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April 22, 2016

British Columbia Utilities Commission  
Sixth Floor  
900 Howe Street  
Vancouver, B.C.  
V6Z 2N3

Attention: Ms. Laurel Ross, Acting Commission Secretary and Director

Dear Ms. Ross:

**Re: FortisBC Energy Inc. (FEI)**  
**Project No. 3698864**  
**2015 Price Risk Management Application (the Application)**  
**FEI Reply Submission**

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In accordance with Order G-38-16 setting out the remainder of the Regulatory Timetable for the review of the Application, attached please find FEI's Reply Submission, including a Confidential Reply Submission under the separate cover.

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

Attachment

cc (email only): Registered Parties

**BRITISH COLUMBIA UTILITIES COMMISSION**

**IN THE MATTER OF the *Utilities Commission Act*,  
R.S.B.C. 1996, Chapter 473 (the “Act”)**

**and**

**FortisBC Energy Inc.**

**2015 Price Risk Management Application**

**REPLY SUBMISSIONS OF**

**FORTISBC ENERGY INC.**

**April 22, 2016**

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1. As demonstrated in the Application filed on December 23, 2015 and presented in the Final Submissions dated April 6, 2016, FEI's<sup>1</sup> objectives with the Proposed Strategies are to reduce commodity rate volatility and to keep commodity rates more affordable for FEI customers through: (1) enhancements to the current commodity rate setting guidelines consisting of a commodity rate change cap of +/- \$1.00/GJ and a defined set of criteria that will allow for consideration of a 24-month prospective period for commodity rate setting; and (2) implementation of a medium term hedging program, including the use of fixed price physical purchases and/or fixed price financial swaps, when commodity prices are at or below certain predefined price targets.

2. The Commercial Energy Consumers Association of British Columbia (CEC) and the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre *et al* (BCOAPO) both intervened in the Commission's review of the Application and filed their respective submissions. CEC and BCOAPO both support FEI's Proposed Strategies, though BCOAPO made a suggestion to lower the price targets for implementing the fixed price hedging tools, as further discussed below and in the confidential Reply Submissions filed concurrently.

#### **A. SCOPE A - ENHANCEMENTS TO RATE SETTING GUIDELINES**

3. Both CEC and BCOAPO support the approval of the rate setting mechanism enhancements as proposed as they support the objectives identified by FEI.

4. More specifically, CEC submits that the rate change cap "provides benefits that will mitigate short term price volatility"<sup>2</sup> and that the criteria for consideration of the 24-month prospective period "provide potential rate-smoothing benefits without any undue risk to ratepayers".<sup>3</sup> BCOAPO submits that the rate change cap "has the potential to smooth short term volatility in market prices with little or

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<sup>1</sup> The abbreviations used in FEI's Final Submissions dated April 6, 2016 are also used in this Reply Submissions, unless otherwise noted.

<sup>2</sup> CEC Submissions, para. 17.

<sup>3</sup> CEC Submissions, para 25.

no appreciable downside”<sup>4</sup>, and that the 24-month period criteria provide “clarity as to when the 24-month period should be used.”<sup>5</sup>

5. Both interveners recognized and emphasized the importance of maintaining the CCRA balance within the range of +/- \$50 to \$60 million as a condition of implementing the proposed enhancements.<sup>6</sup> FEI confirms that one of the conditions to implement the proposed rate setting mechanism enhancements is FEI’s ability to maintain the CCRA balance within a reasonable range, currently at +/- \$50 - \$60 million.<sup>7</sup> As explained in FEI’s Final Submissions, there is a continuing need for FEI to do so.<sup>8</sup>

## **B. SCOPE B - MEDIUM TERM FIXED PRICE HEDGING TOOLS**

6. CEC supports the hedging tools as proposed as they “can provide benefits for customers” and “there is lower risk associated with the current proposed hedging program than there was in the past.”<sup>9</sup> FEI agrees. As FEI articulated in its Final Submissions, the Application is of limited scope. Not only are the hedging tools designed to respond to the current market environment of low commodity prices and applicable in specific market conditions, they present a limited version of a more dynamic hedging strategy compared to the previous more programmatic approach.<sup>10</sup>

7. BCOAPO supports the implementation of the proposed hedging tools “when the market price at or below a specified level that is relatively near the breakeven cost of production,” and has suggested hedging price targets of \$1.75/GJ and \$2.00/GJ as such specified levels. FEI’s position with respect to BCOAPO’s suggested price range is addressed in the Reply Submissions (Confidential), filed separately and concurrently.

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<sup>4</sup> BCOAPO Submissions, para. 8.

<sup>5</sup> BCOAPO Submission, para. 11.

<sup>6</sup> E.g., CEC Submissions, para. 13, 23; BCOAPO Submissions, para. 8, 12.

<sup>7</sup> Exhibit B-1, at page 4. In Exhibit B-3, response to BCUC Scope A IR 1.5.3, FEI explains that the range of +/- \$50-\$60 million accounts for Vancouver Island base load volumes and also other volume adjustments such as customers returning from the Customer Choice program. In Exhibit B-3, response to BCUC Scope A IR 1.4.4, FEI provided the deferral account balance from January 1, 2000 to January 2016, which shows during most periods of this timeframe, the balance was within the range of +/- \$50- \$60 million.

<sup>8</sup> FEI Final Submissions, at para. 15.

<sup>9</sup> CEC Submissions, para. 57 and 65.

<sup>10</sup> FEI Final Submissions, at para. 11.

## C. REPORTING TO THE COMMISSION

8. In the Application, FEI proposes reporting to the Commission on an annual basis to discuss how the Proposed Strategies have worked and if any refinements need to be made.<sup>11</sup> Both CEC and BCOAPO agreed and recommended that the Commission adopt a reporting structure.<sup>12</sup>

9. FEI continues to agree to the filing of a report to the Commission on an annual basis because the price risk management strategies proposed in the Application are new and annual reports will provide the Commission with an opportunity to review the effectiveness of the Proposed Strategies<sup>13</sup> in terms of meeting the two identified objectives and will allow FEI to evaluate whether to seek to extend the hedging horizon beyond the currently applied for period (ending March 2019) on a rolling three-year basis and with appropriate hedging price targets.<sup>14</sup> FEI has proposed to include in the report a summary of realized hedging gains or costs, reduction in rate volatility achieved with or without hedging, and achieved commodity rates relative to historical averages.<sup>15</sup> FEI submits that FEI's proposed reporting strikes a balance between the need to provide the Commission with useful information for it to assess the Proposed Strategies and a potentially undue administrative burden of reporting.<sup>16</sup>

## D. CONCLUSION

10. As demonstrated in the Application and responses to Information Requests and summarized in the Final Submissions, FEI has presented commodity price risk management strategies that will enable FEI to provide customers with more stable and lower (relative to the past) commodity rates. As CEC summarized plainly, "FEI customers stand to benefit from the risk management strategies FEI is

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<sup>11</sup> FEI Final Submissions, at para. 19.

<sup>12</sup> E.g., CEC Submissions, para. 60, 66; BCOAPO Submissions, para. 17.

<sup>13</sup> FEI Final Submissions, para. 19.

<sup>14</sup> Exhibit B-4 BCUC Scope A IR 1.6.1.2, 1.6.2, 1.6.2.1.

<sup>15</sup> Exhibit B-7, BCOAPO Scope B IR 1.1.1.

<sup>16</sup> Please see the Core Review recommendations. One of the key recommendations of the Core Review was the need to ensure the necessity and usefulness of compliance reports: "The BCUC should make additional efforts to ensure all compliance reports are necessary and useful, and eliminate the reporting requirement for those that are not."

proposing.”<sup>17</sup> Both CEC and BCOAPO supported FEI’s Proposed Strategies, although BCOAPO suggested lower price targets that enable FEI to execute proposed hedging tools.

11. FEI respectfully submits that the approvals sought in the Application should be approved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: April 22, 2016

*[original signed by Song Hill]*  
**Song Hill**  
**Counsel for FortisBC Energy Inc.**

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<sup>17</sup> CEC Submissions, para. 3.