the Dawn Hub in Ontario to Massachusetts was referred to in the Application as the Portland Express Expansion Project (PXP) to distinguish it from references to PNGTS alone.

[11] Under the *Act*, Heritage requires approval of the Board to enter into such a contract and recover the cost from its customers. Therefore, the precedent agreement with PNGTS, is subject to Heritage obtaining regulatory approval from this Board by July 31, 2018, to proceed. Heritage will not earn a return on the contract and will recover its costs only, in a manner similar to the recovery of the cost of natural gas supply.

[12] Heritage argued that by entering into this contract customers will have the following benefits:

- increased security of supply;
- reduced price volatility (the US Northeast and the Maritimes are among the most volatile price regions in North America);
- increased diversity of supply; and
- a direct connection to a storage hub that is forecast to expand significantly in the coming years.

[Exhibit H-2, p. 4]

2.0 ISSUES AND POSITION OF THE PARTIES

2.1 Capacity Commitment

[13] Heritage advised that it carried out a portfolio optimization capacity analysis and a qualitative analysis and on that basis determined that entering into an agreement for 10,000 Dth per day was the prudent course of action.

[14] James Stephens of ScottMadden, Inc. was qualified as an expert to provide an opinion on Heritage's conduct in determining the need for 10,000 Dth. He concluded:

> The Company's analysis with respect to capacity on the PXP Project was reasonable and included an evaluation of the cost implications of adding the contract to the Heritage Gas capacity and transportation portfolio. In addition, my independent quantitative and qualitative analysis supports the conclusion reached by the Company that a contract for 10,000 Dth per day (or approximately 10,550 GJ per day) of capacity on the PXP Project is reasonable and appropriate. A contract with PNGTS for capacity on the PXP Project will increase the reliability of the Heritage Gas capacity and transportation portfolio, while providing customers with more price stability. The contract with PNGTS for PXP Project capacity will not only provide direct access to one of the most liquid natural gas supply and pricing points in North America (i.e., the Dawn Hub), but also increases the diversity of the Heritage Gas upstream transportation portfolio, both of which increase reliability while reducing price volatility for its customers.
>
> [Exhibit H-1, Attachment 3, pp. 79-80]

[15] As noted, the primary matter of debate in the proceeding was the issue of the capacity commitment of 10,000 Dth under the precedent agreement. In large measure, the argument focused on the issue of reliability versus the cost effectiveness. As noted, Board Counsel consultant Mr. Byers confirmed, on questioning from the Board, that in his independent view, 10,000 Dth per day results from a reasonable analysis:

> Q. And Mr. Hawkins, when he was on -- this is an odd way to ask this question, but I'm going to ask it this way. Mr. Hawkins, when he was testifying this morning, interpreted your evidence as confirming that their analysis supported the recommendation to go to 10,000 dekatherms. Is that an appropriate characterization of your evidence?
>
> A. I believe -- what I was saying is I don't believe they were -- they did anything that was unreasonable in the determination of coming up with the $10,000 -- 10,000 dekatherm number. I think if you put 10 or 20 people and told them independently, model it, each -- you might have several different ways of looking at it and coming up with a determination. But I -- but I looked at all the analysis they have done and think it was -- the job they had done in evaluating all those options, they were not unreasonable, and it was easy to follow it all through.
>
> Q. So is it fair to say that in your opinion, the 10,000 number comes from a reasonable analysis?
>
> A. That's correct, yes.

[Transcript, pp. 205-206]

[16] Mr. Rubin briefly summarized his concern in his Opening Statement:

> The concern I have about the Company's application, however, is that the Company proposes to commit to 10,000 dekatherms of capacity. An assessment of the costs and benefits associated with a commitment at that level hinges on three factors: (1) the expected in-service date of the Atlantic Bridge pipeline; (2) the expected in-service date of the Alton storage project; and (3) the reasonableness of the Company's growth projections.
>
> I do not have any special knowledge about any of those three factors, but I understand the sensitivity of the Company's economic projections to those factors.
>
> Specifically, in years when both Atlantic Bridge and Alton storage capacity are available to Heritage Gas, a PXP pipeline commitment at 10,000 dekatherms per day has essentially no economic benefit to Heritage Gas or its customers, and in many years customers will be worse off than if the Company had done nothing.
>
> Conversely, in years when either Atlantic Bridge or Alton is not available, a commitment of 10,000 dekatherms produces millions of dollars of annual benefits for customers.
>
> …
>
> While I did not discuss it in detail in my evidence, I would note the sensitivity of the economic and reliability analyses to customer growth. In the analyses, there is an increase in benefits in the last five or six years of the study period, or from roughly 2034 to 2040. If it is assumed that Atlantic Bridge and Alton are available in those years, any benefit from the PXP pipeline at 10,000 dekatherms is due solely to the compounding effects of the Company's growth projections. We know from past experience that growth projections for this company are difficult to achieve, and that is especially true when projecting 15 years or more into the future. Thus, I do not give any significant weight to projections of benefits in the last few years of the period being analyzed.
>
> [Exhibit H-17, pp. 1-2]

[17] Mr. Rubin candidly acknowledged that he was looking at the problem from the view of an economic benefit and not security of supply. He indicated that security of supply was not an area where he had expertise.

[18] The CA, in its submission, outlined the issues concerning the Atlantic Bridge pipeline and the Alton Natural Gas Storage Project (Alton Storage Project).

> ***The in-service date of the Atlantic Bridge pipeline***
>
> After filing its application, but prior to the oral hearing, Heritage Gas filed a letter with the Board on March 14, 2018 (Exhibit H-19). In this letter, Heritage provides its most current view of an in-service date for the Atlantic Bridge pipeline. Heritage Gas currently expects the Atlantic Bridge pipeline to be in service one year later than initially projected. The Consumer Advocate acknowledges that the benefits of the PXP commitment increase as a result of the one-year delay in the Atlantic Bridge pipeline. Further, when questioned directly by the Board Chair in relation to the Atlantic Bridge pipeline, Heritage Gas quickly

> indicated that it was more probable than not that the Atlantic Bridge pipeline would come into service (Transcript, p. 146, lines 11-16).
>
> ***Alton Storage Project***
>
> As part of Exhibit H-19 filed on March 14, 2018, Heritage indicated a likely delay in the Alton Storage facility by approximately one winter season. The Consumer Advocate acknowledges that this delay will increase the comparative benefits associated with the PXP contract.
>
> [CA's Final Submission, p. 2]

[19] The relevance of both projects is that they are an alternate source of supply to PNGTS.

[20] The longer the delay in either the in-service date of the Atlantic Bridge pipeline on which Heritage has capacity, or the Alton Storage Project, the more valuable the PNGTS capacity commitment is to ratepayers. In Exhibit H-19 Heritage updated its projections with respect to the Atlantic Bridge pipeline. While it was originally modelled and expected to be in-service in 2018, it is now expected to be in-service in Q2 2020.

[21] The Alton Storage Project, modeled and expected to be in-service in 2020, is now expected to be in-service in 2021.

[22] With respect to the Alton Storage Project, there appears to the Board to be significant uncertainty with respect to its in-service date. Indeed, construction of the surface facilities of Alton must be approved by the Board. At Alton's request, that application is on hold for the time being.

2.2 Growth

[23] Heritage's initial Application, filed on the 11th of January, contained a conservative estimate growth of zero. Within a matter of two weeks Heritage filed a revised Application correcting its assumptions for growth. Heritage increased its growth forecast to 1.2% compounded over 23 years.

[24] The CA noted that the growth assumption is a very material change to the assumptions underlying the Application and that Heritage relied heavily on its growth projections in challenging the analysis presented by Mr. Rubin. The CA went on to say:

> Despite this, Heritage Gas appears to have implemented the change over a very short period of time – approximately 11 working days. The speed with which this important assumption was changed and then modelled reasonably raises concerns regarding its reliability.
>
> [CA Final Submission, p. 3]

[25] Heritage justified its revised assumptions as follows:

> The Consumer Advocate in his Opening Statement noted his position that Heritage Gas' forecasted growth at 1.2% needed "to be tested as part of this process". The Consumer Advocate then questioned Heritage Gas specifically on this point. The evidential record is as follows:
>
> 1. The forecast is a realistic albeit still modest forecast of Heritage Gas' expectations going forward;
>
> 2. Over the last five years Heritage Gas' compounded annual growth rate has been 4.3%;
>
> 3. Mr. Stephens' experience is that in the five New England states they have a natural demand rate for LDC customers from between 1 and 3%, in line with Heritage Gas' expectations;
>
> 4. Heritage Gas is a relatively new utility with lower market share than the mature New England LDCs that Mr. Stephens referenced, and Heritage Gas' expectation is that it will have better growth opportunities than those in a mature utility; and
>
> 5. In new subdivisions that are adjacent to Heritage Gas pipelines, Heritage Gas is getting in excess of 95% acceptance of natural gas as an energy source.
>
> Mr. Hawkins specifically noted that the 4.3% growth that Heritage Gas has been seeing over the last few years is roughly 3.5 times what Heritage Gas has put forward in its growth forecast, and there is significant opportunity for conversions related to customers whose houses and small businesses already have infrastructure passing in front of them.
>
> [Heritage Final Submission, pp. 8-9]

[26] Heritage noted that no other party provided alternate growth assumptions.

[27] Heritage confirmed, in response to an undertaking request from the CA, that even if one assumes zero growth there is still a positive economic outcome from

the Heritage model. The net present value is approximately $2 Million for the 10,000 Dth of capacity.

2.3 Intergenerational Equity

[28] Mr. Rubin's intergenerational equity concern is that the benefits of the PNGTS contract are concentrated in a few years over the 22-year term and, in his view, in other years customers would be paying costs that exceeded the benefits they receive from supply diversity.

[29] Mr. Stephens, on behalf of Heritage, indicated that a year-by-year analysis is not appropriate. He indicated that when you are analyzing a natural gas supply contract decision, underlying that contract is a capital intensive investment made by the pipeline. As such it is appropriate to review that decision over the life of the contract. On that basis the question becomes whether the contract, over its entire term, provides benefit to customers. He went on to say:

> So, from my perspective and the experience that I've worked with on other LDC's and when I was back at the gas company, we review the decision over the term of the contract. We didn't look at individual years because -- the case when I was at Colonial Gas Company we had a division in Cape Cod we were growing and so we had to add capacity in order to meet that growth. And when you first add capacity you're long and then you grow into that and then you add a next block.
>
> So if you did it year by year the first couple years would be negative because you're growing into it where the LD [sic] [value] has to be positive.
>
> And so from my experience what you do is you look at the entire term, not individual years within that term.
>
> [Transcript, pp. 116]

2.4 Reliability and Security of Supply

[30] Heritage's principal argument in favour of the PNGTS contract is that it ensures security of supply. Mr. Hawkins set the context for Heritage's concern:

> And then if you look at the history -- the recent history, you'll see that because of the demand that's in New England and in the Maritimes, there have been projects that have

> been put forward and those programs have been deferred, delayed, or - - delayed or withdrawn completely.
>
> And so there's not a prospect, as far as we can see in going forward, that you can have a build-out of capacity that will allow gas to flow south to north from those interconnecting pipelines.
>
> And so what that leaves you with is the Portland Natural Gas System. And the Portland Natural Gas System through the PXP contract is now fully committed for 22 years. And so, yes, because demand where winter-peaking -- the area of the northeastern United States and Canada, because we're winter-peaking, all of that demand, that coincident demand on the cold day in February, is going to have to flow down that one pipeline. And if you're not a part of that 22-year PXP Project, there's going to be little opportunity for the market to be able to find 150,000 GJs. And so that's why we think it's imperative for Heritage Gas to participate.
>
> The other thing that we've noticed, and Mr. MacDonald is involved in some of our daily trading activities, among other responsibilities, and there have been situations, if we go back to the winter of '16/'17, where we've gone to the market and we've asked for incremental gas to meet our demand on cold winter days, and it's not been there.
>
> And so what we've had to do is we've had to basically borrow from the pipeline, borrow from M&NP. We've had to -- it's called drafting pipeline.
>
> And what we're very concerned about is that if we're not participating in PXP in order to secure supply, the frequency that which we, and obviously others, would have to go and borrow from the pipeline to meet those incremental requirements is going to increase significantly.
>
> And the pipeline, of course, has a responsibility to match supply to demand. And they will, if they believe that there's an imbalance, there's more demand than supply, they will put in an operational flow order to say, no, you can't draft.
>
> And so what we're -- what I'm trying to say, forgive my longwinded answer, is that, you know, there's some very real concerns about not building that portfolio of assets. And we would say that all three of those assets are necessary for us.
>
> [Transcript, pp. 121-123]

[31] Mr. Hawkins further testified that contracting only for 4,000 Dth would expose Heritage and its customers to unreasonable risk.

[32] He noted that even under Mr. Rubin's analysis over the life of the contract there is still a positive net benefit of $1.6 Million for 10,000 Dth.

[33] Heritage cited a recent decision of the Maine Public Utilities Commission, *Docket No. 2105-00063, Maine Natural Gas Corporation*, where it says the Maine

Natural Gas Corporation was facing similar circumstances to Heritage. The Commission noted:

> Purchasing firm capacity on upstream pipelines connected to liquid trading points provides a reliable source of supply for LDCs to meet supply needs. Regulatory policy places a high emphasis on reliability of supply to serve gas utility customers because the consequences of supply interruptions are serious for both the comfort and safety of affected customers, as well as to avoid the costly operational issues of house-by-house relighting if the distribution system were to have insufficient gas to maintain service pressure. MNG currently takes much of its gas off pipelines from the north, such as M&NP, which are connected to declining supply sources such as Sable Island and Deep Panuke. Obtaining firm capacity on pipelines connected to production regions to our south, such as the Marcellus shale region, would offer both renewed sources of supply, increased supply assurance, and the possibility of more stable prices for that gas.
>
> …
>
> First, it is important to recognize that, to assure reliability of supply during extreme, design day weather events, an LDC must purchase firm transportation capacity on its upstream resources. An LDC cannot rely on less-firm products, such as capacity release and secondary rights, that are offered on the market. The Commission's interest in this transaction is weighted toward the supply reliability that it provides for MNG, a utility that is facing increasingly reduced supply availability from its historic supply points. A second consideration is the benefit that opening a new supply path may offer in terms of pricing stability and supply diversity from areas rich in natural gas production. Such decisions are complex and Commission is persuaded that a substantial benefit of this capacity acquisition to MNG's ratepayers is that it will provide more reliable and secure gas supply. Considering what is to be gained, the Commission finds that the cost of the acquisition is reasonable.
>
> [Heritage Final Submission, pp. 13-14]

3.0 ANALYSIS AND FINDINGS

3.1 The Legal Test

[34] Under Section 30(2) of the *Act* and pursuant to Section 30(3), Heritage may enter into this contract if: (a) the proposed contract is for a term longer than two years; and (b) the Board determines that entering into the contact is prudent and in the public interest.

[35] Heritage cited a case from the Massachusetts Department of Public Utilities, *D.P.U. 13-157, Petition of Boston Gas Company and Colonial Gas Company*, as follows:

> The Massachusetts Department of Public Utilities has in relation to long-term firm transportation contracts found that:
>
> > "In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, a local gas distribution company ("LDC") must show that the acquisition is:
> >
> > (1) consistent with the company's portfolio objectives; and
> >
> > (2) compares favorably to the range of alternative options reasonably available to the company at the time of the acquisition or contract renegotiation."
>
> Heritage Gas submits that this is an appropriate test to apply in the present case.
>
> [Heritage Final Submission, p. 15]

[36] Heritage argued its objectives in this Application as noted were: (1) maintain security of supply; (2) reduce price volatility; and (3) maintain a flexible and cost effective portfolio while providing customers with options for self supply. With respect to price volatility, Heritage argued that the PNGTS and upstream capacity provides access to the highly liquid Dawn trading hub and that Heritage will be able to lower exposure to the volatile New England natural gas price. Mr. Stephens testified this should reduce price volatility. Heritage argued that PNGTS and the upstream pipelines provide supply diversity in addition to Atlantic Bridge and Alton. Heritage also noted Mr. Stephens' evidence that 10,000 Dth per day provides a higher annual benefit in the colder, more volatile price years. Heritage also noted that there are no other economically viable supply options or comparable alternatives to the PNGTS and upstream pipelines. There was no evidence to refute this claim. Heritage also noted support from Mr. Byers:

> Mr. Byers specifically concluded that "Heritage Gas had been prudent in reviewing alternatives", and the "PXP capacity option is certainly viable (even with toll sensitivity considered) and that the decision to contract for 10,000 MMbtu/day was reasonable".
>
> Mr. Byers also confirmed that "it is generally acknowledged that pipeline capacity upstream of [M&NP] is fully subscribed and that expansion projects to increase capacities have been moving slowly based on local opposition, "and that "Heritage Gas has been prudent in reviewing their options of sourcing natural gas via the M&NP interconnections with PNGTS, TGP and AGT".
>
> [Heritage Final Submission, p. 18]

3.2 Findings

[37] The Board appreciates the evidence of Mr. Rubin, on behalf of the CA, in this matter. In this and other proceedings the Board has observed him to be knowledgeable, candid, and helpful. His evidence helped focus the issue.

[38] However, based on the preponderance of evidence, the Board is persuaded the proposed PNGTS contract is prudent and in the public interest.

[39] Clearly, with the decline in offshore production, and in order to discharge its supplier of last resort obligations, Heritage had to take steps to ensure security of supply. In addition to the Atlantic Bridge and Alton alternatives, where Heritage already has contracts, PNGTS appears to be the only realistic option.

[40] As to the amount of capacity contracted for, it is a balance between the issue of reliability or security of supply versus the risk associated with accepting Mr. Rubin's economic analysis. The Board is persuaded that the priority issue must be security of supply. If Heritage cannot deliver gas on any given day, particularly in the winter, the consequences would be serious indeed.

[41] Mr. Byers, on behalf of Board Counsel, another knowledgeable and helpful witness, confirmed that in his opinion the 10,000 Dth number comes from a reasonable analysis and, while informed people could quibble about the number, he had

no reason to doubt its accuracy and, more importantly, supported the analysis that Heritage undertook to reach that conclusion. Mr. Stephens, Heritage's witness, came to the same conclusion.

[42] While the Board is puzzled as to why Heritage filed an application on January 11th with a zero growth assumption and then refiled 11 days later with a 1.2% growth assumption, the Board accepts that the 1.2% growth assumption is reasonable for a couple of reasons. It is consistent, based on Mr. Stephen's experience, with the local distribution company (LDC) experience in New England. Heritage's growth rate over the past number of years has been 4.3%, significantly higher than the 1.2% assumed. Based on the Board's own observation, it agrees with Heritage that Heritage is getting high acceptance of natural gas in subdivisions where it becomes available. No other party provided alternate growth assumptions, so in considering this matter the Board accepts the growth assumptions as refiled by Heritage.

[43] Finally, the Board's understanding of the evidence is that even based on Mr. Rubin's financial modelling, there is still a positive net benefit of $1.6 Million over the 22 years with a 10,000 Dth capacity commitment. There is also significant potential upside as conceded by Mr. Rubin, if the Alton and Atlantic Bridge projects are delayed.

[44] The Board notes with approval the analysis of the Maine Public Utilities Commission cited above that appears to the Board to be a reasonable set of principles for this Board to adopt in considering this matter.

[45] On the intergenerational equity issue the Board notes, as indicated by Mr. Stephens, that in many large capital projects, there are years where there is a negative benefit; however, over the term of the contract, there is a net positive benefit to

customers. That is a test the Board has frequently applied. If that were not the case large infrastructure projects which, in the long run are beneficial, might never be authorized.

[46] Accordingly, having considered the matter, the Board approves the entering into of the long term upstream transportation contract with PNGTS for 10,000 Dth and the arrangements contemplated thereby and also approves the methodology for recovery of Heritage's costs incurred under the contract in rates, tolls and charges.

4.0 PROTOCOL AND PROCESS FOR SELF SUPPLY CUSTOMERS

[47] Heritage recognized that some customers may choose to migrate to self supply in the future and, accordingly, Heritage needed to specifically address the assignment of upstream natural gas transportation contracts to customers who move to self supply. Mr. Stephens developed a framework for an appropriate methodology:

> There are three main guiding principles regarding the assignment of upstream capacity and transportation contracts that Heritage Gas should adopt and request the Board to approve. First, the assignment of capacity to self-supply customers will be mandatory for all customers that are currently on default service. Second, the level or volume of resources assigned to each customer that migrates to self supply will be based on the demand of that customer as calculated by the Company. Third, the assignment of capacity and transportation contracts will reflect the Company's current level of resources and, as such could be adjusted up or down as resources are added or removed from the portfolio.
>
> [Heritage Final Submission, p. 3]

[48] Both Mr. Rubin and Mr. Byers advised that such a mechanism was appropriate. Mr. Byers noted the proposed principles recommended by Heritage are reasonable and required to ensure one customer type is not subsidized by another. Heritage advised of the process that will be used to develop further details.

> Heritage Gas has advised that it will use the following process to develop the further details of a mandatory capacity assignment program for self-supply customers:
>
> (i) Heritage Gas will meet and work with its customers and other stakeholders to develop implementation details that reflect the guiding principles;

> (ii) the timing of implementation and associated cost recovery mechanisms will reflect the lead time and investments (e.g. technology and systems) required to launch a mandatory self-supply capacity assignment program; and
>
> (iii) the details of the mandatory self-supply capacity assignment program will be codified and submitted to the Board for review and approval.
>
> [Heritage Final Submission, p. 3]

4.1 Findings

[49] The Board notes that no customer participated in the hearing to object to this protocol and process for self-supply customers. It was supported by Heritage, Mr. Rubin and Mr. Byers. It appears to the Board to be reasonable and required to ensure Heritage customers are not subsidizing current gas-supply customers, for whom capacity has already been committed, should they subsequently switch to self supply. Therefore, in the circumstances, the Board approves Heritage's proposed set of principles that will frame and guide the natural gas transportation assignment protocol and process for self supply customers. The Board also approves the process Heritage intends to follow as noted above.

5.0 SUMMARY OF BOARD FINDINGS

[50] Heritage signed a Precedent Agreement in October of 2017, which would allow it to enter into a 22 year contract with the Portland Natural Gas Transmission System for natural gas transportation capacity from the Dawn Hub in Ontario to an interconnection point with the M&NP U.S. system in the State of Massachusetts. PNGTS also will coordinate for matching upstream capacity on the TransCanada and Union Pipelines for delivery to PNGTS.

[51] Under the *Act*, Heritage requires approval of the Board to enter into such an contract and recover its costs from customers.

[52] The Board found, based on the preponderance of evidence, that the proposed PNGTS contract is prudent and in the public interest.

[53] Accordingly, the Board approves, pursuant to the *Gas Distribution Act*, the following:

> (i) entering into a long-term upstream transportation contract with the Portland Natural Gas Transmission System ("PNGTS") (the "PXP Contract") and arrangements contemplated thereby;
>
> (ii) a proposed methodology for recovery of Heritage Gas' costs incurred under the PXP Contract and arrangements contemplated thereby in its rates, tolls and charges; and
>
> (iii) a proposed set of principles that will frame and guide the natural gas transportation assignment protocol and process for self-supply customers.

[54] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 1st day of June, 2018.

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Peter W. Gurnham