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November 23, 2017

FEI 2017 PRICE RISK MANAGEMENT PLAN
EXHIBIT A-3

Sent via email

Ms. Diane Roy
Vice President, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8
gas.regulatory.affairs@fortisbc.com

Re: FortisBC Energy Inc. 2017 Price Risk Management Plan – Project Number 1598917 – Order G-168-17 with Reasons for Decision and Regulatory Timetable

Dear Ms. Roy:

Further to your June 13, 2017 filing regarding the above noted application, enclosed please find Commission Order G-168-17 with Reasons for Decision, establishing the regulatory timetable for the review of the application.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

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ORDER NUMBER
G-168-17

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
2017 Price Risk Management Plan

BEFORE:

H. G. Harowitz, Commissioner/Panel Chair
D. J. Enns, Commissioner
B. A. Magnan, Commissioner

On November 23, 2017

ORDER

WHEREAS:

- A. On June 13, 2017, FortisBC Energy Inc. (FEI) filed the 2017 Price Risk Management Plan Application (2017 PRMP or the Application), including requests for approval of the following:
 - a. Extend the term and adjust hedging price targets for the medium-term fixed-price hedging strategy approved by the Commission via Order E-10-16. FEI proposes a one-year extension to October 2020 and seasonal (summer and winter) price targets;
 - b. A longer term fixed-price hedging strategy that includes hedges with terms of up to five years based on pre-defined market price targets. The hedging horizon would end in 2023; and
 - c. That the Application be held confidential on the basis that it could impair FEI's ability to negotiate and obtain favorable commercial terms for any future natural gas hedging;
- B. On August 25, 2017, by Order G-133-17 and accompanying Reasons for Decision (2017 PRMP Scoping Decision), the British Columbia Utilities Commission (Commission) set out the initial regulatory timetable for review of the Application, including an invitation to FEI and Interveners to provide comments on the appropriate scope and process for the proceeding;
- C. On July 12, 2011, the Commission issued Order G-120-11 and accompanying Decision pursuant to the FEI and FortisBC Energy (Vancouver Island) Inc. 2011–2014 Price Risk Management Plan Application (2011-14 PRMP Decision). The Commission denied the request to implement a hedging program with the exception of the Sumas/AECO Basis Swaps element;

- D. On October 20, 2014, FEI filed with the Commission, the Price Risk Management Review Report (PRM Review Report). The PRM Review Report included recommendations by FEI for price risk management strategies meeting FEI's stated primary objectives of:
- a) mitigating market price volatility to support rate stability, and
 - b) capturing opportunities to provide customers with more affordable and competitive rates for core sales customers that purchase their commodity supply directly from FEI.
- E. FEI conducted the proposed Consultation Process during the first half of 2015. On October 27, 2015, FEI filed with the Commission the Price Risk Management Workshop Summary Report, which includes background information and a summary of the discussions during the Consultation Process;
- F. On December 23, 2015, FEI filed with the Commission, the 2015 Price Risk Management Application (2015 PRM Application), which included recommendations by FEI for price risk management strategies, which included the request for approval for the implementation of a medium-term hedging strategy based on pre-defined market price targets and maximum volume limits;
- G. On June 17, 2016, the Commission, by Orders E-10-16 and L-15-16, approved the 2015 PRM Application, which included, the medium-term hedging strategy based on the pre-defined price targets and maximum hedging percentages as defined within Section 2 of the 2015 PRM Application. The Commission denied the extension of the hedging program beyond March 31, 2019 (2015 PRM Decision);
- H. On February 21, 2017, FEI filed a letter with the Commission, seeking clarification of Order E-10-16. FEI sought clarification that the implementation plan is to be rolled over each year during the hedging horizon, and that there would no longer be a year three as the extension of the hedging horizon beyond approved timelines was denied in the Commission's 2015 PRM Decision;
- I. On February 28, 2017, the Commission confirmed FEI's interpretation of the hedging implementation;
- J. On April 27, 2017, FEI filed the Price Risk Management 2017 Annual Report, which discusses the outcomes to date of the implemented tools and included recommendations for enhancing the hedging strategies discussed in FEI's 2015 PRM Application that were approved by the Commission under Order E-10-16;
- K. On September 11, 2017, FEI and the Commercial Energy Consumers Association of British Columbia filed submissions in response to Order G-133-17, and FEI filed a reply submission on September 26, 2017; and
- L. The Commission has considered the submissions in the context of the Application and Order G-133-17, and determines that a regulatory timetable outlining the scope and process for the proceeding is warranted.

NOW THEREFORE for the reasons attached as Appendix A to this order, the British Columbia Utilities Commission orders as follows.

1. A regulatory timetable as set out in Appendix B to this order is established for the review of 2017 Price Risk Management Plan.
2. FEI is to provide a copy of this order to all registered interveners in the FEI 2015 Price Risk Management Application, participants in the 2015 price risk management consultation process, licensed gas marketers in the FEI Customer Choice program, Commission-regulated natural gas and propane utilities, and FortisBC Energy Inc. Annual Review for 2017 Delivery Rates Application and participants in the 2015 price risk management consultation process.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of November 2017.

BY ORDER

Original signed by:

H. G. Harowitz
Commissioner

Attachments

FortisBC Energy Inc.
2017 Price Risk Management Plan

REASONS FOR DECISION

1.0 Background

1.1 Application

On June 13, 2017, FortisBC Energy Inc. (FEI) filed with the Commission for approval, the 2017 Price Risk Management Plan (PRMP) (2017 PRMP or Application). In the Application FEI requests the following approvals:

1. Extend the term and adjust hedging price targets for the medium-term fixed-price hedging strategy approved by the Commission via Order E-10-16. FEI proposes a one-year extension to October 2020 and seasonal (summer and winter) price targets.¹
2. Longer term fixed-price hedging strategy that includes hedges with terms of up to five years based on pre-defined market price targets. The hedging horizon would end in 2023.²

In the Application, FEI notes: “The objectives of 2015 PRMP continue to be applicable in this 2017 PRMP.”³

1.2 Scope and process for the proceeding

On August 25, 2017, by Order G-133-17 and accompanying Reasons for Decision (2017 PRMP Scoping Decision), the Panel set out the initial regulatory timetable for the Application, including an invitation to FEI and Interveners to provide comments on the appropriate scope and process for the proceeding.

In the 2017 PRMP Scoping Decision, the Panel provided a discussion of prior PRMP applications and decisions, which in the Panel’s view gave rise to some foundational questions, and the resulting invitation for comments. The 2017 PRMP Scoping Decision states:

...Upon preliminary review of the Application, the Panel has identified some foundational questions, set out below.

- 1) Which objective, or combination thereof, should be used to assess the design and/or subsequent efficacy of FEI’s hedging program:
 - a) Manage price volatility;
 - b) Manage supply security;
 - c) Take a market position in anticipation of future commodity price changes; or
 - d) Other?
- 2) What are the most appropriate strategies/mechanisms in support of the objective(s) identified in question 1 above:
 - a) FEI hedging program as applied for;

¹ Exhibit B-1, Application, p. 6.

² Ibid., pp. 7–9.

³ Ibid., p 1.

- b) Use of other mechanisms already in place and/or available to FEI (e.g. quarterly gas cost adjustments, equal payment programs);
 - c) Existing third-party programs/mechanisms (e.g. Customer Choice Program); and/or
 - d) Other?
- 3) What are the potential costs/benefits of each strategy/mechanism under various future scenarios, and which parties ultimately bear the risk and/or reap the benefits (e.g. ratepayers, shareholders, other parties):
- a) Are the exposures to costs and benefits symmetrical for each party;
 - b) Are some strategies/mechanisms more effective in one particular future scenario as opposed to other scenarios (e.g. stable price regime, volatile price regime, significant price increase, etc.)

Examination of these foundational questions would suggest an expanded scope for this proceeding, compared to the scope proposed by FEI in the Application. The Panel invited parties to provide comments on both the scope and the review process, including explanations as to why there is support for a particular perspective, prior to establishing the regulatory scope and appropriate timetable for review of the Application.⁴

The following submissions were filed subsequent to the 2017 PRMP Scoping Decision, from FEI and the Commercial Energy Consumers Association of British Columbia (CEC).

- Letter dated September 11, 2017 – FEI Submission on Process (Exhibit B-2).
- Letter dated September 11, 2017 – CEC Submitting Comments Regarding Scope and Process of the Proceeding (Exhibit C1-2).
- Letter dated September 26, 2017 – FEI Reply Submission on Process (Exhibit B-3).

These Reasons for Decision set out the basis for the Panel’s determination of scope and process for this proceeding, organized as follows: a review of relevant prior PRMP applications/decisions; a review of the parties’ comments; and Panel discussion and determinations.

2.0 Previous applications and decisions

On July 22, 2010, the Commission, by Orders E-23-10 and E-24-10, denied the 2010 Price Risk Management Plan applications submitted by FEI and FortisBC Energy (Vancouver Island) Inc. (FEVI) respectively. FEI and FEVI were directed to conduct a review of the PRMP’s primary objectives in the context of the *Clean Energy Act* and increased domestic natural gas supply in consultation with Commission staff. FEI subsequently filed its 2011 PRMP Application for approval of the objectives and key elements of the 2011 PRMP, including measures for programmatic, defensive and value hedging as well as basis swaps to hedge price exposure at the Sumas trading hub.

On July 12, 2011, by Order G-120-11 and accompanying Decision (2011 PRMP Decision), the Commission denied the 2011 PRMP Application, with the exception of the Sumas/AECO basis swaps element. The 2011 PRMP Decision determined that moderation of volatility of natural gas prices to stabilize customer rates was a reasonable goal for FEI to pursue, but rejected the notion that it necessarily followed that the 2011 PRMP

⁴ FEI 2017 PRMP, Order G-133-17 and Reasons for Decision, Appendix A, p.3.

Application was the most cost-effective approach or solution.⁵ With regard to FEI's stated objective related to the competitiveness of natural gas with other energy sources, the Commission determined that the need had not been established.⁶

On December 23, 2015, FEI filed its 2015 PRM Application. FEI requested approval for (i) enhancements to the quarterly commodity rate setting mechanism (rate setting mechanism) and (ii) a medium-term hedging strategy for FEI based on pre-defined market price targets and maximum volume limits (medium-term hedging strategy).

On June 17, 2016, the Commission issued Order E-10-16, Letter L-15-16 and accompanying Decision (2015 PRM Decision). The Commission approved the enhancements to the quarterly rate setting mechanism, and the medium-term hedging strategy for the three-year horizon from April 2016 to March 2019. Extension of the hedging program beyond March 31, 2019 was denied. Commenting that the "low market gas price environment" in which the application was made supported the approvals granted, the Decision raises the question as to whether similar hedging programs would be appropriate under other scenarios. The Decision states:

there is no evidence on the record attempting to define exactly what a 'low-price market environment' is and at what price point a low-price market environment ceases to exist and there is a shift from a risk view to a market view. Given this circumstance, the Panel is of the view that if FEI wishes to make any change to the term, the price targets or the methodology as outlined in its application, it must do so by a formal application.⁷

3.0 Parties' comments on scope and process

The Panel notes the following points made by FEI in its September 11, 2017 submission:

- The scope and review for this proceeding should take into account the considerable discussion relating to the 2015 PRM Application, including multiple workshops and two rounds of Information Requests (IRs).
- The reason why the 2015 PRM Decision did not approve the hedging strategy for more than three years was related to whether the natural gas pricing environment would change, and in FEI's view they have not changed since the 2015 PRM was filed.
- Application addresses the Commission's expectations for a review of the effectiveness of the strategies/tools put forward versus alternatives.

CEC indicated it supports the regulatory timetable proposed in FEI's submission, providing no reasons for their position nor comments on the scope.

⁵ Terasen Gas Inc. and Terasen Gas (Vancouver Island) Inc. (now FEI and FEVI), Application for Approval of the Price Risk Management Plan Effective April 2011–October 2014, Order G-120-11 and Reasons for Decision, Appendix A, p. 22.

⁶ Ibid., p. 5.

⁷ FEI 2015 Price Risk Management Order E-10-16, Letter L-15-16 and Decision, dated June 17, 2016, p. 25.

4.0 Panel Discussion and Determination

4.1 Scope of the proceeding

The Panel has determined that a proper review of this Application requires a broader scope than requested by FEI. There are two key findings that form the basis for this determination:

- The review of the 2015 PRM Application while arguably considerable was inconclusive in some key respects.
- It is too early to provide an evaluation of the existing program's effectiveness.

The Panel finds that review of the 2015 PRM Application while arguably considerable, was inconclusive in some key respects. In stating that the objectives of 2015 PRM continue to be applicable in this 2017 PRMP, FEI appears to be relying on the notion that the objectives set out in the 2015 PRM Application have been approved by the Commission and therefore need no further examination. The Panel takes a different view. First, the 2015 PRM Decision makes specific mention that FEI did not seek approval of its stated objectives for the PRMP, and that the Commission therefore refrained from making a determination whether the stated objectives were accepted or rejected, but rather considered them as providing context for the decisions rendered.⁸ The 2015 PRM Decision raises a number of questions/issues regarding program objectives, including: risk view versus market view; understanding the applicability of program objectives under different market conditions; risks associated with various strategies, and the appropriateness of a program objective to provide customers with more affordable rates.

Second, in approving a finite period (three years) for the PRMP and explicitly denying a hedging program beyond the three years, the Commission made it clear that it was not convinced that a sufficient case had been made to demonstrate that the PRMP program was necessarily in the public interest over the longer term.

The Panel finds that it is too early to provide an evaluation of existing program's effectiveness. On April 27, 2017, FEI filed its Price Risk Management Annual Report, in which it notes:

At this point in time, it is difficult to properly assess the effectiveness of the hedging program given that a relatively small percentage of hedging has been implemented and for only two summer terms. FEI suggests that more time is required to assess the effectiveness and impact on rates...⁹

The Panel does not take this statement to mean that the current program should be considered ineffective until proven otherwise, but equally that the current program should not be considered effective until proven otherwise. Thus, the Panel is not prepared to consider this Application within the context of it being some proposed tweaks/adjustments/refinements to an otherwise successful program.

For the reasons and findings outlined above, the Panel determines that the scope of this Application includes addressing the foundational questions set out in the 2017 PRMP Scoping Decision (reproduced above in section 1.2).

As an additional comment, the Panel acknowledges FEI's contention that the Application addresses the Commission's expectations for a review of the effectiveness of the strategies/tools put forward versus

⁸ *ibid.*, p. 8.

⁹ FEI Price Risk Management Annual Report, dated April 27, 2017, p. 11.

alternatives. That said, the Panel notes that FEI's contention speaks to the quality of its submission and not whether the matter is/should be in scope. Rather, by including treatment of the issues in its Application, FEI seems to be implicitly acknowledging that it assumed this issue was in scope from the outset.

4.2 Process

As noted, the Panel has determined that there are a number of issues that must be addressed as a foundation upon which FEI's Application should be reviewed. The Panel takes the view that these are best addressed by a process whereby FEI files a revised Application and/or addenda to the existing Application (i.e. as opposed to through an IR process).

The Panel expects FEI's filing to respond to the following:

- The filing should provide a discussion of each question raised in the 2017 PRMP Scoping Decision, including rationale/reasons for the responses provided;
- The discussion should stand on its own presenting the necessary evidence within the submission, and not rely extensively on cross-reference to prior submissions (i.e. in prior PRMP proceedings); and
- The Panel is particularly interested in seeing a clear separation between the discussion of program objectives and the discussion of how various components/elements of the proposed PRMP address the objectives. More specifically, please provide a unified stand-alone set of objectives along with supporting reasons for those objectives. A separate discussion would provide analysis of the merits of specific strategies/tools put forward for approval in terms of specifically how they address the objectives.

Subsequent to FEI's submission, the Panel is of the view that at least one round of IR's will be required. Whether a second round of IRs will be required will be determined at a later date.

The Panel notes that, given the expanded scope set out above, this proceeding may be of interest to a broader set of interveners than originally registered, and has therefore extended the deadline for intervener registration in the regulatory timetable.

The Panel therefore sets out the following Regulatory Timetable in Appendix B.

FortisBC Energy Inc.
2017 Price Risk Management Plan

REGULATORY TIMETABLE

Action	Date (2018)
FEI to submit revised Application and/or addenda to Application	Friday, January 5
Intervener Registration Deadline	Friday, January 12
Commission and Intervener Information Request No. 1	Friday, January 26
FEI Response to Information Request No. 1	Friday, February 9
Further process	TBD