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July 15, 2014

**Via Email**  
**Original via Mail**

Commercial Energy Consumers Association of British Columbia  
c/o Owen Bird Law Corporation  
P.O. Box 49130  
Three Bentall Centre  
2900 – 595 Burrard Street  
Vancouver, BC V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

**Re: FortisBC Energy Inc. (FEI)**

**Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27**

**Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1**

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On May 13, 2014, FEI filed the Application as referenced above. In accordance with the British Columbia Utilities Commission Order G-71-14 setting out the Regulatory Timetable for review of the Application, FEI respectfully submits the attached response to CEC IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

**FORTISBC ENERGY INC.**

***Original signed by: Ilva Bevacqua***

**For:** Diane Roy

Attachments

cc: Commission Secretary  
Registered Parties (e-mail only)



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 1

1   **1.0   Reference Exhibit B-1, page 2 and page 3**

During the 2001 RDA, FEI requested (among other things), that the Balancing Charge be revised to reflect the Gas Daily NW Sumas Common high price. At the time it was the Company's view that the Common high price would provide a reasonable deterrent to abuse of these services under normal circumstances, and adequately compensate core market customers for gas provided under these services.

On November 7, 2001, after a Negotiated Settlement Process, the Commission issued Order G-116-01 approving the Settlement Document in the 2001 RDA, in which no changes were made to the Balancing Charge. Further, the Commission noted that if FEI could demonstrate that the services provided are being used in an inappropriate manner, proposals for change could be made<sup>3</sup>.

bring on sufficient supply and balance by month end. FEI believes a \$0.10 per GJ premium would incent the appropriate behavior from the Shipper Agents to better adhere to the spirit and intent of the tariff.

2

3           1.1   Please confirm that FEI no longer considers the Gas Daily NW Sumas Common  
4                   high price as a reasonable deterrent.

5

6   **Response:**

7   Please refer to the response to BCUC IR 1.3.4.

8

9

10

11                   1.1.1   If confirmed, please explain what circumstances have changed so that it  
12                           is no longer a reasonable deterrent.

13

14   **Response:**

15   Please refer to the responses to BCUC IRs 1.3.1.1, and 1.3.1.2. These responses describe the  
16   extreme market volatility that occurred during 2000/01 period. This volatility created a large  
17   price spread between the Common high and Midpoint prices, which is the reason at that time  
18   that FEI viewed the average of the Common high price as a more reasonable deterrent. Given  
19   the current day marginal difference between the Common high and Midpoint prices of 2-3 cents,  
20   FEI no longer believes the average of the Common high price to be a reasonable deterrent in  
21   today's market environment.

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<p style="text-align: center;">FortisBC Energy Inc. (FEI or the Company)  Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23,  25, 26 and 27 (the Application)</p>	<p style="text-align: center;">Submission Date:  July 15, 2014</p>
<p style="text-align: center;">Response to the Commercial Energy Consumers Association of British Columbia (CEC)  Information Request (IR) No. 1</p>	<p style="text-align: center;">Page 2</p>

1                 1.1.2    If not confirmed, please explain why FEI proposes an alternative  
2                                 deterrent at this time.

3  
4     **Response:**

5     Please refer to the response to CEC IR 1.1.1. In addition, please refer to the response to BCUC  
6     IR 1.2.6 where FEI discusses and evaluates alternate options for amending the Monthly  
7     Balancing Gas charge.

8  
9

10  
11                 1.2        What, if any advantages would FEI see from imposing the Common high prices  
12                                 as a deterrent rather than the \$0.10/gigajoule charge?

13  
14     **Response:**

15     Please refer to the response to CEC IR 1.1.1, which, in turn, refers to the response to BCUC IR  
16     1.3.4.

17

FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 3

1   **2.0   Reference Exhibit B-1, page 2 and page 3**

estimate of the quantity of gas the Shipper will actually consume. Gas supply orders for Shippers who are over or under effectively cause the core market to subsidize their gas procurement activities. There was recognition that the Sumas Daily Price may not adequately compensate core market customers for the gas and services provided and that inadequate price levels for Backstopping or Balancing may be regarded by some Shippers

The current price of the monthly Balancing Gas sold is not a pricing mechanism available in the marketplace or representative of what a Shipper could transact for in the marketplace. FEI believes that a premium is required in order to incent the right behavior from Shippers to bring on sufficient supply and balance by month end. FEI believes a \$0.10 per GJ premium would incent the appropriate behavior from the Shipper Agents to better adhere to the spirit and intent of the tariff.

2

3           2.1    If the basic problem with the six shippers who appear to FEI to be abusing the  
4                    service is that they are accessing a subsidy from core-market customers, then  
5                    would the problem exist if the balancing service charged the full cost such that  
6                    the core market customers would not in any way be subsidizing customers using  
7                    the Balancing Gas service?

8

9    **Response:**

10   As evidenced in Appendix A within the Application, FEI believes that in spite of the tools and  
11   resources available to Shipper Agents to effectively manage their groups' supply, certain  
12   Shipper Agents are abusing the service, accessing a price arbitrage opportunity in the  
13   marketplace and are therefore not adhering to the intent of the tariff. FEI believes that a  
14   correction to the Balancing Gas pricing mechanism can help to correct the behavior of these  
15   Shipper Agents.

16

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18

19           2.2    Please explain why FEI believes a penalty dis-incentive is required as opposed  
20                    to a service price?

21

22   **Response:**

23   FEI believes the current price for Monthly Balancing Gas is not representative of what a Shipper  
24   could transact for in the marketplace. The intent of this Application was to impose a change and  
25   amend the current pricing in order to incent the proper behavior by certain Shipper Agents. This  
26   is commodity cost related, and if the appropriate pricing mechanisms are in place to minimize  
27   price arbitrage opportunities in the marketplace, then the Shipper Agents should be incented to  
28   minimize monthly balancing requirements.

29

FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 4

1    **3.0    Reference Exhibit B-1, page 3**

2                   Despite repeated requests made to Shipper Agents to increase their supply and minimize  
3                   monthly Balancing Gas, certain Shipper Agents have continued to abuse monthly Balancing  
4                   Gas sales as a default source of supply. FEI has included, on a confidential basis, a  
5                   spreadsheet in Appendix A, which contains a list of Shipper Agents and the quantities of  
6                   monthly Balancing Gas sold in 2012 and 2013. A public, non-confidential version of  
7                   Appendix A is also included which does not identify the specific Shipper Agents. Appendix A

8                   3.1    Please confirm that the shippers using the Balancing Gas service under the  
9                   existing tariff are compliant with the terms of the tariff.

10                   **Response:**

11                   Shipper Agents using Balancing Gas service are compliant with terms of the tariff; however, FEI  
12                   believes the service is being abused by some Shipper Agents. Please refer to the response to  
13                   CEC IR 1.3.1.1.

14                   3.1.1    If the customers are compliant with the terms of the tariff, please  
15                   discuss why FEI considers the customers to be abusing the service.

16                   **Response:**

17                   In spite of Shipper Agents being *compliant* under the terms of the tariff, the level of monthly  
18                   Balancing Gas purchased by some Shippers and/or Shipper Agents is fairly constant, as  
19                   demonstrated in Appendix A of the Application. FEI believes that such evidence indicates an  
20                   abuse of this service.

21                   FEI has made repeated requests to Shippers and Shipper Agents to provide more appropriate  
22                   Requested Quantities of gas required for transport on FEI's system to address the Balancing  
23                   Gas situation. Under Section 7.2 of Rate Schedule 23, "The Shippers Requested Quantity for  
24                   each Day will equal the Shipper's best estimate, at the time of notification to FortisBC Energy of  
25                   the Requested Quantity, of the quantity of Gas the Shipper will actually consume on such Day".  
26                   Thus, the Shipper or its Shipper Agent must make reasonable efforts to match the nomination  
27                   with the actual consumption. Throughout the month, Shippers Agents also have the ability to  
28                   remedy any previous day imbalances; therefore, Shipper Agents should be able to keep  
29                   monthly balancing quantities to levels at or near zero. Given the tools available to Shipper  
30                   Agents, such as access to metered daily consumption of their individual customers, as well as  
31                   access to aggregated supply and demand data from Inventory Reports, FEI believes the level of  
32                   monthly Balancing Gas purchased as shown in Appendix A is unnecessary and evidences  
33                   some abuse of the intent of the tariff by certain Shippers/Shipper Agents.



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 5

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3.2 Please provide FEI’s interpretation of why certain Shipper Agents have chosen to ignore FEI’s requests to increase their supply, and include a discussion of the incentives that it considers relevant to that decision-making.

**Response:**

FEI has no actual knowledge as to why the Shipper Agents have chosen to ignore FEI’s requests to increase their supply. However, based on the information gathered and presented in Appendix A, FEI’s belief is that a price arbitrage opportunity must exist in the marketplace or within the Shipper/Shipper Agents supply portfolio. FEI does not know of any reasons that would restrict the Shipper/Shipper Agent from procuring the required supply in the marketplace to match their customer’s aggregated consumption requirements and minimize the amount of required Balancing Gas.

3.3 Please explain, without reference to confidential information, if there are market or other distinguishing aspects between those shippers that use the Balancing Gas service frequently and in significant amounts and those who do not; or is it FEI’s presumption that there is no underlying explanation as to the differing performance? Please explain.

**Response:**

FEI does not have any information that provides a definitive explanation for the differing performance of the various Shipper Agents. However, FEI does believe some parties are taking advantage of a price arbitrage opportunity between using the Balancing Gas service and timing of market purchases to more closely meet customer daily requirements. This behavior is not consistent with the intent of providing the Balance Gas service.



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 6

1   **4.0   Reference Exhibit B-1, page 3**

2   Despite repeated requests made to Shipper Agents to increase their supply and minimize  
3   monthly Balancing Gas, certain Shipper Agents have continued to abuse monthly Balancing  
4   Gas sales as a default source of supply. FEI has included, on a confidential basis, a  
5   spreadsheet in Appendix A, which contains a list of Shipper Agents and the quantities of  
6   monthly Balancing Gas sold in 2012 and 2013. A public, non-confidential version of  
7   Appendix A is also included which does not identify the specific Shipper Agents. Appendix A  
8   shows that the high amount of Balancing Gas sold in 2012 and 2013 (total of 399,214 GJs  
9   and 426,282 GJs respectively) demonstrates that Shipper Agents with monthly balanced  
10   groups are not making best efforts to provide sufficient quantities of gas over the month to  
11   balance their groups. Appendix A shows that of the total load of gas delivered by all Shipper  
12   Agents, 1.68 percent in 2012 and 1.72 percent in 2013, was provided by Balancing Gas.

3           4.1   FEI has provided evidence with respect to shipper behaviour for the years 2012  
4           and 2013. Please advise whether or not FEI has any similar evidence that  
5           shippers have been abusing the Balancing Gas service provided by FEI for the  
6           years preceding 2012 and 2013 back to the initiation of the applicable tariff  
7           service.

9    **Response:**

10   Please refer to the response to BCUC IR 1.8.2, which provides evidence that Shippers/Shipper  
11   Agents have been abusing the Balancing Gas service in the past.

FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 7

1    **5.0    Reference Exhibit B-1, page 3**

Further, over the two years, the same six Shippers were the worst offenders in both years, with individual Balancing Gas requirements during the two years ranging from 0.29 percent to 7.13 percent.

Shippers have all the necessary tools and reporting information at their disposal to meet the objective of balancing their groups, and achieving a minimal amount of Balancing Gas sold.

2

3           5.1    The information in the tables in Appendix A show six shippers at or near zero  
4                    percent requirement for Balancing Gas and six who have required Balancing  
5                    Gas. Please confirm that it should be possible for all shippers to be at or near  
6                    zero percent on a monthly and annual basis.

7

8    **Response:**

9    FEI confirms that it is possible for all shippers to be at or near zero percent on a monthly and  
10   annual basis. Many of these Shippers/Shipper Agents have daily balanced groups which require  
11   them to balance each day, in the day. Given the tools and resources available to  
12   Shippers/Shipper Agents and experience with daily balancing rules and requirements, in FEI's  
13   view, it is possible for shippers to minimize Monthly Balancing Gas uses.

14

15

16

17                   5.1.1    If not confirmed, please provide a discussion as to what would be an  
18                            appropriate expectation of the use of balancing gas service.

19

20   **Response:**

21    Please refer to the response to BCUC IR 1.5.1.

22

23

24

25           5.2    Given the tools available to shippers, should it be possible for each of the  
26                    shippers to balance each month starting immediately, confirming that there is no  
27                    need for an implementation or transition period?

28

29   **Response:**

30    Given the tools and resources available to Shippers/Shipper Agents, it is possible for  
31    Shippers/Shipper Agents to balance each month to levels at or near zero starting immediately.  
32    Many of these Shippers/Shipper Agents have daily balanced groups which require them to





FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 8

1 balance each day. FEI believes that the monthly balancing can be done immediately, and thus  
2 there is no need for a transition period.

3  
4

5

6 5.3 Could the tariff for Balancing Gas services have eligibility criteria such that any  
7 shipper who may be using the Balancing Gas service could be denied access to  
8 the monthly balancing service and instead required to do so daily.

9

10 **Response:**

11 Under the current Rate Schedules, FEI does not have the ability to deny access to Monthly  
12 Balancing Gas; however, as described in the response to BCUC IR 1.10.4, FEI has other tools  
13 within the Rate Schedules to minimize the quantity of Monthly Balancing Gas sold to  
14 Shippers/Shipper Agents.

15

FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 9

1   **6.0   Reference Exhibit B-1, page 3**

2    The current price of the monthly Balancing Gas sold is not a pricing mechanism available in  
3    the marketplace or representative of what a Shipper could transact for in the marketplace.  
4    FEI believes that a premium is required in order to incent the right behavior from Shippers to  
5    bring on sufficient supply and balance by month end. FEI believes a \$0.10 per GJ premium  
6    would incent the appropriate behavior from the Shipper Agents to better adhere to the spirit  
7    and intent of the tariff.

8           6.1    Please provide any documentation that defines the spirit and intent of the tariff.

9    **Response:**

10   Provisions of applicable Rate Schedules reflect the intent of the tariff. For example, as indicated  
11   in the Shipper Agent Agreement within Rate Schedules 23, 25, 26 and 27, Shipper Agents on  
12   behalf of their Shippers (customers) have specific obligations including the management of  
13   Balancing Gas. Section 3.1 of the Shipper Agent Agreement clearly states the following:

14           *“The Shipper Agent is responsible for the management of all Balancing Gas for the*  
15           *Group and its members.”*

16   By stating it is the Shipper Agent’s responsibility to manage such things as nominations and  
17   balancing, imbalances, Backstopping and Balancing Gas as included in the Shipper Agent  
18   Agreement, FEI believes that it is up to the Shipper Agents to uphold these obligations to the  
19   *best of their ability.*

20   Another reference that speaks to the intent of the tariff is in Article 7.2 of Rate Schedule 23:

21           *“The Shipper’s Requested Quantity for each Day will equal the Shipper’s best estimate,*  
22           *at the time of notification to FortisBC Energy of the Requested Quantity, of the quantity*  
23           *of Gas the Shipper will actually consume on such Day.”*

24   Shippers/Shipper Agents have the appropriate tools available to generate a “best estimate” as  
25   they have daily metered data for each of their customers available to them, as well as daily  
26   aggregated supply and demand data to determine their level of inventory on the FEI system.  
27   Daily metered data also provide the Shipper Agents throughout the month with information  
28   required to remedy any previous days’ imbalances prior to month end balancing. Despite these  
29   Shipper Agent groups being monthly balanced, FEI has provided the Shipper Agents with the  
30   tools and resources required to be able to manage these groups on a daily basis and potentially  
31   be Daily Balanced.

While provisions in the applicable Rate Schedules state that FEI will sell gas deficiencies in  
Monthly Balancing Gas when shortfalls occur, FEI views this service as a last resort and should  
be used in minimal quantities and not be used as a source of supply, which FEI believes is  
occurring as evidenced by Appendix A.

FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 10

1

2

3

4           6.2     If there is no documentation, please provide FEI's description of the spirit and  
5                    intent of the tariff.

6

7     **Response:**

8     Please refer to the response to CEC IR 1.6.1.

9

10

11

12           6.3     Please provide a discussion as to how the shippers should know the spirit and  
13                    intent of the tariff.

14

15     **Response:**

16     As stated in the response to CEC IR 1.6.1, the provisions of the applicable Rate Schedules  
17     reflect the intent of the tariff. Many of the Shippers and Shipper Agents representing  
18     Transportation Service Rate customers in Monthly and Daily balanced groups have been  
19     operating and doing business on FEI's system for a long time. These Shippers/Shipper Agents  
20     are well aware of the provisions as well as the rules and obligations under the tariff.

21     FEI has sent numerous emails and made phone calls to Shippers/Shipper Agents advising them  
22     of their obligations and have made direct requests that Monthly Balancing Gas be minimized to  
23     levels near zero. Thus, FEI believes that Shipper/Shipper Agents are well aware of the intent of  
24     the tariff.

25



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 11

1    **7.0    Reference Exhibit B-1, Appendix A**

SUMMARY OF MONTHLY BALANCING GAS SOLD IN 2013

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Grand Total	% of Total Load
SHIPPER AGENT A														0.00%
SHIPPER AGENT B	32,280	74,217		3,231	20,522	458	3,852	17,220	10,067			6,122	103,704	2.63%
SHIPPER AGENT C	3,177							434	8,303	333			10,247	1.00%
SHIPPER AGENT D														0.00%
SHIPPER AGENT E														0.00%
SHIPPER AGENT F		1,462			3,588	8,957	6,370			137		42,817	61,630	2.61%
SHIPPER AGENT G								14,368					14,368	0.33%
SHIPPER AGENT H	3,817	947			463				1,130			76	6,433	1.54%
SHIPPER AGENT I														0.00%
SHIPPER AGENT J		93,236		18,801	3,810				30,340		12,589		157,800	3.94%
SHIPPER AGENT K	3,754												3,754	0.11%
SHIPPER AGENT L														0.00%
Grand Total	40,038	168,861		22,061	24,380	3,415	6,242	27,130	37,015	436	12,599	49,028	424,282	1.73%

2

3            7.1    In the same format as the above table in Appendix A, for each shipper for 2012  
4            and 2013, please provide the monthly difference in price between the Sumas  
5            Daily price average for the month, and the price that FEI paid to provide the  
6            balance gas.

7

8    **Response:**

9    For the Sumas Daily price average for the month, please refer to the response to BCUC IR  
10    1.8.1.

11    In terms of the price that FEI paid to provide the Balancing Gas, please refer to the response to  
12    BCUC IR 1.5.2. As indicated in that response, it is impossible to narrow down the exact  
13    resources used to provide the Balancing Gas service; thus, FEI is unable to provide an exact  
14    price for comparison.

15



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 12

1 **8.0 Reference Exhibit A-3, BCUC 1.6.1**

2 **6.1 Describe the administrative resources and quantify the administrative costs directly attributable to providing Balancing Gas service to monthly balanced transportation service customers.**

3 8.1 In quantifying the administrative costs, please describe and quantify the type of  
4 costs between direct and indirect or overhead costs.

5  
6 **Response:**

7 As indicated in the response to BCUC IR 1.6.1, the administrative costs are included in a Gas  
8 Management Fee charged by FEI as indicated in Rate Schedule 14A. The Gas Management  
9 Fee covers FEI's costs, acting as a Shipper Agent, which include services such as nominating  
10 supply, managing inventory, billing, and customer service. This work is specific to customers  
11 who have FEI as their Shipper Agent.

12 The month end work and associated costs to run the transportation service rate schedules for  
13 both daily and monthly balanced groups within FEI is managed in aggregate, and these costs  
14 are included in the O&M budgets that are recovered in the delivery margin. Further, as  
15 indicated in the response to BCUC IR 1.5.3, the Midstream Portfolio manages the midstream  
16 costs associated with balancing core gas sales and transportation customers in aggregate.  
17 These balancing resources and costs are not streamed and managed to a specific rate  
18 schedule or customer; therefore, it would be difficult to allocate a cost to a particular action as  
19 there are so many variables that impact the midstream portfolio on a daily basis.

20  
21  
22  
23  
24 8.2 Please calculate the administrative costs as a cost per gigajoule.

25  
26 **Response:**

27 Please refer to the response to CEC IR 1.8.1.

28  
29  
30  
31 8.3 If monthly balancing customers under rate schedules 23, 25, 26 and 27 did not  
32 require Balancing Gas service, would there be an administrative saving?  
33



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 13

1 **Response:**

2 In FEI's view, any administrative savings would be minimal, as administering the Balancing Gas  
3 service is only one aspect of the tariff. In any case, FEI does not believe it is reasonable to  
4 remove Balancing Gas service from transportation rate schedules.

5



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 14

1    **9.0    Reference Exhibit A-3, BCUC 1.8.1**

Sumas Daily Price as defined in RS 23/25/26/27 (\$Cdn/GJ)																	
Month	1	2	3	4	5	6	...	...	...	26	27	28	29	30	31	Monthly Average	
Jan-12																	
Feb-12																	
...																	
...																	
Nov-13																	
Dec-13																	

2

3            9.1    The Commission asked for the above table. Please confirm that the prices are  
4            based on Sumas Daily mid-point price.

5

6    **Response:**

7    Confirmed.

8

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11           9.2    Please provide in the same format the Sumas Daily high point prices.

12

13    **Response:**

14    Please refer to Confidential Attachment 9.2. The data provided in response to this question are  
15    proprietary and under strict-use license. Therefore, the data are being provided confidentially  
16    under separate cover to the Commission only for the purposes of this proceeding, and cannot  
17    be provided to other parties without obtaining prior consent under the terms of the license.

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21           9.3    Please provide in the same format the Sumas Daily low point prices.

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23    **Response:**

24    Please refer to Confidential Attachment 9.3. The data provided in response to this question are  
25    proprietary and under strict-use license. Therefore, the data are being provided confidentially



FortisBC Energy Inc. (FEI or the Company) Application for Approval to Amend the Balancing Charges for FEI Rate Schedules 23, 25, 26 and 27 (the Application)	Submission Date: July 15, 2014
Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1	Page 15

1 under separate cover to the Commission only for the purposes of this proceeding, and cannot  
2 be provided to other parties without obtaining prior consent under the terms of the license.

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**Attachment 9.2**

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**FILED CONFIDENTIALLY**

**Attachment 9.3**

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**FILED CONFIDENTIALLY**