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June 28, 2018

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598917

2018 Price Risk Management Plan (the Application)

FEI Reply Submission

In accordance with Order G-88-18 setting out the remainder of the Regulatory Timetable for the review of the Application, attached please find FEI's Rely Submission.

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

Sincerely,

FORTISBC ENERGY INC.

Diane Roy

Attachments

cc (email only): Registered Interveners

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.

2018 Price Risk Management Application

REPLY SUBMISSIONS OF

FORTISBC ENERGY INC.

June 28, 2018

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A. INTRODUCTION

1. In its Price Risk Management Plan (2018 PRMP or the Application), FortisBC Energy Inc. (FEI) requests that the British Columbia Utilities Commission (Commission) approve: (1) extending the currently-approved medium-term hedging horizon out to October 2021; (2) adjusting the current winter and summer term fixed price hedging targets, to account for seasonality in market prices, as well as the one-year term hedging price targets; and (3) implementation of hedging with terms up to five years out to October 2024 (collectively, the Proposed Strategies).[1] The details of the approvals sought are set out in Section 5 of the Application. A draft order is included as Appendix D of the Application.

2. Pursuant to the regulatory schedule approved by the Commission for this proceeding, FEI filed its Final Submissions on May 30, 2018. On June 14, 2018, two interveners, 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), filed final argument.

3. BCOAPO does not oppose FEI's Application.[2] BCOAPO states:[3]

> BCOAPO submits that so long as future volatility is reduced at a reasonable cost (in terms of associated administrative costs and hedging losses) it is of benefit to ratepayers who value bill stability – a concern shared especially by low-income ratepayers.
>
> BCOAPO agrees that there is currently far more commodity price upside risk than there is on the downside: as such, BCOAPO fully supports efforts to lock in current low price levels for a future in which commodity prices are likely to increase.

4. BCOAPO also comments on quantitative information that could be provided in future PRMPs, to which FEI responds below.

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[1] Exhibit B-1-2, Section 5.
[2] BCOAPO Final Argument, p. 2.
[3] BCOAPO Final Argument, p. 4.

5. The CEC states that "FEI has developed an appropriate Price Risk Management hedging strategy for its medium term program"[4] and that "a 5 year term is reasonable in the current marketplace".[5] CEC recommends that the Commission approve the Application "with the proviso that regular annual reporting must demonstrate that benefits are meeting or exceeding the costs of the program, and if not the program will be discontinued."[6] FEI responds to CEC's proviso and other comments below.

B. MITIGATING VOLATILITY

6. FEI's Proposed Strategies are designed to meet two price risk management objectives for the benefit of its customers: (a) mitigating market price volatility to support rate stability; and (b) capturing opportunities to maintain commodity rates at historically low levels for core sales customers that purchase their commodity supply directly from FEI.[7]

7. The CEC does not support the objective of mitigating market price volatility, stating that it is "of the view that reducing the risk of market volatility is a beneficial addition to the hedging program, it should not serve as an objective".[8]

8. FEI submits that the CEC's view does not reflect the view of the majority of its customers. BCOAPO submits that "so long as future volatility is reduced at a reasonable cost (in terms of associated administrative costs and hedging losses) it is of benefit to ratepayers who value bill stability – a concern shared especially by low-income ratepayers."[9] FEI's customer research[10] shows that customers prefer more stability in rates/bills and many are willing to pay a premium for it.[11] The recent survey indicates that 62 percent would be willing to pay a small premium for bill stability and that, on average, residential customers would be willing to pay up to 3.6

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4 CEC Final Submission, para. 53.
5 CEC Final Submission, para. 62.
6 CEC Final Argument, p. 10.
7 Exhibit B-1-2, page 1.
8 CEC Final Submission, para. 24.
9 BCOAPO Final Argument, p. 4.
10 Exhibit B-1-2, Section 3.3 and 6.
11 Exhibit B-5, BCUC IR 1.8.2.3.

percent each month and small commercial customers would be willing to pay up to 4.6 percent each month for greater stability in their natural gas bill.[12]

9. FEI disagrees with the CEC's characterization of the survey.[13] FEI worked with a reputable research vendor to design the questionnaire and ensure that it did not willfully lead the customer to a 'preferred response'.[14] The intent of the survey was to understand, as much as possible, the customers' attitudes, behaviours and their expectations of FEI in respect to managing price volatility. As pricing and billing is a complex issue, the survey questions focused on the overall impact on the bill for simplicity.[15] FEI submits that this is a reasonable approach in determining customers' general tolerances for changes in their bills and if they are willing to pay any premium for more bill stability.[16]

10. The CEC questions the relevance of the survey questions regarding customers' tolerances for bill increases of 25 percent, 50 percent and 100 percent due exclusively to the cost of natural gas which CEC states is unlikely in the current market environment.[17] As FEI shows in Figure 4-1 of the Application, FEI's commodity rate has exceeded $4.50 per GJ in the recent past, a level that would result in a bill increase of well over 25 percent based on FEI's current commodity rate. Figure 3-6 of the Application indicates that market prices in excess of this level are possible over the next few years, potentially resulting in bill increases in the order of 50 percent or higher.[18]

11. FEI submits that there is support for the objective of mitigating market price volatility and that it remains a valid objective for the PRMP.

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12 Exhibit B-1-2, Section 3.3
13 CEC Final Submission, para. 20.
14 Exhibit B-5, BCUC IR 1.9.2.1.
15 Exhibit B-8, CEC IR 1.10.3.1 and 1.10.4.
16 Exhibit B-5, BCUC IR 1.12.1; Exhibit B-8, CEC IR 1.10.4.
17 CEC Final Submission, para 19.
18 Exhibit B-8, CEC IR 1.11.4 and 1.11.4.1.

C. BEATING THE MARKET

12. The CEC states that “if the hedging program does not match or ‘beat’ the market over a determined period of time, then the risk profile FEI has identified is not correct and the program should likely be discontinued or scaled back”. [19]

13. FEI’s view is that the Proposed Strategies should meet the two objectives at a reasonable cost[20] and should provide benefits to the ratepayers. However, it is unreasonable to expect that FEI can guarantee that it will match or “beat” the market as suggested by CEC, to generate financial benefits for ratepayers.[21] FEI believes the hedging program is more like insurance, providing protection against adverse price movements, and that it would be reasonable for it to have a small cost[22], as there may be periods of hedging gains and also periods of hedging costs as the market fluctuates.[23] Based on the price probability analysis provided in the Application[24] and FEI’s example of potential hedging costs and benefits in response to the information requests,[25] market prices may go lower or higher in the future. While FEI has no certainty on where prices will end up[26], indications are there is currently more upside than downside price potential.[27]

14. FEI also submits that the effectiveness of the hedging program should be determined over several years, rather than over a single winter or summer season or year. This is because market prices for natural gas can be lower in one period and higher in another. Therefore, several years are required to determine if greater rate stability and capturing low market prices have been achieved.[28]

D. INFORMATION IN FUTURE PRMP APPLICATIONS

15. BCOAPO “requests that for future PRMP applications, (i) FEI attempt to develop a methodology that would allow a comparison of volatility with and without hedging measured statistically ex

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19 CEC Final Submission, para. 35.
20 Exhibit B-5, BCUC IR 1.5.1; Exhibit B-8, CEC IR 1.13.3.
21 CEC Final Submission, para. 30.
22 Exhibit B-1-2, Section 4.3; Exhibit B-5, BCUC IR 1.20.1; Exhibit B-8, CEC IR 1.20.3.
23 Exhibit B-5, BCUC IR 1.13.1.
24 Exhibit B-1-2, page 11.
25 Exhibit B-6, BCUC CONF IR 1.2.2; Exhibit B-5, BCUC IR 1.22.1.
26 Exhibit B-8, CEC IR 1.2.1.2.
27 Exhibit B-7, BCOAPO IR 1.3.4.
28 Exhibit B-1-2, Section 7.

post, and (ii) FEI give some thought to developing an overall metric by which to evaluate the efficacy of its hedging strategy ex post." FEI will consider BCOAPO's request and endeavour to develop such methodologies and metrics for future PRMPs.

E. CONCLUSION

16. FEI's Proposed Strategies are designed to meet the objectives of mitigating market price volatility to support rate stability and capturing opportunities to maintain commodity rates at historically low levels in the interests of customers. Both CEC and BCOAPO support the implementation of the Proposed Strategies as presented by FEI in the 2018 PRMP.

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: June 28, 2018

Original signed by Diane Roy

Diane Roy