



# **PRE-FILED TESTIMONY OF GIL LABONTE, FRANCE FINANCIAL CONSULTING**

Submitted on behalf of the Industrial Gas  
Users (IGU) in the 2019/20 Centra Gas  
General Rate Application (GRA)

June 21, 2019

## Section 1: Introduction

### 1. Please state your name and business location.

Gil Labonte  
France Financial Consulting  
a division of Twin Eagle Resource Management Canada, LLC  
Suite 1760 111 5<sup>th</sup> Avenue SW  
Calgary AB T2P 3Y6

### 2. Please state your qualifications.

Northern Alberta Institute of Technology – Diploma of Business Administration - Finance

### 3. Please state your current employer and describe your current role.

- France Financial Consulting (FFC)
- We manage natural gas & electricity procurement and price management strategies for over 35 end-users located across Canada (Alberta, Saskatchewan, Manitoba, Ontario & Quebec) and the U.S. (North Dakota, Tennessee, Louisiana & Florida).

### 4. Please describe your experience with gas supply for industrial customers in Manitoba.

- France Financial Consulting (FFC) has managed natural gas supply on behalf of several Centra T-Service customers since the early 1990's.
- During that time FFC has secured supply and transportation services for up to five T-Service clients, currently manage procurement of behalf of three clients with operations within the province of Manitoba.
- I have personally nominated and balanced natural gas supply daily for FFC's Centra Gas T-Service clients 24/7/365 since September 2008.

**5. Please describe your experiences with gas supply for industrial customers in other jurisdictions.**

- FFC has advised clients on natural gas matters since 1988
- I have worked within the oil & gas industry since 1982, and within natural gas markets since 1996 including,
  - 1996 to 2008 – managed Amoco/BP Canada natural gas markets within Western Canada, and
  - 2008 to Present – with FFC I am responsible for natural gas supply procurement, transportation and price management strategies (including storage) as well as maintaining balances on numerous pipelines within prescribed tolerances.

**Section 2: Current Operations in Manitoba**

**6. Please describe your understanding of the current scheduling and balancing requirements for T-service or Special Contract customers in Manitoba.**

- It is my understanding that balance fees are currently implemented when daily imbalance exceeds +/- 2,000 GJ's. I am unsure if the imbalance is measured based on consumption or delivered quantities.
- Due to industry requirements T-Service customers typically on a given day and during defined nomination windows, schedule natural gas deliveries to Centra for the following day (Next Day) and make any required buys/sells on the current day (Same Day) to ensure supply matches the scheduled delivery (i.e. balance its account).
- I cannot recall smaller FFC T-Service customers exceeding the +/- 2,000 GJ threshold, however Centra has often requested nomination changes from these customers, even when within the current tolerance band, to assist Centra in balancing their pipeline systems during unusual operational constraints.
- I cannot recall an instance when FFC did not meet any reasonable request from Centra to revise a Same Day nomination.

- Centra does not provide any compensation/financial benefit for T-Service customers that assist in balancing.

**7. Please describe your understanding of the current penalty structure that exists when T-Service or Special Contract customers are out of balancing tolerances.**

- I understand that currently Centra charges T-Service customers when customer imbalance exceeds +/- 2,000 GJ's.
- Do not recall seeing this tolerance band in writing, it however has been mentioned by Centra on several occasions.
- I'm aware of at least one instance where Centra implemented its current balancing fee policy. A client of FFC was assessed a penalty when its account exceeded the aforementioned tolerance due to my recollection of a plant upset that occurred late in the day.
- As back-up to the balancing fee that was charged in this instance, Centra provided the customer with a copy of TransCanada's Transportation Tariff.

**8. Please explain the methods T-Service or Special Contract customers in Manitoba use to stay within tolerances and avoid penalties.**

FFC executes the following daily to minimize account imbalance fees for its T-Service Clients:

- Same Day (Gas Day 1) - Clients provide Next Day ahead (Gas Day 2) consumption estimates & advise of any changes to Gas Day 1 estimates
- FFC Gas Day 1
  - secures supply for Gas Day 2 and advises Centra of Next Day scheduled quantity
  - buy or sell quantities for Gas Day 1 that since the fall of 2016 I have attempted to maintain imbalances to within +/- 100 GJ's, including on weekends.
  - able to **buy** unlimited quantities to balance account (when companies are under its daily usage amount), **sales** quantities required to balance are restricted and can result in an imbalance that cannot be zeroed (when customer deliveries are over daily usage amounts).

- FFC has since 2008 not managed account balances to the current +/- 2,000 GJ's band, instead working with Centra to maintain our client's account to as close to zero as reasonably possible using industry standard practices (see response to Question 15).

**9. Please discuss what types of situations might lead to a T-Service or Special Contract customer being outside of balancing tolerances.**

- a) Examples where Customers are **Able** To Modify Scheduled Deliveries Within Nomination Windows (and therefore, with enough lead time can usually avoid an imbalance):
  - > scheduled plant outage (for whatever reason)
  - > scheduled Centra & Hydro natural gas & power outages
  
- b) Some examples that have occurred where the Customer was **Unable** To Modify Scheduled Deliveries Within Nomination Windows (and therefore would incur an imbalance compared to the nomination made to Centra the day prior):
  - > plant equipment failure
  - > power/electricity failure, caused by lightning strikes, Hydro line problems, etc...
  - > roof failure due to heavy and rapid snow falls
  - > staff unable to reach plant due to extreme weather related adverse road conditions
  - > trucks & rail cars also unable to reach plant due to extreme weather related adverse road conditions resulting in plant shutdown due to high product storage levels or lack of raw materials
  - > on short notice client advised by rail company that scheduled rail cars delayed
  - > rapid and extreme temperature changes dramatically affecting natural gas consumption
  - > Water supply disruptions

**Section 3: Centra's proposed changes to Balancing Fees**

**10. Please describe your understanding of Centra's proposed changes to calculating and applying balancing fees.**

- Centra's proposal is to apply restrictive daily tolerance limits (starting at +/- 50 GJ/day for the smallest T-service customers) without any ability to manage/offset real-time daily customer imbalances prior to assessment of fees. The tolerance bands are significantly narrower than the current tolerance of +/- 2,000 GJ's.
- Centra Gas is going to calculate and charge imbalances on a per account basis but will be settling with TransCanada on an aggregate basis. Likely offsets between the accounts could lead to additional revenues for Centra Gas over the aggregate charges from TransCanada.

**11. In your view, is Centra's proposal consistent with your experience in other jurisdictions?**

- FFC manages natural gas supply and pipeline nomination functions for numerous clients on many pipelines across Canada and the United States. The proposed Centra imbalance fee structure provides the lowest quantity of daily tolerance (starting at +/-50 GJs for the smaller T-Service customers and increasing to +/- 500GJs for the largest),<sup>1</sup> with the least amount of flexibility to offset imbalances prior to assessment of fees when compared to any other jurisdiction.
- As a result, Centra's proposal is not consistent with other jurisdictions, and would be the most restrictive balancing fee structure of the jurisdictions FFC works in.

**12. Please describe any concerns you have about Centra's new balancing fee proposal.**

- Lack of reasonable and industry standard daily quantity tolerance bands to accommodate consumption variability associated with complex processing plants - for FFC clients, proposed Absolute Daily Tolerance quantities of +/- 50 and 100 GJ's is equivalent to roughly one to four hours natural gas consumption during winter months.
- Inability for T-Service customers to buy and sell imbalances to other customers prior to assessment of penalties

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<sup>1</sup> PUB/CENTRA II-57(a)

- Centra's proposal will collect fees daily based on each T-Service customer's imbalance, yet only pay TransCanada tolls based on the aggregate imbalance quantity.

**13. Please describe what options customers in Manitoba have to avoid the balancing fees under Centra's new proposal.**

- Regardless of how diligent a party is in estimating consumption, and how aggressively it transacts same day buys and sells to balance its account, the complexity of processing plants will result in numerous daily imbalances exceeding +/- 50 or 100 GJ's
- This proposal will be especially punitive when plants suffer operational upsets in the late evening (after markets have closed) with no opportunity to sell natural gas quantities until the next morning

**14. In your experience, what tools or mechanisms are in place in other jurisdictions that allow customers to avoid balancing charges?**

- Other jurisdictions offer more flexible daily tolerance quantity with ability for shippers to buy & sell imbalances.
  - From my experience in Saskatchewan on the TransGas pipeline system, targeted thresholds of +/-1,000 GJ/day per day regardless of consumption levels. There are no penalties for imbalances but the utility expects customers to trend back to within tolerances.
  - For example, TransCanada's NGTL Alberta pipeline system – has a tolerance band equal to the greater of +/-2,000 GJ or +/-4% of deliveries. Customers also have the ability to buy and sell with other shippers to manage imbalances.<sup>2</sup>
- Buyers & Sellers transacting daily prior to Centra finalizing end of day imbalances and related penalties.

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<sup>2</sup>Nova Gas Transmission Ltd. Terms and Conditions respecting Customer's Inventories and Related Matters, Effective date December 1, 2012. Available online:  
[http://www.tccustomerexpress.com/docs/ab\\_regulatory\\_tariff/ngtl-gtt-appendix-d.pdf](http://www.tccustomerexpress.com/docs/ab_regulatory_tariff/ngtl-gtt-appendix-d.pdf)

- Monthly tolerances with pipeline buying a shipper's end of month pack at a discount to market pricing and selling a shipper's end of month draft at a premium to market pricing.
  - This is the case for our client in North Dakota, where Xcel does not charge for daily imbalances under normal operation but at month end where imbalances exist pays out any pack or charges for any draft at pre-determined and regulatory approved pricing. Imbalances do not carry forward to the next month. In this jurisdiction customers have the entire month to balance within tolerance bands and can transact with other customers/participants.
- There is no other pipeline that I work with that does not allow customers to balance via buy/sells with other shippers. It can easily be set up for participants to transact amongst themselves in Manitoba, for example France Financial manages three customers in Manitoba and executes buy and sells between its clients when appropriate to balance their accounts. Centra could easily facilitate these types of transfers between all T-Service customers.
- Notice from pipeline to out-of-balance shippers to trend towards a balanced position within a defined period of time and subject to penalties upon failure to comply
- Ability for Nominating agents to balance their customer's imbalances in aggregate

**15. Moving forward, what are your recommendations to the PUB with respect to Centra's proposed balancing fee structure?**

- Although most T-Service customers individually, or through nominating agents, have voluntarily complied with Centra's recent push towards tighter daily imbalances than the current +/- 2,000 GJ limit, past balancing performance by individual T-Service customers must be evaluated in the context of the current +/- 2,000 GJ daily limit
- Any daily transactions executed while within the +/- 2,000 GJ limit was voluntary and helps demonstrate that particular T-Service customers recognize the existing tolerance band is excessive compared to industry standard practice
- FFC as nominating agent for T-service customers in Manitoba, understands Centra's requirement to tighten daily imbalance tolerances and to set a balancing fee structure within a tighter band than +/- 2,000GJ.



- However, in my view as nominating agent, Centra's proposed daily tolerance band limits go too far the other way and are as unreasonable as the current +/- 2,000 GJ limit given the operational complexity of processing facilities.
- The excessively tight +/- 50 and +/-100 GJ bands combined with Centra not providing any tools for T-Service customers to resolve any daily imbalance prior to penalties being assessed is an outlier when compared to industry standard practice.