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March 8, 2016

British Columbia Public Interest Advocacy Centre
Suite 208 – 1090 West Pender Street
Vancouver, B.C.
V6E 2N7

Attention: Ms. Tannis Braithwaite, Executive Director

Dear Ms. Braithwaite:

Re: Project No. 3698864

FortisBC Energy Inc. (FEI)

2015 Price Risk Management Application (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1 – Scope A

On December 23, 2015, FEI filed the Application referenced above. In accordance with Exhibit A-8 setting out the Amended Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to BCOAPO Scope A IR No. 1.

If further information is required, please contact Mike Hopkins, Senior Manager, Price Risk & Resource Planning at (604) 592-7842.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties

1.0 Reference: Exhibit B-1, page 4, Deferral Account Balances

The referenced page states:

"FEI currently considers a band of approximately +/- $50-60 million a reasonable range for the commodity deferral account. Deviations falling materially outside of this range can pose challenges for FEI in terms of the timing of refunding or recovering significant dollar amounts from customers and can impact FEI's balance sheet and potentially its credit rating and borrowing capacity."

1.1 Has FEI or its predecessor company ever been denied full recovery of any of the balances in its CCRA or GCRA deferral accounts? If so, please provide full details of the amount(s) and circumstances under which the BCUC denied full recovery.

Response:

FEI is not aware of ever being assessed any gas cost disallowances or of being denied full recovery of any of the balances in its CCRA or GCRA deferral accounts.

2.0 Reference: Exhibit B-1, page 3, Commodity Rate Cap

The referenced page states:

"FEI is requesting Commission approval to implement specific price risk management tools and strategies for customers who receive commodity supply from FEI. These include the following: …

Implementation of enhancements to FEI's quarterly commodity rate setting mechanism, which includes the following components: …

a) Commodity rate change cap of $1 .00/GJ, applicable to rate increases or decreases, provided the deferral account balance is maintained within a reasonable range:

i. Implementing a commodity rate change cap, plus or minus $1 .00/GJ, would be utilized for a maximum of two consecutive quarters provided that the rate changes subject to the cap have been in the same direction, and

ii. The cap is removed for the third consecutive quarter if the rate change is in the same direction."

2.1 In the hypothetical scenario that (i) a $3/GJ increase in the commodity cost is indicated in the first quarter, (ii) an additional $3/GJ increase in the commodity cost is indicated in the second quarter, and (iii) a $1/GJ decrease in the commodity cost is indicated in the third successive quarter, would the $1/GJ cap remain in place for the third consecutive quarter?

Response:

Yes.

At the first quarter, the indicated rate increase is $3/GJ. The cap would apply assuming the deferral balances can be maintained within a reasonable range (this may be questionable as the CCRA currently incurs costs for approximately 10 PJ of gas per month and depending upon how much rates under recover costs for the next quarter, the reasonable range could easily be exceeded in this scenario).

At the second quarter, the "additional" $3/GJ increase in rates, based on second quarter forecasts, is assumed to be in addition to the $1/GJ rate increase effected under the cap during the previous quarter (in other words, the "additional" $3/GJ increase calculated in the second quarter includes any impact related to the $2/GJ under recovery built into the commodity rate as a result of using the cap at the first quarter). Again, the cap would apply assuming the deferral balances can be maintained within a reasonable range.

At the third quarter, the $1/GJ cap would apply because the rate change is going in the opposite direction (decrease as opposed to increase) in this third consecutive quarter.

As Scenario 3 in Table 2 on page 19 of the Application shows, the cap would be in effect for each of the three successive quarters in this scenario.

3.0 Reference: Exhibit B-1, page 3, 24-Month Prospective Outlook

The referenced page states:

"b) Criteria for consideration of using a prospective period beyond the 12-month outlook to determine a new effective commodity rate. A 24-month prospective period may be used in specific situations to maintain the Commodity Cost Reconciliation Account (CCRA) deferral account balance within a reasonable range over the full duration of the 24-month period, which includes:

i. When a commodity rate change is indicated using a standard 12-month prospective period;

ii. When there is a difference of $0.75/GJ or more between the CCRA weighted average cost of gas (WACOG) for year one versus year two of the 24-month prospective period,…"

3.1 Given that under the proposed commodity price cap, the commodity cost could be changed by up to $1/GJ each quarter (and therefore permit increases or decreases of up to $4/GJ in any 12-month period under the cap), please explain any linkage between the proposed $1/GJ commodity cap and the $0.75/GJ "trigger" quoted above in respect of (potentially) adopting a 24-month outlook.

Response:

In general, the proposed $1/GJ cap would be used in conjunction with a 12-month outlook. The $1/GJ cap is about limiting the impact of the increase or decrease in a rising or declining market, respectively, for the first two quarters, then if the rise or decline in the market prices is sustained, the cap would be removed for the third quarter (and assuming the deferral balances can be maintained within a reasonable range when the cap is to be used); this does not necessarily correlate to increases or decreases being limited to $4/GJ in any 12-month period.

On the other hand, the criteria proposed for the 24-month outlook relate to the commodity rate increase or decrease indicated by the 12-month prospective gas costs being ameliorated by the gas costs during the second 12-month period of the 24-month outlook moving in the opposite direction. There is no linkage between the proposed $1/GJ commodity and the $0.75/GJ amount referenced in the criteria for clarification of when consideration should be given to commodity rate proposals beyond a 12-month outlook.

If both tools were approved, both tools would be evaluated at the time of quarterly rate setting.

3.2 Would an application for commodity rate setting over a 24-month outlook be accompanied by additional medium term hedging by FEI in support of its 24-month outlook? Please explain or elaborate.

Response:

No. The application of the 24-month rate outlook would not trigger additional medium term hedging beyond what FEI has proposed in the Application. The hedging program implementation decisions are independent of the application of the 24-month outlook. While both the 24-month outlook and the medium-term hedging are price risk management tools that help mitigate rate volatility, the medium-term hedging directly impacts underlying market prices, and therefore gas costs, while the 24-month outlook merely smooths out gas costs over a longer period of time.