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**VIA EMAIL**

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December 1, 2014

Ms. Diane Roy  
Director, Regulatory Affairs  
FortisBC Energy Inc.  
16705 Fraser Highway  
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Dear Ms. Roy:

Re: FortisBC Energy Inc.

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

Enclosed please find the Commission's Decision on FortisBC Energy Inc.'s Application to Amend the Balancing Charges for Rate Schedules 23, 25, 26, and 27.

Yours truly,

A handwritten signature in black ink, appearing to read "Erica Hamilton".

Erica Hamilton

/dg

Enclosure

cc: Registered Interveners  
and Interested Parties



**IN THE MATTER OF**

**FORTISBC ENERGY INC.  
APPLICATION TO AMEND THE BALANCING CHARGES FOR  
RATE SCHEDULES 23, 25, 26 AND 27**

**DECISION**

**December 1, 2014**

**BEFORE:**

R. D. Revel, Panel Chair / Commissioner  
H. G. Harowitz, Commissioner  
K. A. Keilty, Commissioner

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## EXECUTIVE SUMMARY

On May 13, 2014, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (Commission) for approval to increase the existing charge per gigajoule of Balancing Gas supplied in Rate Schedules 23, 25, 26 and 27 (these Rate Schedules are collectively referred to as Monthly Balanced Transportation Service), to the Sumas Daily Price average for the month plus \$0.10 per GJ, effective January 1, 2015 pursuant to sections 59 through 61 of the *Utilities Commission Act* (Application).

FEI indicates the reason for the request is that it believes the rate change is required to incent Shippers/Shipper Agents to become accountable to balance in accord with the spirit of the rate schedules and be less reliant on monthly Balancing Gas sales from FEI.

Specifically FEI indicates that they are of the view that some Shippers/Shipper Agents may be using Balancing Gas in a manner that is inappropriate and contrary to the intent of the tariffs by using Balancing Gas as a lower cost commodity supply alternative or, alternately, exploiting price arbitrage opportunities between the daily market supply price and the Balancing Gas charge.

In considering the merits of the Application, the Panel seeks to determine if any tools are currently available to FEI to manage its concerns and whether or not any parties are harmed.

The Panel acknowledges that, although there is a possibility for abuse, there is insufficient evidence presented by FEI to persuade the Panel that abuse had been occurring. Further, the Panel concludes that there are currently other opportunities for abuse for which it is questionable that a change to the Balancing Charge would address. The Panel also determined that, under sections 7.3 and 7.6 of the Monthly Balanced Transportation Service tariffs, FEI has the tools necessary to ensure Shippers/Shipper Agents comply with the intent of the tariffs and FEI should endeavour to better utilize these tools and amend business practices to ensure compliance. For these reasons the Commission determines that the Application should be denied.

At a broader level, the Panel concludes that under the current rate schedules there is a possibility of harm being caused to the core sales gas customers. The Panel is also concerned that changing the rates without clear justification for the actual rate increase could do harm to current Shippers/Shipper Agents or could perturb the FEI system balance by creating an incentive for the Shippers/Shipper Agents to have too large a positive gas balance. The Panel is unable to determine either the extent or the parties who might be harmed.

The Panel identifies a number of concerns during the course of hearing this Application. For this reason, the Panel directs FEI to file a rate design application on Monthly Balanced Transportation Service by no later than one year from the date of this Order accompanying this Decision. The Panel specifically directs, as set out in this Decision, certain matters that FEI must address in this application. The Panel also determines that FEI include a review of the impact of FEI acting as a Shipper Agent supplying gas under Rate Schedule 14A to Shippers on Monthly Balanced Transportation Service.

## 1.0 APPLICATION

### 1.1 Approvals sought

FortisBC Energy Inc. (FEI) filed its application (Application) with the British Columbia Utilities Commission (Commission) on May 13, 2014, requesting “approval to increase the existing Charge per GJ for Balancing Gas supplied in Rate Schedules 23, 25, 26, and 27, to the Sumas Daily Price Average for the Month plus \$0.10 per GJ (Canadian dollars), effective January 1, 2015.” FEI states it believes “an increase to the existing charge for Balancing Gas is required in order to more appropriately incent Shipper Agents to become accountable to balance their groups and be less reliant on monthly Balancing Gas sales from FEI.”<sup>1</sup>

As support of its Application FEI indicates that “...the information contained in Confidential Appendix A clearly demonstrates that some Shippers are using the Balancing Gas services provided in a manner that is inappropriate and contrary to the intent of the tariff.”<sup>2</sup> FEI requests that this information be held confidential by the Commission as it contains commercially sensitive Shipper billing information. FEI included a non-confidential version of Appendix A that did not identify the specific Shippers/Shipper Agents.

### 1.2 Regulatory review process

By Order G-71-14 dated June 6, 2014, the Commission established a written hearing process and a regulatory timetable with two rounds of information requests (IRs). On July 31, 2014, FEI filed a letter with the Commission requesting a two week extension to the deadline for FEI responses to Commission and intervener IR No. 2 due to a larger number of IRs from the Commission and interveners than expected by FEI. Subsequently, the Commission granted an extension to the deadline for FEI to file its responses and issued an amended Regulatory Timetable by Order G-109-14 dated August 5, 2014.

### 1.3 Stakeholder participation

In this proceeding, British Columbia Old Age Pensioners Organization et al. (BCOAPO), Cascadia Energy Ltd. (Cascadia), Commercial Energy Consumers Association of British Columbia (CEC), Just Energy (B.C.) Limited Partnership, Sentinel Energy Management (Sentinel), and Shell Energy North America (Canada) Inc. registered as interveners. Independent Energy Consulting and Access Gas registered as interested parties. Among the registered Interveners, CEC filed two rounds of IRs and submitted a Final Submission, Sentinel and Cascadia each filed IRs in the second round of IRs and submitted Final Arguments, and BCOAPO submitted a Final Submission.

### 1.4 Regulatory framework

FEI requests approval of its application pursuant to section 59 through 61 of the *Utilities Commission Act* (UCA).

Section 60(1) of the UCA states:

- (a) “the commission must consider all matters that it considers proper and relevant affecting the rate,
- (b) the commission must have due regard to the setting of a rate that
  - (i) is not unjust or unreasonable within the meaning of section 59,
  - (ii) provides to the public utility for which the rate is set a fair and reasonable return on any expenditure made by it to reduce energy demands, and
  - (iii) encourages public utilities to increase efficiency, reduce costs and enhance performance”

<sup>1</sup> Exhibit B-1, pp. 1, 4. Emphasis added.

<sup>2</sup> Exhibit B-1, p. 4.

Subsection 59(5) of the UCA states:

“a rate is “unjust” or “unreasonable” if the rate is

- (a) more than a fair and reasonable charge for service of the nature and quality provided by the utility
- (b) insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property, or
- (c) unjust and unreasonable for any other reason.”

## 2.0 BACKGROUND

### 2.1 Description of FEI Monthly Balanced Transportation Service

Transportation service customers on FEI’s system, also known as Shippers, arrange for the supply of their own gas commodity or have their gas commodity supplied by a Shipper Agent, also referred to as a marketer. Transportation service customers who incur Balancing Gas charges on a monthly basis receive service under FEI Rate Schedules 23 (Commercial Transportation Service), 25 (General Firm Transportation Service), 26 (Natural Gas Vehicle Transportation Service), and 27 (General Interruptible Transportation Service) (collectively, Monthly Balanced Transportation Service).<sup>3</sup>

The Application is specifically in regard to the Balancing Gas charge (Balancing Charge) set out in Rate Schedules 23, 25, 26 and 27. The Balancing Charge for Monthly Balanced Transportation Service is currently set at the average Sumas Daily Price for the month. The Sumas Daily Price is defined as the “NW Sumas” Daily Midpoint price set out in the publication *Gas Daily*: Daily Price Survey for Gas delivered to Northwest Pipeline Corporation at Sumas converted to Canadian dollars and dollars per gigajoule.<sup>4</sup>

Shippers can be joined together with other transportation service customers in a group to take advantage of the benefits of grouping such as reduced gas management administration costs and improved load factors. Groups with Shippers on Monthly Balanced Transportation Service are sold Balancing Gas if there is a negative inventory at month end resulting from the imbalance between cumulative deliveries and cumulative consumption for the group.<sup>5</sup>

FEI also provides Transportation Service under Rate Schedule 22 for large volume customers that are daily balanced and, for these customers and for groups that contain Rate Schedule 22 customers, charges for Balancing Gas are determined on the basis of the daily imbalances between deliveries and consumption rather than the month-end imbalance.<sup>6</sup>

For the purposes of this decision, Shipper, Shipper Agent and marketer (Shipper/Shipper Agent) will be referred to as Shipper/Shipper Agent unless the reference is intended to apply more specifically to either the Shipper or Shipper Agent role. Shippers/Shipper Agents, regardless of whether they are daily or monthly balanced, must make a daily nomination of the quantity of gas (Requested Quantity) to be delivered off the interconnecting third party transport pipeline (Transporter) to the FEI system. The Transporter then authorizes, for delivery to the account of the Shipper/Shipper Agent on the FEI system, a quantity (Authorized Quantity) that is equal to or less than the Requested Quantity.

<sup>3</sup> Exhibit B-1, p. 2.

<sup>4</sup> Exhibit B-2, Attachment 1.1, Rate Schedule 23, p. R-23.4.

<sup>5</sup> Ibid., p. R-23.8-11.

<sup>6</sup> Exhibit B-1, p. 3; Exhibit B-2, Attachment 3.3, Tab 7, pp. 12-14; Exhibit B-2, Attachment 1.1, Rate Schedule 23, Shipper Agent Agreement, p. TA-23.4; Exhibit B-8, Sentinel IR 1.2.a.

Under section 7.3 of Rate Schedules 23, 25, 26 and 27, to the extent a Shipper/Shipper Agent is not delivering supply that matches consumption, the terms of the Monthly Balanced Transportation Service rate schedules provide FEI with a mechanism for adjusting the Requested Quantity on any given day so that deliveries more closely align with consumption “when in the reasonable opinion of FortisBC Energy such modification is required in order to minimize the Month end balancing quantity.” In addition, under section 7.6 of Rate Schedules 23, 25, 26 and 27, to the extent the Authorized Quantity is less than the Requested Quantity, FEI may, in its discretion, interrupt or curtail service to the lesser of such Authorized Quantity or the Daily Transport Quantity set out in the Shipper’s transportation service agreement with FEI. Alternatively, FEI may deliver additional gas, referred to as Backstopping Gas, to the Shipper/Shipper Agent at the subject Interconnection. The charge for the Backstopping Gas is the Sumas Daily Price for the particular day the Backstopping Gas was provided.<sup>7</sup>

Examples illustrating the details of how Balancing Gas volumes are determined and how Balancing Charge costs are calculated can be found in the BCUC’s 2.7.0 series of IRs in the table constructed by Commission staff showing details of an example month of hypothetical data for a hypothetical Shipper/Shipper Agent for four scenarios of behavior.<sup>8</sup> FEI agrees that the calculations and the assumptions as used in these four hypothetical scenarios are correct and accurately reflect how Balancing Gas is incurred and how Balancing Charges are calculated.<sup>9</sup>

In response to CEC IR 1.6.1, FEI described the spirit and intent of the balancing provisions of Monthly Balanced Transportation Service as set out in the provisions of Rate Schedules 23, 25, 26 and 27 as follows:

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

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

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

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

*“The Shipper’s Requested Quantity for each Day will equal the Shipper’s best estimate, at the time of notification to FortisBC Energy of the Requested Quantity, of the quantity of Gas the Shipper will actually consume on such Day.”<sup>10</sup>*

<sup>7</sup> Exhibit B-2, Attachment 1.1, Rate Schedule 23, section 7.3 and 7.6, Table of Charges.

<sup>8</sup> Exhibit A-4, Attachment 1, Hypothetical Gaming Example table, p. 10.

<sup>9</sup> Exhibit B-5, BCUC IR 2.7.1.

<sup>10</sup> Exhibit B-3, CEC IR 1.6.1. Emphasis added by FEI.

As noted earlier, customers on FEI's transportation service (Shippers) can elect a Shipper Agent to act on their behalf. Services provided by a Shipper Agent are non-regulated services except when offered by the utility. FEI as the utility can also act in the role of Shipper Agent for FEI transportation service customers who wish to be on transportation rather than purchase gas from FEI under a bundled sales service. In its role as Shipper Agent FEI supplies the commodity under Rate Schedule 14A, a regulated tariff.<sup>11</sup> FEI confirmed that in its role as a Shipper Agent and under the terms of Rate Schedule 14A, FEI contracts for supply from third parties to meet the load requirements of the transportation service customers in FEI's Shipper Agent group which FEI then nominates on the interconnecting Spectra transportation system for delivery onto the FEI system.<sup>12</sup>

## **2.2 Industry gas supply contracting and operations practices**

### **2.2.1 Load information available to Shippers/Shipper Agents**

In response to CEC IR 1.6.1, FEI described the tools and information available to Shippers/Shipper Agents for determining the daily load requirements of the Monthly Balanced Transportation Service customers as follows:

Shippers/Shipper Agents have the appropriate tools available to generate a "best estimate" as they have daily metered data for each of their customers available to them, as well as daily aggregated supply and demand data to determine their level of inventory on the FEI system. Daily metered data also provide the Shipper Agents throughout the month with information required to remedy any previous days' imbalances prior to month end balancing. Despite these Shipper Agent groups being monthly balanced, FEI has provided the Shipper Agents with the tools and resources required to be able to manage these groups on a daily basis and potentially be Daily Balanced.<sup>13</sup>

Further, FEI described how the provision of daily metered data to Monthly Balanced transportation Service customers has improved over time to match the level of service provided to Daily Balanced Transportation Service customers:

FEI believes that Shippers and Shipper Agents already have the appropriate customer information to bring on sufficient supply to meet their customers' demand. The data provided to Shippers and Shipper Agents have improved over time due to advances in technology. Shippers/Shipper Agents with Monthly Balanced groups have the same information available to them as do Shipper Agents with Daily Balanced groups. The Shipper Agents with Monthly Balanced groups have the appropriate information available to them which should allow them to be able to achieve a minimal amount of Balancing Gas from FEI.<sup>14</sup>

FEI further stated "given that Shipper Agents have access to their customers' daily consumption information, FEI expects Shipper Agents would adjust their supply of gas throughout the month in order to trend to a zero imbalance."<sup>15</sup>

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<sup>11</sup> Exhibit B-2, BCUC IR 1.2.1.

<sup>12</sup> Exhibit B-5, BCUC IR 2.2.1.

<sup>13</sup> Exhibit B-3, CEC IR 1.6.1.

<sup>14</sup> Exhibit B-7, CEC IR 2.2.1.

<sup>15</sup> Exhibit B-5, BCUC IR 2.1.1.



### 2.2.2 Gas supply contracting and procurement practices

When contracting for gas supply to meet the load requirements of transportation service customers, a Shipper/Shipper Agent secures physical supply through contracts with third parties and then nominates gas supplied from these contracts off the interconnecting third party transport pipeline on to the FEI system to meet the daily load requirements of these customers. FEI states that FEI's own gas supply contracting practices in its role as Shipper Agent supplying Rate Schedule 14A customers as described on pages 2 and 3 of FEI's August 16, 2012 Rate Schedule 14A application (RS14A Application), and excerpted in the preamble to BCUC IR 1.2.1, are generally reflective of industry practices that would apply to Shippers/Shipper Agents acquiring gas supply for delivery to the FEI system.<sup>16</sup>

Typically a Shipper/Shipper Agent would have to pay a market premium when purchasing firm daily indexed supply and the size of this premium would depend on the creditworthiness of the Shipper/Shipper Agent.<sup>17</sup> For a party with a credit rating similar to that of FEI a typical range of market factors for daily indexed supply with one month terms or less have been in the range of \$0.00 to \$0.01 for the 2012 and 2013 years.<sup>18</sup> The size of the market premium will depend on market conditions. For instance, FEI states "In the winter months, demand for Sumas gas on the day and for the month increases, and so can the market factor premium."<sup>19</sup>

FEI states that "Given FEI's own experience in procuring gas supply, FEI believes that supply procurement issues do not exist that currently prevent Shippers or Shipper Agents from delivering the required supply to their pool of customers while keeping Balancing Gas requirements to a minimum."<sup>20</sup>

FEI states "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."<sup>21</sup>

### 2.2.3 No product equivalent to Balancing Gas available in marketplace

With respect to the price of the Balancing Gas and whether an equivalent product exists in the marketplace, FEI states while "It is possible for FEI to purchase firm gas supply at Huntingdon at the Sumas Daily Price without paying a market factor premium on daily purchases or for baseload volumes with terms of one month or less" ... "there is no market instrument that allows Shippers or Shipper Agents to buy gas at the Average Sumas Daily Index price at the end of the month."<sup>22</sup> "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 in the marketplace."<sup>23</sup> When discussing how the size of the premium to add to the current Balancing Charge to discourage Shippers/Shipper Agents from incurring Balancing Gas Charges might be measured, FEI states that there is an "absence of a pricing mechanism being available in the marketplace to determine a representative premium or price to charge for [balancing gas] service."<sup>24</sup>

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<sup>16</sup> Exhibit B-2, BCUC IR 1.2.1.

<sup>17</sup> Ibid., BCUC IR 1.2.1.

<sup>18</sup> Ibid., BCUC IR 1.2.2.

<sup>19</sup> Ibid., BCUC IR 1.2.4.

<sup>20</sup> Ibid., BCUC IR 1.2.3.

<sup>21</sup> Exhibit B-3, CEC IR 1.6.1.

<sup>22</sup> Exhibit B-2, BCUC IR 1.2.4.

<sup>23</sup> Exhibit B-1, p. 3.

<sup>24</sup> Exhibit B-2, BCUC IR 1.2.6.

### 2.3 Historical Balancing Charge and Balancing Gas volumes

FEI provided the historical Balancing Gas volumes and Balancing Gas revenues for the years 2003 through 2013 in Attachment 5.1 to Exhibit B-5. FEI observes “that [balancing gas] volumes have reduced over time.” FEI states there is “a significant amount of Balancing Gas sold in 2007 through to 2009. In the years 2010 to present, the quantities are less, in FEI’s view, due to increased policing and direct requests to the Shippers/Shipper Agents to minimize monthly Balancing Gas.”<sup>25</sup>

The data from Attachment 5.1 are summarized in the table below together with the average Balancing Gas charge calculated for each year from these data.

**Table 1 – Historical Balancing Gas volumes and revenue**

<u>Year</u>	<u>Balancing Gas Quantity (GJ)</u>	<u>Balancing Gas Revenue (\$)</u>	<u>Average Balancing Gas Charge (\$/GJ)</u>
2003	1,044,830	6,224,133	\$5.96
2004	528,468	3,227,337	\$6.11
2005	1,296,882	10,914,212	\$8.42
2006	783,909	5,176,962	\$6.60
2007	1,519,135	10,368,263	\$6.83
2008	2,327,728	19,482,907	\$8.37
2009	1,441,483	6,390,037	\$4.43
2010	884,551	3,431,084	\$3.88
2011	643,310	2,339,159	\$3.64
2012	471,404	1,228,159	\$2.61
2013	502,889	1,799,512	\$3.58

### 3.0 KEY ISSUE CONSIDERATIONS AND DETERMINATIONS

In reaching its decisions on the merits of the proposed amendment to Balancing Gas charges, the Panel sought to determine the nature and extent of the alleged abuse, the tools currently available to FEI to manage its concerns and whether or not any parties are harmed.

#### 3.1 Is an amendment to the Balancing Charge warranted?

##### 3.1.1 What issue is the proposed amendment meant to address?

In the Application, FEI describes the problem FEI intends to address with the proposed increase in the Balancing Charge:

FEI believes this increase is necessary to more appropriately incent Shipper Agents or Marketers (collectively referred to as Shipper Agents or Shippers) to become accountable to balance their groups and to align with the intent and spirit of the tariff.<sup>26</sup>

<sup>25</sup> Exhibit B-2, BCUC IR 1.8.2.

<sup>26</sup> Exhibit B-1, p. 1.

Over the course of the proceeding, FEI describes two possible specific abuses contrary to the spirit and intent of the tariff that the Balancing Charge premium is meant to curb:

1. Shippers/Shipper Agents who may be using Balancing Gas as a lower cost supply alternative, and
2. Shippers/Shipper Agents who may be exploiting price arbitrage opportunities by arbitraging between the daily market supply price and the Balancing Gas charge.

### 3.1.2 What evidence is there that abuse is occurring?

As evidence that Shippers/Shipper Agents are not balancing within the spirit and intent of the tariff, FEI provides tables showing a list of Shipper Agents and the Balancing Gas volumes incurred in 2012 and 2013 by individual Shippers/Shipper Agents as Appendix A to the Application. In these tables FEI provides, on a Shipper/Shipper Agent basis, the percentage that the Shipper/Shipper Agent's annual Balancing Gas volume is of the total annual load for the Shipper/Shipper Agent and then ranks the Shippers/Shipper Agents according to these percentages. FEI ranks the 12 Shippers/Shipper Agents by these percentages and states 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."<sup>27</sup>

The tables in the non-confidential version of Appendix A showing the "Percent of Balancing Gas Required Compared to Total Annual Load by Year" are reproduced below.

**Table 2 – Shipper/Shipper Agent ranking for 2013**

	<b>2013</b>	<b>Total Annual Load (GJs)</b>	<b>Total Annual Balancing Gas Required (GJs)</b>	<b>% of Total Load</b>
1	SHIPPER AGENT K	86,985	2,704	3.11%
2	SHIPPER AGENT B	5,698,785	165,794	2.91%
3	SHIPPER AGENT F	2,354,761	61,556	2.61%
4	SHIPPER AGENT J	7,954,367	157,809	1.98%
5	SHIPPER AGENT C	1,190,647	18,518	1.56%
6	SHIPPER AGENT H	358,602	5,533	1.54%
7	SHIPPER AGENT G	4,291,620	14,368	0.33%
8	SHIPPER AGENT A	1,354,105	-	0.00%
9	SHIPPER AGENT D	672,625	-	0.00%
10	SHIPPER AGENT E	418,360	-	0.00%
11	SHIPPER AGENT L	254,934	-	0.00%
12	SHIPPER AGENT I	150,264	-	0.00%
	<b>Grand Total</b>	<b>24,786,054</b>	<b>426,282</b>	<b>1.72%</b>

<sup>27</sup> Exhibit B-1, pp. 3–4.

Table 3 – Shipper/Shipper Agent ranking for 2012

	2012	Total Annual Load (GJs)	Total Annual Balancing Gas Required (GJs)	% of Total Load
1	SHIPPER AGENT H	612,091	43,660	7.13%
2	SHIPPER AGENT B	4,772,891	176,844	3.71%
3	SHIPPER AGENT F	1,976,077	44,684	2.26%
4	SHIPPER AGENT J	7,250,003	125,935	1.74%
5	SHIPPER AGENT K	101,879	904	0.89%
6	SHIPPER AGENT C	1,499,748	4,424	0.29%
7	SHIPPER AGENT E	269,652	199	0.07%
8	SHIPPER AGENT G	4,529,096	2,565	0.06%
9	SHIPPER AGENT D	1,404,206	-	0.00%
10	SHIPPER AGENT A	1,063,941	-	0.00%
11	SHIPPER AGENT I	202,247	-	0.00%
12	SHIPPER AGENT L	70,667	-	0.00%
	<b>Grand Total</b>	<b>23,752,498</b>	<b>399,214</b>	<b>1.68%</b>

FEI submits that the data provided in Appendix A are evidence of the two specific abuses that FEI believes are occurring and that it believes would be curbed by a change to the Balancing Charge. Specifically:

a) As evidence of use of Balancing Gas as lower cost alternative source of supply

Despite repeated requests made to Shipper Agents to increase their supply and minimize monthly Balancing Gas, certain Shipper Agents have continued to abuse monthly balancing gas sales as a default source of supply.<sup>28</sup>

The evidence of abuse provided by FEI is the data in Appendix A showing for 2012 and 2013, by Shipper/Shipper Agent, the size of the Balancing Gas sales expressed as a percentage of Shipper Agent load and the statement that “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.”<sup>29</sup>

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 used as a source of supply, which FEI believes is occurring as evidenced by Appendix A.<sup>30</sup>

<sup>28</sup> Exhibit B-1, pp. 3-4. Emphasis added.

<sup>29</sup> Ibid.

<sup>30</sup> Exhibit B-3, CEC 1.6.1. Emphasis added.

b) As evidence of potential exploration of price arbitrage opportunity

FEI is not seeking change to the basic design of the Balancing Gas service it currently provides under the Application Rate schedules. Rather, it focuses on addressing a potential price arbitrage situation through a price signal to FEI's transportation customers (Shippers/Shipper Agents) who, under the Applicable Rate Schedules, make adjustments at the end of each Month for the differences between the sum of gas transported on the FEI system and the Shippers' actual consumption."<sup>31</sup>

FEI submits that "the information in Exhibit B-1, Appendix A to the Application, presents compelling evidence of potential exploration of the price arbitrage opportunity for 2012 and 2013 by some Shippers and Shipper Agents."<sup>32</sup>

FEI believes that the historical volume of Monthly Balancing Gas suggests that some Shippers/Shipper Agents may have been carrying out arbitrage activities."<sup>33</sup>

CEC asks, if Shippers/Shipper Agents are utilizing arbitrage opportunities, why there is no apparent pattern or consistency in the monthly balancing gas, and FEI responds that it agrees there is no apparent pattern or consistency in the amount of monthly Balancing Gas provided to Shippers/Shipper Agents. FEI states the pattern is inconsistent as Shippers/Shipper Agents are likely taking advantage of opportunities as they arise or develop in the market.<sup>34</sup>

In addition to the Balancing Gas volume data provided by FEI, FEI states that "Some Shipper Agents have informally raised concerns with FEI with regarding the potential for inappropriate use of FEI's Balancing Gas service. They have indicated that some Shipper Agents appear to be taking advantage of FEI's Balancing Gas service in order to profit from and/or effectively offer the same service to their customers, at a lower cost than what would be available from the market."<sup>35</sup>

The scenarios, in particular Scenario 4, described in BCUC's 2.7.0 series of IRs as well as the examples provided in response to CEC IR 2.4.1 illustrate how a Shipper/Shipper Agent, whether inadvertently or as a deliberate attempt to arbitrage, can incur daily imbalances during the month that are large and potentially have a significant daily imbalances. The examples show daily imbalances that occur within the month could potentially provide the Shipper/Shipper Agent with significant profit. These examples also clearly demonstrate that the Balancing Gas volumes incurred at the end of the month are no indication of the degree of intra-month arbitraging that may have occurred.<sup>36</sup>

As further evidence that abuse is occurring, FEI states "in spite of repeated requests made directly to Shippers and Shipper Agents, the level of monthly Balancing Gas purchased by some Shippers and/or Shipper Agents is fairly constant."<sup>37</sup>

FEI submits that "Although FEI does not have direct knowledge of a Shipper Agent's supply portfolio or Commodity prices that the Shipper Agent charges its own customers, the evidence presented shows that the price arbitrage opportunity may have been exploited by some Shippers/Shipper Agents ..." <sup>38</sup>

<sup>31</sup> FEI Final Submission, p. 3. Emphasis added.

<sup>32</sup> Ibid.

<sup>33</sup> Exhibit B-7, CEC IR 2.7.1. Emphasis added.

<sup>34</sup> Exhibit B-7, CEC IR 2.4.2.

<sup>35</sup> Exhibit B-2, BCUC IR 1.5.5.1.

<sup>36</sup> Exhibit B-7, CEC IR 2.4.1; Exhibit A-2, Attachment 1; Exhibit B-5, BCUC's 2.7.0 series of IRs.

<sup>37</sup> Exhibit B-2, BCUC IR 1.2.5.

In response to BCUC IR 1.11.1, FEI confirmed that the data included in Appendix A does not include Balancing Gas incurred by FEI in its role as a Shipper Agent. FEI provided the total monthly load and Balancing Gas volumes for the Monthly Balanced Transportation Service customers that FEI acts as Shipper Agent for in each month in 2012 and 2013.<sup>39</sup> As Shipper Agent, FEI incurred Balancing Gas in every month during this period averaging 7.3 percent for 2012 and 5.2 percent for 2013. FEI confirms that these annual averages are higher than any other Shipper/Shipper Agent for each of these two years and acknowledges that it should be able to reduce the level of Balancing Gas it incurs as Shipper Agent for Rate Schedule 14A customers.<sup>40</sup>

#### Intervener views

CEC submits that “given the expected capability of the Shipper/Shipper Agents, the four Shipper/Shipper Agents who have consistently held balancing gas exceeding 1% of sales and the Shipper/Shipper Agents with balancing gas in the order of 3% or 7% of sales is indicative of excessive use of balancing gas by some parties, regardless of why it is occurring.” CEC notes there are legitimate reasons for accessing balancing gas and that the “Shipper/Shipper Agents who access larger amounts of balancing gas are not necessarily being non-compliant with the tariff.” However, CEC “accepts that consistent use of balancing gas by the six Shipper/Shipper Agents is likely inconsistent with the intent of the tariff.” CEC submits that a price premium may be the simplest and fairest method given FEI was unable to prove the intent of those accessing balancing gas.”<sup>41</sup>

BCOAPO states that the Application arises out of evidence that some Shippers/Shipper Agents may be taking advantage of daily market opportunities; however, the BCOAPO does not discuss the strength of the evidence.<sup>42</sup>

Sentinel seems to implicitly accept the premise that there is abuse of the Monthly Balancing Transportation Service occurring but submits that “More troubling is Fortis tacit acknowledgement that balancing gas is a supply that can and will be regularly used.” Sentinel takes issue with FEI’s day-to-day business practices by submitting that FEI has not adequately used the tools currently available to it to manage the problem.<sup>43</sup>

#### Commission Panel discussion

Although the evidence indicates that it is possible for Shippers/Shipper Agents to act in a manner that is inappropriate and contrary to the intent of the tariff and it is possible that some Shippers/Shipper Agents may be abusing the spirit and intent of the Monthly Balanced Transportation Service, FEI has not presented sufficient evidence that abuse is currently occurring or that end-of-month imbalances are an accurate measure of such abuse.

FEI presents the Shipper/Shipper Agent’s ranking in terms of Balancing Gas volume as a percentage of annual load as the indicator that Shipper/Shipper Agent may be using Balancing Gas as an alternative supply source and maintains that the top six Shippers/Shipper Agents in this ranking are the Shippers/Shipper Agents FEI believes are doing so. The Panel is not persuaded this annual percentage is a reliable indicator this is occurring.

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<sup>38</sup> FEI Final Submission, p. 3.

<sup>39</sup> Exhibit B-2, BCUC IR 1.11.1, 1.11.1.2.

<sup>40</sup> Exhibit B-5, BCUC IR 2.1.2, 2.1.3.1.

<sup>41</sup> CEC Final Submission, pp. 3–5.

<sup>42</sup> BCOAPO Final Submission, p. 1.

<sup>43</sup> Sentinel Final Submission, p. 2.

The Panel observes there are no Shippers/Shipper Agents, other than FEI acting as a Shipper Agent under Rate Schedule 14A, who incur Balancing Gas volumes on a consistent basis each and every month. An examination of the Balancing Gas volumes incurred on a monthly basis as provided in Appendix A to the Application does not appear to indicate a pattern of abuse. FEI has not provided any analysis of a correlation between the monthly Balancing Gas volumes incurred and market conditions/prices in support the conclusion that Balancing Gas was being used as a supply alternative.

With regard to FEI's suggestion that volumes of Balancing Gas sold to Shippers/Shipper Agents may be an indicator "that Shippers and Shipper Agents may have exploring potential price arbitrage opportunities,"<sup>44</sup> the Panel observes that the examples provided in response to CEC IR 2.4.1 and the scenarios provided by the Commission in BCUC IR 2.7.1 illustrate that the quantity of Balancing Gas incurred at month-end is not a reliable indicator of the degree to which a Shipper/Shipper Agent may access arbitrage opportunities during the month where "a Shipper Agent sells gas on a day when the market prices are high, thereby under-supplying the Monthly Balanced group." These examples clearly illustrate that it is not necessary for the Shipper/Shipper Agent to end the month in a negative inventory position, and thus incur Balancing Gas in order to arbitrage over the course of the month.

Further, with regard to the possibility that Shippers/Shipper Agents may be exploiting opportunities by arbitraging between the daily market supply price and the Balancing Gas charge, the Panel observes that for the month of December 2013, a month that FEI indicates had a significant price spike, only two of the twelve Shippers/Shipper Agents incurred any Balancing Gas volumes of significance.

The evidence presented by FEI indicates that the amount of Balancing Gas has been declining in recent years. It does not appear to the Commission Panel that the problem that FEI wishes to address with an increase in the Balancing Charge is necessarily worsening.<sup>45</sup>

#### Commission determination

**The Panel finds that although evidence indicates that it is possible for Shippers/Shipper Agents to act in a manner that is inappropriate and contrary to the intent of the tariff and it is possible that some Shippers/Shipper Agents may be abusing the spirit and intent of the Monthly Balanced Transportation Service, FEI has not presented sufficient evidence that abuse is currently occurring or that end-of-month imbalances are an accurate measure of such abuse.** The Panel observes that the evidence clearly shows that arbitrage is equally possible, indeed potentially highly profitable, during the month as well as at month-end. The data FEI has relied on as evidence of abuse in its Application has focussed exclusively on the month-end imbalances which does not provide any insight to the day-to-day imbalances that may be occurring during the month.

### **3.2 Is FEI making effective use of tools currently at its disposal?**

#### **3.2.1 Tools available to FEI**

FEI notes it monitors gas quantities brought onto the FEI system by all Shippers/Shipper Agents as well as the level of inventories on an ongoing basis and its practice is to contact the Shipper/Shipper Agent when imbalances exceed the equivalent of two to three days of customer load by sending emails or calling Shippers/Shipper Agents directly.<sup>46</sup> This imbalance tolerance is not set out in the tariff.

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<sup>44</sup> Exhibit B-7, CEC IR 2.1.3.

<sup>45</sup> Exhibit B-5, Attachment 5.1.

<sup>46</sup> Exhibit B-2, BCUC IR 1.10.4.

Under section 7.3 of the tariff provisions of each of the Monthly Balanced Transportation Service rate schedules, FEI can adjust the Shipper/Shipper Agent's Requested Quantity after consultation with the Shipper/Shipper Agent "when in the reasonable opinion of FortisBC Energy such modification is required in order to minimize the Month end balancing quantity."<sup>47</sup> Under section 7.6 of the tariff provisions, when the Authorized Quantity from the Transporter is less than the Requested Quantity FEI may deliver additional gas to the Shipper/Shipper Agent at the Backstopping Gas charge, which is the Sumas Daily Price for that day. Alternatively, rather than deliver Backstopping Gas, FEI can interrupt or curtail service to the lesser of the Shipper's allocation of the Authorized Quantity or the Shipper's Daily Transport Quantity. To the extent the Shipper utilizes more gas than authorized in a curtailment period, Unauthorized Overrun (UOR) charges will apply. UOR charges are the Sumas Daily Price for the first 5 percent of the amount in excess of the curtailed quantity and the greater of \$20.00 per GJ or 1.5 times the Sumas Daily Price for the remainder.<sup>48</sup>

### 3.2.2 What action has FEI taken to deal with the issue using existing tools?

FEI states it requests Shippers/Shipper Agents to "manage an overall inventory pack on the FEI system to 2-3 days of their average daily burn."<sup>49</sup> FEI states it closely monitors inventory levels of all Shippers/Shipper Agents on a weekly and bi-weekly basis and contacts Shippers/Shipper Agents on a regular basis, typically once a month to potentially up to three times a month through email and phone calls to request improved balancing or minimizing monthly Balancing Gas sales. FEI states that it considers inventory levels to exceed "a reasonable tolerance" when imbalances are more than two to three days of pack or draft. When this occurs FEI responds by sending emails or calling Shippers/Shipper Agents directly.<sup>50</sup>

FEI states "despite repeated requests made to Shipper Agents to increase their supply and minimize monthly Balancing Gas, certain Shipper Agents continued to abuse monthly balancing Gas sales as a default source of supply."<sup>51</sup> In response to CEC IR 2.3.1, FEI provided copies of a number of emails as examples of the communication FEI has sent to Shippers/Shipper Agents requesting them to provide more accurate requested quantities.<sup>52</sup>

FEI has not used sections 7.3 and 7.6 in recent years but notes "on one recent occasion, FEI has also advised certain Shipper Agents of the option for FEI to exercise section 7.6 and charge gas deficiencies in accordance with Unauthorized Overrun penalties by imposing a supply restriction in an effort to more strongly enforce the intent of the tariff."<sup>53</sup> When asked how effective this was, FEI stated that, these Shipper Agents did bring on extra supplies to minimize their purchase of Balancing Gas for a few months.<sup>54</sup>

FEI describes how it relies on the tools available under Rate Schedules 23, 25, 26 and 27 when market conditions are colder than normal. In these market conditions FEI reduces the Shipper/Shipper Agent's ability to utilize imbalance return and may also impose a supply restriction that applies to all daily and monthly balanced groups. "FEI imposed two supply restrictions, one in December 2013 and the other in February 2014. While temperatures did not reach design day levels, the cold weather combined with low storage level in the market at a whole, particularly in February, created significant price volatility and increased market prices."<sup>55</sup>

<sup>47</sup> Exhibit B-2, Attachment 1.1, Rate Schedule 23, section 7.3.

<sup>48</sup> Exhibit B-2, Attachment 1.1, Rate Schedule 23, pp. R-23.4 and R-23.30.

<sup>49</sup> Exhibit B-2, BCUC IR 1.10.1.

<sup>50</sup> Ibid., BCUC IR 1.10.4.

<sup>51</sup> Exhibit B-1, p. 3.

<sup>52</sup> Exhibit B-7, Attachment 3.1

<sup>53</sup> Exhibit B-2, BCUC IR 1.10.4.

<sup>54</sup> Exhibit B-7, CEC IR 2.13.2.

<sup>55</sup> Exhibit B-2, BCUC IR 1.10.4.1.1.



FEI states that “regardless of what pricing mechanism is implemented, however, FEI’s expectation is that all Shipper or Shipper Agent Groups should endeavour to be daily balanced.”<sup>56</sup>

#### Intervener views

Sentinel submits that as the remedies proposed by FEI are “problematic unless Fortis changes the way it operates its monthly transportation rate schedules.” Sentinel further submits that “Gaming of the core market’s resources by shipper agents or the utility is wrong and the tariff language is there to prevent it” Sentinel argues the evidence provided by FEI does not show that FEI is enforcing this tariff requirement and further submits that if a Shipper/Shipper Agent is gaming the system then FEI should be willing to use the full extent of the tariff including Sections 7.3 and 7.6 to enforce appropriate behaviour.<sup>57</sup>

Sentinel states that the two to three days tolerance used by FEI is not set out in the terms and conditions of the tariff and appears to be a business practice adopted by FEI and as such “Fortis seems to be treating the balancing provisions of the monthly tariff as a bank the shipper agent can deposit and withdraw from at their convenience.”<sup>58</sup>

BCOAPO submits that “It does appear that FEI already has tools available to it under articles 7.3 and 7.6 of the relevant rate schedules, which it fails to use consistently.”<sup>59</sup>

#### Commission Panel discussion

The Panel agrees with FEI that Shippers/Shipper Agents should make their best efforts to balance deliveries to customer load requirements on a daily basis. The Panel is of the view that FEI has necessary data available to monitor Shippers/Shipper Agents throughout the month and the necessary tools currently at its disposal to ensure Shippers/Shipper Agents balance within the spirit and intent of the tariff. The Panel observes that the daily data shown in the scenarios, in particular Scenario 4, described in BCUC’s 2.7.0 series of IRs is readily available to FEI and it is not necessary for FEI to wait until the end of the month for FEI to take action.

In the example emails provided by FEI in Attachment 3.1 to Exhibit B-7 to illustrate the nature of the communication FEI has sent to Shippers/Shipper Agents requesting them to provide more accurate requested quantities, the Panel observes FEI typically reinforces the objective of aiming for a pack of two to three days of inventory rather than a zero inventory. The Panel questions why FEI does not encourage Shippers/Shipper Agents to aim for a zero balance.

The Panel observes that the tolerance equivalent to two to three days of daily load requirements is not set out in the terms of the FEI tariffs and, as a business practice, FEI can change it as required. The Panel encourages FEI to review its business practices and consider changing its allowable tolerance on imbalances from that of two to three days (which is equivalent to 6.5 to 10 percent of total monthly load) to a smaller tolerance such as a day or a day and a half. The Panel also encourages FEI to also monitor more closely the nature of the Shipper/Shipper Agent’s nomination practices particularly during high price periods; for instance when a Shipper/Shipper Agent such as the hypothetical one in Scenario 4 of BCUC’s 2.7.0 series of IRs reduces deliveries relative to customer load during a high demand period.

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<sup>56</sup> Exhibit B-5, BCUC IR 1.4.4.

<sup>57</sup> Sentinel Final Submission, pp. 2-4.

<sup>58</sup> Sentinel Final Submission, p. 3.

<sup>59</sup> BCOAPO Final Submission, p 2.

### **Commission determination**

The Panel is of the view that FEI presently has the tools to ensure compliance with the tariff under sections 7.3 and 7.6 of the Monthly Balanced Transportation Service tariffs and FEI should endeavour to better utilize these tools and amend business practices to ensure compliance with the intent of the tariff. **For these reasons, the Panel therefore finds it unnecessary that an additional premium be added to the Balancing Gas charge at this time.**

### **3.3 Which parties are impacted and to what degree?**

#### **3.3.1 Cost to the core customers**

The overall FEI system must be balanced on a daily basis as described by FEI in response to BCUC IR 1.5.4 and yet determining the quantity of Balancing Gas used is a month-end process:

FEI collectively manages and balances the gas requirements for its customers, including both core sales and transportation customers on a daily basis. This is due to the fact that FEI has to manage its load requirements with the pipelines it interconnects (i.e. WEI) on a daily basis. Providing Balancing Gas to monthly balanced customers is an exercise that happens at month end when FEI compares their actual consumption with their nominated amount to determine the amount of Balancing Gas that needs to be sold to the Shipper Agent or Shipper.<sup>60</sup>

In the Application, FEI provides a description of the monthly balancing transportation service from the FEI 2001 Rate Design Application (2001 RDA) proceeding as follows:

Balancing was described as a service provided by the Company to transportation customers when actual gas consumption differs from the amount of gas transported on any day, for example, if a customer ships less gas than is actually used, the Company provides Backstopping or Balancing Gas. Shippers are expected to order and transport only those quantities of gas that will equal the Shipper's best 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 as a low-cost alternative source of gas, rather than a source of last resort.<sup>61</sup>

The balancing service used by the Monthly Balanced Transportation Service customers is provided by use of the Midstream resources contracted for the core:

The resources included in the Midstream portfolio are used to collectively manage the demand by core sales customers on a day-to-day basis, while providing balancing services to all transportation rate schedules.<sup>62</sup>

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<sup>60</sup> Exhibit B-2, BCUC IR 1.5.4.

<sup>61</sup> Exhibit B-1, p. 2.

<sup>62</sup> Exhibit B-2, BCUC IR 1.5.2.

However, these Monthly Balanced Transportation Service customers do not pay a midstream charge. FEI states in its Reply Submission:

On a daily basis, FEI collectively manages and balances the gas requirements for all its customers, including both core sales and transportation customers, and the cost for providing the Balancing Gas service is embedded in the Midstream charge. Since customers under the Applicable Rate Schedules do not pay the Midstream charge, it is important that Balancing Gas is priced appropriately to discourage the use of Balancing Gas as alternative gas supply resource, thereby minimizing any impact to the Midstream charge.<sup>63</sup>

In response to BCUC's 2.6.0 series of IRs,<sup>64</sup> FEI describes the types of core midstream assets that are used to balance the FEI system on the day in two particular scenarios: a peak day and a moderately cold winter day. FEI notes the cost depends on the assets that would be used. FEI does note in the peak day scenario that one potential midstream supply source would be "Spot Supply" and that would be "valued at the market price at the time of purchase" (e.g. the Sumas Daily Price for the day).<sup>65</sup>

### 3.3.2 Potential for inadvertent impacts to the FEI system

The Balancing Charge only applies to negative imbalances that are outstanding at month-end. As a result, FEI submits that a higher Balancing Charge may provide greater incentive for Shippers/Shipper Agents to reduce Balancing Gas incurred leading to a positive imbalance on the FEI system. FEI expresses concern that if the Balancing Charge is set too high the resulting tendency will be to have positive imbalances and that this can create operational problems for FEI.<sup>66</sup>

### 3.3.3 Potential for harm to Shippers/Shipper Agents adhering to intent of tariff

FEI confirms that the Monthly Balancing Gas Service was never meant as a low cost alternative source of supply; rather, the service is intended as a true balancing mechanism for incidental shortfalls.<sup>67</sup>

In response to CEC IR 2.8.1, FEI provides three examples of circumstances where a Shipper/Shipper Agent would legitimately need balancing gas for the month:

- meter issues resulting in need for estimate that later proves incorrect,
- measurement adjustments from prior periods, and
- a large Shipper consumes more gas near the end of the month than the forecast originally provided to the Shipper Agent.<sup>68</sup>

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<sup>63</sup> FEI Reply Submission, p. 3.

<sup>64</sup> Exhibit B-5, BCUC 2.6.1-2.6.3.

<sup>65</sup> Exhibit B-5, BCUC IR 2.6.2.

<sup>66</sup> Exhibit B-5, BCUC IR 2.7.6.1.

<sup>67</sup> Exhibit B-8, Sentinel 2.2.1b.

<sup>68</sup> Exhibit B-7, CEC IR 2.8.1.

### Intervener views

BCOAPO submits that “Although it does not appear that the costs imposed on the core by Shipper/Shipper Agent’s failure to balance are large” “the extra costs are embedded in the midstream costs and are difficult to calculate.” “In particular, core customers will be harmed by this failure in extreme peaking situations where there are no surplus core resources, and the market price at which FEI can purchase additional supply exceeds the Balancing Gas charge.”<sup>69</sup>

CEC states that it accepts that it would be difficult to quantify the harm that may accrue to the core from Shipper/Shipper Agents accessing balancing gas for an unintended purpose. CEC submits it agrees with FEI that regardless whether the cost to the core is material, “encouraging Shipper/Shipper Agents to act in accordance with the intent of an approved tariff provides sufficient reason to bring forward the application.”<sup>70</sup>

Sentinel, in its Final Submission, notes that the hypothetical Scenario 4 described by the Commission staff in Attachment 1 to Exhibit A-2 represents a subsidization by the core of approximately \$264,000. In other words any potential profit by the Scenario 4 Shipper/Shipper Agent is paid for by the core. Sentinel further submits that the Commission should “Direct Fortis to enforce both the words and the spirit of the tariff so to create a balance that protects the core market from abuse, maintains open access to a functional transportation system for Shipper agents and customers that are willing to use the system within the spirit of the tariff and use tariff provisions where appropriate to prevent documented chronic abuse of the utility and its core market.”<sup>71</sup>

### Commission Panel discussion

The Panel notes that while Monthly Balanced Transportation Service Shipper accounts are financially settled at month end, the actual provision of balancing service is done on a daily basis. More specifically, to the extent the cumulative imbalance between daily deliveries by Shippers/Shipper Agents on to the FEI system and the daily load requirements for their customers is either negative or positive on a given day, FEI must use the core resources to balance the overall FEI system for that day.

As illustrated by the scenarios in the BCUC’s 2.7.0 series of IRs, the negative inventory or amount cashed out at the end of the month as Balancing Gas is not a full reflection of the degree to which FEI needed to use the core’s Midstream resources to balance the Shipper/Shipper Agent’s aggregate load with the supply provided by that Shipper/Shipper Agent on a daily basis over the course of the month. Monthly Balanced Transportation Service Shippers/Shipper Agents who end the month in a balanced or positive inventory position do not pay a Balancing Charge. In effect there is no contribution to the recovery of the cost to the core for the balancing service that was provided other than any revenue from Balancing Gas or Backstopping Gas charges. However, Balancing Gas revenue has no direct link or correlation to the nature of the balancing gas service that was provided over the course of the month; Balancing Gas revenue is solely attributable to any negative inventory imbalance that is outstanding at the close of the month.

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<sup>69</sup> BCOAPO Final Submission, p. 2.

<sup>70</sup> CEC Final Submission, p. 5.

<sup>71</sup> Sentinel Final Submission, pp. 3–4.

Since the transportation services customers (Shippers), including those supplied by FEI under Rate Schedule 14A, do not pay a Midstream charge, it is those customers who do pay the Midstream charge, the core sales customers, who absorb the cost of providing balancing service to the Monthly Balanced Transportation Service Shippers/Shipper Agents when there is an imbalance between deliveries and load requirements on any given day. The Balancing Gas charge revenue is recorded in the Midstream Cost Reconciliation Account and so will offset the cost of providing the balancing service only to the extent the Monthly Balanced Transportation Service Shippers/Shipper Agents actually incur Balancing Gas charges at the end of the month.<sup>72</sup>

If a Monthly Balanced Transportation Shipper/Shipper Agent, including FEI in its role as Shipper Agent for Rate Schedule 14A, takes advantage of an arbitrage opportunity by under-delivering or over-delivering relative to customer load requirements on the day, the core resources must be employed for the purpose of resolving the resulting imbalance. Although FEI has not provided any estimate of the costs to the core, as noted by FEI, the cost of the core resources that are used for these purposes will depend on the total overall system load requirements and the core resources available on the day. To the extent storage resources, for example, are not available and FEI must either purchase gas supply on the day or use supply contracts in place to supply commodity to the core customers, the Panel notes the cost will likely reflect the daily market price, which at the Huntingdon interconnect is the Sumas Daily Price.

It is possible the core customers may benefit if the cumulative Shipper/Shipper Agents imbalances are a positive imbalance on a day where the overall FEI system is in a negative imbalance and vice versa. However, to the extent Shippers/Shipper Agents are attempting to arbitrage a market price opportunity this reduces the likelihood this will occur as these same market factors will be impacting the overall FEI system.

The degree of the impact on the core depends on market prices at the time and the core resources that FEI uses to balance the overall system requirements on the day. The Panel is concerned that daily imbalances in Monthly Balanced Transportation Service groups during the month have the potential to be large and potentially have a significant impact on the cost of gas supply borne by core customers.

The Panel also notes that Shippers/Shipper Agents may incur legitimate imbalances due to measurement error or unexpected actual gas use by the customer and these imbalances will also be covered by the core resources. The Panel observes that these legitimate imbalances are likely less correlated to overall market conditions and thus might reasonably be expected to be less likely to attenuate an overall FEI system imbalance.

### **Commission determination**

**For the reasons outlined in the Panel discussion above, the Panel determines that there is evidence that it is possible the core customers may be harmed under the current Monthly Balanced Transportation Service rate structures; however, the Panel, based upon the evidence presented in this hearing, is not able to determine the extent of possible harm. Similarly, based on the evidence presented in this proceeding, the Panel is unable to determine if Monthly Balanced Transportation Service Shippers/Shipper Agents who are adhering to the spirit and intent of the tariff may be harmed by FEI's proposed change to the Balancing Charge.**

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<sup>72</sup> Exhibit B-2, BCUC IR 1.5.7.

### 3.4 Likely effectiveness of FEI's proposed Balancing Charge amendment

#### 3.4.1 What alternatives did FEI consider and how did it arrive at the proposed increase of \$0.10?

FEI states that "In the absence of a pricing mechanism being available in the marketplace to determine representative premium or price to charge for this service, it was difficult to arrive at a specific price for this service. FEI determined a \$0.10 premium was reasonable due to the fact that Shipper Agents should be able to purchase daily priced gas in the market for a premium less than ten cents." In arriving at a premium of \$0.10, FEI has considered the options of "using the average of the 3 highest priced days at Sumas in the month, using the highest price day at Sumas for the month, and using the average of the daily common high." "FEI determined the options to use the average of the 3 highest priced days in the month, or the 10 highest price day at Sumas for the month would be a much more significant change."<sup>73</sup>

FEI also re-considered the use of the Sumas Daily Common High index, which was the change to the Balancing Charge requested by FEI in the 2001 Rate Design Application but, in FEI's view, adopting Sumas Daily Common High price with no other changes may not be sufficient as the Sumas Daily Common High price is only two to three cents higher than the Sumas Daily Midpoint price (i.e. Sumas Daily Price) in the current market.<sup>74</sup>

#### 3.4.2 Alternatives explored in this proceeding

Cascadia agrees with the premium based approach but proposes that the pricing mechanism should result in a higher premium by basing it on the "greater of the Rate Schedule 5 Gas Cost then in effect, or the Daily Index Average plus \$0.20." FEI agrees that this alternative should provide even greater incentive to Shippers/Shipper Agents to meet their daily supply requirements appropriately.<sup>75</sup>

Although FEI did not consider the use of a percentage or multiplier to ensure the Balancing Gas Charge would remain effective in high market price environments as well as low market price environments, FEI agreed that the desired incentive to balance using a fixed premium could be achieved via the use of a multiplier.<sup>76</sup>

When asked to discuss the pros and cons of adding a premium of \$1.00 rather than \$0.10 per GJ and the pros and cons of using the highest Sumas Daily Price for the month, FEI replied that for both of these alternatives one advantage would be that "Balancing Gas volumes sold would likely be zero because the Shipper Agent would want to avoid the \$1.00 premium; however as discussed in response to BCUC IR 2.7.6, this is not the intent of this Application, nor the service itself." FEI states a disadvantage would be that it could lead to creating a positive imbalance on the FEI system which may create operational problems for FEI. FEI further states "The main disadvantage of this method is that it would convert Monthly Balanced rate schedules to a Daily Balanced Service. In FEI's view, such service offering change would more appropriately be reviewed in the next full Rate Design Application."<sup>77</sup>

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<sup>73</sup> Exhibit B-2, BCUC IR 1.2.6.

<sup>74</sup> Exhibit B-1, p. 2, Exhibit B-2, BCUC IR 1.3.4.

<sup>75</sup> Exhibit B-2, BCUC IR 1.3.4.

<sup>76</sup> Ibid., BCUC IR 1.4.5.

<sup>77</sup> Exhibit B-5, BCUC IR 2.7.6.1, 2.7.7.

CEC explored a number of other alternatives through its IRs that would address only those Shippers/Shipper Agents who overuse the service including establishing a maximum allowable monthly or annual percentage threshold for Balancing Gas, moving customers who abused the service to daily balanced service or denying service. FEI indicated that these alternatives either require an evaluation of the fundamental transportation service provided as part of a review of a rate design application or use of legal remedies such as arbitration or mediation and are therefore, in FEI's view, outside the scope of this Application.<sup>78</sup>

#### Intervener views

Cascadia submits that the Balancing Charge should be set at the "greater of the rate Schedule 5 Gas cost then in effect, or the Daily index Average plus \$0.20."<sup>79</sup>

Sentinel submits that the Balancing Charge should "reflect the higher of Core market residential gas costs or the average of the Sumas common high gas costs for the month plus \$1.00/GJ."<sup>80</sup>

BCOAPO submits that it "seeks a premium high enough to provide sufficient incentive to FEI's transportation customers to use Balancing Gas only when absolutely necessary without being unduly punitive in circumstances where Balancing Gas use cannot be reasonably be avoided." BCOAPO further submits it is unable to carry out an analysis of the appropriate charge so defers to FEI that the proposed \$0.10/GJ premium is appropriate.<sup>81</sup>

CEC submits it is concerned that the proposed Balancing Charge "...does not discriminate between those Shippers/Shipper Agents who use the service for legitimate purposes and those who use it for purposes for which it was not intended: either abuse or inattention to detail." CEC explored a number of alternatives in its IRs but submits that "a price premium may be the simplest approach and further submits that as the FEI are unable to prove the intent of those accessing balancing gas, it may also be the fairest method as it applies to all." CEC finds the proposed \$0.10 premium acceptable.<sup>82</sup>

#### Commission Panel discussion

The Panel is of the view that if arbitrage is occurring, the evidence indicates that a higher Balancing Charge (including all of the alternatives for Balancing Charges explored in this proceeding) under the current tariff rate design where the Balancing Charge is applied to the imbalance outstanding on the last day of the month will not be effective in preventing intra-month arbitrage.

The abuse of using Balancing Gas as an alternative supply product may be possible but FEI has not provided sufficient analysis or evidence that \$0.10 per gigajoule is the appropriate premium to discourage this practice. From the evidence presented in this proceeding, it is not clear what Balancing Charge would be needed to incent Shippers/Shipper Agents to not consider Balancing Gas as an alternative supply.

The Panel also notes that the proposed Balancing Charge applies only to negative imbalances, as per the current existing tariff rate structure, which may result in unintended consequences such as a tendency for Shippers/Shipper Agents to end the month with positive imbalances if the additional charge is increased too much. A bias or tendency to end the month with increased packs may cause operation problems on the FEI system as Shippers/Shipper Agents strive to reduce or eliminate their negative balance going into the last day of the month.

<sup>78</sup> Exhibit B-7, CEC IR 2.3.4, 2.91-2.9.2.

<sup>79</sup> Exhibit C3-2, p.1; Cascadia Final Submission, p. 1.

<sup>80</sup> Sentinel Final Submission, p. 4.

<sup>81</sup> BCOAPO Final Submission, p. 2.

<sup>82</sup> CEC Final Submission, pp. 6-7.

The Panel also notes that if the Balancing Charge is too high it may potentially adversely impact those Shippers/Shipper Agents who are doing their best to adhere to the spirit of the tariff.

### **Commission determination**

**The Panel denies FEI's Application to amend the charge for Balancing Gas supplied in Rate Schedules 23, 25, 26 and 27 to the Average of the Sumas Daily Price for the Month plus \$0.10 per GJ (Canadian dollars).**

## **3.5 Further rate design**

### **3.5.1 Previous Balancing Charge and reason for change**

As noted earlier, the Balancing Charge for Monthly Balanced Transportation Service was last changed as a result of FEI's 2000 Balancing Application.

The expedited review of the 2000 Balancing Application led to the amendment of the Balancing Charge to be reflective of and to capture real time market based pricing. On November 30, 2000, the Commission issued Order G-110-00 setting, among other charges, the Balancing Charge for Rate Schedules 23, 25, and 27 to be based on the average for the month of the Gas Daily NW Sumas Midpoint price (Sumas Daily Midpoint Price) as per a revised application by FEI. In Order G-110-00, the Commission directed FEI to address the appropriate level of charges for Backstopping, Balancing and UOR gas in the upcoming 2001 Rate Design Application (2001 RDA).<sup>83</sup>

On February 5, 2001, FEI filed its 2001 RDA, which included application for a change to the charge for Balancing Gas. FEI noted the Sumas Daily Midpoint 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/Shipper Agents as a low-cost alternative source of gas.<sup>84</sup> FEI requested (among other things), that the Balancing Charge be revised to reflect the Gas Daily NW Sumas Common High price. FEI's stated view was that the Sumas Daily 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.<sup>85</sup>

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. In the Settlement Document it was noted that if FEI could demonstrate that the services provided are being used in an inappropriate manner, proposals for change could be made at that time.<sup>86</sup>

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<sup>83</sup> Commission Order G-110-00; Exhibit B-1, p. 2.

<sup>84</sup> Exhibit B-1, p. 2.

<sup>85</sup> Exhibit B-1, p. 2; Exhibit B-2, Attachment 3.3, Tab 7, p.14.

<sup>86</sup> Order G-116-01, Settlement Document, p. 2.



### 3.5.2 Need for rate design going forward

In response to BCUC IR 1.4.4, FEI states that it will continue to monitor the use of monthly balancing once the proposed change to the Balancing Charge is in place and “If it appears that parties are continuing to abuse the service then, as part of its next Rate Design Application, FEI will consider other alternatives to remove price arbitrage opportunities, including the potential to eliminate monthly balancing altogether.”<sup>87</sup> FEI notes that, “at this time, if Monthly Balancing were to be discontinued, the only alternative for Shippers/Shipper Agents with Monthly Balanced transportation service customers would be to transition to Daily balanced service.”<sup>88</sup>

FEI states that its view is that consideration of any other alternatives than the proposed increase in the Balancing Charge, including the potential to discontinue monthly balancing service, would need to be assessed in the context of a full rate design review. “In this way, the provision of monthly balancing can be considered in context of the other fixed and variable charges that apply to those Rate Schedules. To change the fundamental design of one component without regard for implications in the other components would not be appropriate.”<sup>89</sup>

### 3.5.3 Appropriate proceeding for further review

FEI states that “An evaluation of costs for all services offered under FEI’s Rate Schedules including Monthly Balancing Gas should be reviewed and evaluated as part of a full Rate Design Application.”<sup>90</sup>

Order G-21-14 which approved amalgamation of the FortisBC Energy Inc. Utilities (FEU) (Amalgamation Decision) directed that the FEU is to file a rate design application for the Amalgamated Entity no later than two years after the effective date of the amalgamation of the FEU and Terasen Gas Holdings Inc.

In its Reply Submission, FEI submits that it will “continue to monitor the behaviour of Shipper Agents, and if there appears continued misuse of Balancing Service, FEI may bring forward an application for further changes in future.”<sup>91</sup>

### Intervener views

CEC recommends that the Commission request FEI to “address the issue of a Balancing Gas service in the next RDA.”<sup>92</sup>

Although Sentinel does not express a view regarding the need for rate design, Sentinel suggests in its IRs to FEI that FEI’s current business practices for Monthly Balanced Transportation Service may conflict with those FEI employs for daily balanced transportation service.<sup>93</sup>

### Commission Panel discussion

The Panel finds that further review is needed to set an appropriate Balancing Gas charge including the pricing structure for Monthly Balancing Service that is fair to the transportation customers, core customers, and other stakeholders while encouraging the gas supply operations are efficiently and effectively managed. Furthermore, the review should address intra-month as well as month-end balancing issues.

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<sup>87</sup> Exhibit B-2, BCUC IR 1.4.4.

<sup>88</sup> Exhibit B-5, BCUC IR 2.4.1.

<sup>89</sup> Exhibit B-5, BCUC IR 2.4.1.

<sup>90</sup> Exhibit B-5, BCUC IR 2.7.6.

<sup>91</sup> FEI Reply Argument, p. 4.

<sup>92</sup> CEC Final Submission, p. 7.

<sup>93</sup> Exhibit B-8, Sentinel IR 2.2.2b.

The rate design application contemplated in the Amalgamation Decision would primarily focus on the delivery charges for residential, commercial, and industrial customer classes. The Panel considers that technical matters involving gas supply issues impacting Shippers/Shipper Agents would not be best served in a broader rate design application. The Panel concludes that a smaller and dedicated rate design application focussed on Monthly Balanced Transportation Service and any related gas supply issues would allow impacted stakeholders to participate more effectively in a regulatory process that would conclude prior to a broader rate design application. An application filed no later than one year from the date of this order would allow for FEI to prepare an application that takes into account any operational changes implemented by FEI for this winter and any Shipper/Shipper Agent impacts following issuance of this order.

The Panel notes that Shippers/Shipper Agents with daily balanced transportation service may have concerns regarding current FEI business practices for daily versus monthly balanced services. The Panel also notes that FEI business practices permit imbalances to be transferred between daily and monthly balanced groups indicating the relationship of daily and monthly balancing business practices may be more complex than is apparent in this Application. FEI suggests that it may ultimately propose to discontinue Monthly Balanced Transportation Service and offer only daily balanced transportation service if abuse continues. For these reasons, the Panel considers that any review or rate design regarding Monthly Balanced Transportation Service should include a review of the use of daily balanced transportation service in order to determine the applicability of this service for customers currently on Monthly Balanced Transportation Service and the impact of the two services on each other.

#### **Commission determinations**

**The Panel determines that the rate design review of Monthly Balanced Transportation Service is necessary and that this process should be a separate process from that of the broader rate design application directed in Commission Order G-21-14. FEI is directed to file a rate design application on Monthly Balanced Transportation Service by no later than one year from the date of the order accompanying this decision.**

**FEI is directed to include, among other matters it considers important, a review or discussion of the following items for consideration in the rate design review regarding Monthly Balanced Transportation Service:**

- **The ongoing need for continuing to offer Monthly Balanced Transportation Service and the value of providing such service;**
- **The appropriate Balancing Charge to incent the appropriate behaviour across a range of market conditions;**
- **The appropriate rate design mechanism to incent the appropriate behaviour not just at month-end but during the month as well;**
- **The cost to the core customers of providing Monthly Balanced Transportation Service including both the instance where core resources are used to compensate for a positive imbalance as well as for a negative imbalance in a Monthly Balanced Transportation Service account;**
- **The need for setting out imbalance tolerances in the tariff, whether these tolerances should apply to both positive and negative imbalances and including a review of the practices of other utilities in the region; and**
- **A review of the costs and benefits of the use of daily balanced transportation service in order to determine the applicability of this service for customers currently on Monthly Balanced Transportation Service and the impact of the two services on each other.**

### 3.6 FEI's role as Shipper Agent and use of Balancing Gas for Rate Schedule 14A customers

As noted earlier in these reasons, FEI acts in the role of Shipper Agent for Monthly Balanced Transportation Service customers who wish to be supplied by FEI under Rate Schedule 14A. FEI agrees that the Rate Schedule 23, 25, 26 and 27 terms and conditions also apply to FEI as Shipper Agent and that "FEI's contracting practices in its role as a Shipper Agent supplying Rate Schedule 14A customers would be generally reflective of industry practice that would apply to other Shippers and/or Shipper Agents acquiring gas supply for delivery to the FEI system at Huntingdon."<sup>94</sup> However, FEI did not mention FEI's role as Shipper Agent initially in this Application nor include its own Balancing Gas volumes in the material filed as Appendix A to the Application.

In response to BCUC IR 2.1.3, FEI filed evidence which shows FEI consistently incurs Balancing Gas each month on behalf of Rate Schedule 14A customers ranging from lows of 0.2 percent of the FEI group's load for the month to as much as 25.2 percent over the same period covered in Appendix A. FEI's use of Balancing Gas averaged 7.5 percent of total Rate Schedule 14A customer load in 2012 and 4.4 percent in 2013.<sup>95</sup> In both of these two years, FEI's use of Balancing Gas in its role as Shipper Agent exceeded that of each of the six Shippers/Shipper Agents who were identified by FEI as the "worst offenders" and whose Balancing Gas requirements ranging from 0.29 percent to 7.13 percent in 2012 and from 1.54 percent to 3.11 percent in 2013.<sup>96</sup>

In response to BCUC IR 1.2.3, FEI stated "Given FEI's own experience in procuring gas supply, FEI believes that supply procurement issues do not exist that currently prevent Shippers or Shipper Agents from delivering the required supply to their pool of customers while keeping Balancing Gas requirements to a Minimum."<sup>97</sup>

In BCUC IR 2.1.2, FEI was asked:

If supply procurement issues that prevent Shippers and Shipper Agents from keeping balancing requirements to a minimum do not exist, why does FEI incur the significant amounts of Balancing Gas that it does on such a consistent basis?

In response FEI acknowledges it should be able to balance better and notes it is reviewing its business practices to do so but does not directly answer the question of why it regularly incurs Balancing Gas. FEI does suggest that the proposed increase to the Balancing Gas Charge will incent changes in FEI's practices.

FEI acknowledges that it should be able to reduce the level of month end imbalances that has been incurring on behalf of Rate Schedule 14A customers. The FEI Industrial Marketing group (referred to as FEI Industrial Marketing) is currently reviewing and updating their forecasting and nomination practices to do so, which especially important given the proposed change in the Balancing Gas Charge.<sup>98</sup>

FEI further states that the Application is to address the concern about third party Shippers/Shipper Agents taking advantage of a price arbitrage opportunity and that this price arbitrage opportunity does not occur for Rate Schedule 14A shipper "where FEI is essentially the default supplier and does not set prices paid by customers."<sup>99</sup>

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<sup>94</sup> Exhibit B-2, BCUC IR 1.2.1.

<sup>95</sup> Exhibit B-5, BCUC IR 2.1.3, BCUC IR 2.1.3.1.

<sup>96</sup> Exhibit B-1, Appendix A.

<sup>97</sup> Exhibit B-2, BCUC IR 1.2.3.

<sup>98</sup> Exhibit B-5, BCUC IR 2.1.2.

<sup>99</sup> Exhibit B-5, BCUC IR 2.1.2.

“FEI agrees that FEI should adhere to its own tariff provisions where applicable.” FEI submits that “This Application is not the appropriate proceeding to address FEI’s practice under Rate Schedule 14A, because, as explained above, the price arbitrage opportunities under the Applicable Rate Schedules that were intended to be addressed by this Application do not exist under Rate Schedule 14A” “... because under Rate Schedule 14A both the gas supply and the Balancing Gas are provided by FEI and the price paid for both is based on an independent Market index.”<sup>100</sup>

### Intervener views

Cascadia submits “In the course of this proceeding, we have become significantly concerned about the potential that, in general, the rules by which the marketers are required to operate within the tariff are not in fact followed either in spirit or in letter by the customer gas marketing group at FortisBC.” Cascadia further submits that “We will, in a separate submission that will more fully lay out our position, ask the Commission to review and explore our broader concerns about related issues raised in the course of this hearing.”<sup>101</sup>

BCOAPO “agrees with the comments made by other interveners that FEI should ensure that it appropriately manages gas supply on behalf of its Rate Schedule 14A customers” but goes on to say it “acknowledges FEI’s evidence that the price paid by FEI for supply gas and balancing gas is the same, does not involve price arbitrage, and is based on an independent market index” and therefore “the failure to appropriately manage the gas supply for these customers does not have the same detrimental impact on core customers as when undertaken by a third party Shipper/Shipper Agent.”<sup>102</sup>

CEC also submits that it accepts the “price arbitrage opportunity does not occur for Rate Schedule 14A shippers where FEI is essentially is the default supplier and does not set prices paid by customers” but “submits that it is useful for FEI to demonstrate the ability to not inappropriately use balancing gas reducing their own levels of balancing gas to zero” and recommends that “the Commission recommend that FEI demonstrate the ability to avoid use of balance gas in their own RS 14A.”<sup>103</sup>

### Commission Panel discussion

The evidence in this proceeding raising some questions regarding FEI’s role as a Shipper Agent and how it is supplying Rate Schedule 14A customers.

- What are FEI’s recent and current practices regarding the supply of gas for Rate Schedule 14A?
- Are these practices aligned with the intent of Rate Schedule 14A as described in the Rate Schedule 14A application dated August 16, 2012 and approved in Order G-152-12?
- Is FEI in effect offering Rate Schedule 14A customers a product that these customers cannot otherwise obtain in the marketplace by consistently incurring Balancing Gas each month, effectively gas supply which is priced at the average Sumas Daily Price for the month plus 6 cents?

The Panel agrees that resolution of these questions is out of scope for this proceeding. Under Order G-152-12 which approved Rate Schedule 14A on a permanent basis the Commission noted the “review of Rate Schedule 14A going forward will be on a complaints basis and, as such, the Commission will consider reopening the review of Rate Schedule 14A in the event a marketer or customer expresses concern.”

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<sup>100</sup> FEI Reply Submission, pp. 3-4.

<sup>101</sup> Cascadia Final Submission, p.1.

<sup>102</sup> BCOAPO Final Submission, p. 2.

<sup>103</sup> CEC Final Submission, pp. 4, 7.

This Panel is of the view that, to the extent FEI is acting in the role of Shipper Agent for Monthly Balanced Transportation Service customers, it is within the purview of this Panel to consider the application of the terms and conditions of Monthly Balanced Transportation Service to FEI and the impact of FEI's balancing practices in this role.

The Panel is not convinced by the submissions of FEI, BCOAPO and CEC that the arbitrage opportunities that were intended to be addressed in this Application do not exist for FEI when supplying under Rate Schedule 14A. The Rate Schedule 14A customers are also Monthly Balanced Transportation Service customers rather than bundled sales customers and do not pay any Midstream charges. To the extent FEI incurs an imbalance on individual days during the month for these customers, and the cost to the core of providing resource to cover these customers' imbalances on those days was greater than the Balancing Gas charge for the month (i.e. the average Sumas Daily Price for the month), the core would have subsidized the cost of gas supply for these customers.

#### **Commission determination**

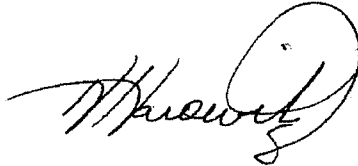
**The Panel directs that when FEI makes its Monthly Balanced Transportation Service rate design application that it is to include a review of the impact of FEI acting as a Shipper Agent supplying gas under Rate Schedule 14A to Monthly Balanced Transportation Service Shippers. In the application FEI is directed to describe, in the context of Monthly Balanced Transportation Service, how FEI as a Shipper Agent procures gas under Rate Schedule 14A, how its practices are similar and dissimilar to other Shippers/Shipper Agents, how it impacts the costs to the core, and to provide information on FEI's use of Balancing Gas in a manner similar to all other Shippers/Shipper Agents.**

DATED at the City of Vancouver, in the Province of British Columbia, this 1<sup>st</sup> day of December 2014.



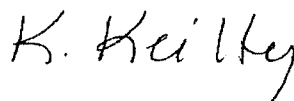

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R. D. REVEL  
PANEL CHAIR/COMMISSIONER




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H. G. HAROWITZ  
COMMISSIONER




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K. A. KEILTY  
COMMISSIONER

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**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-187-14**

TELEPHONE: (604) 660-4700  
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**IN THE MATTER OF  
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473**

**and**

**FortisBC Energy Inc.  
Application for Approval to Amend the  
Balancing Charges for Rate Schedules 23, 25, 26 and 27**

**BEFORE:** R. D. Revel, Panel Chair/Commissioner  
H. G. Harowitz, Commissioner  
K. A. Keilty, Commissioner  
December 1, 2014

**O R D E R**

**WHEREAS:**

- A. On February 26, 2014, the British Columbia Utilities Commission (Commission) issued Order G-21-14 which approved amalgamation of the FortisBC Energy Utilities (FEU), comprising FortisBC Energy Inc. (FEI), FortisBC (Vancouver Island) Inc. (FEVI), and FortisBC (Whistler) Inc. (FEW), and Terasen Gas Holdings Inc. into one entity (Amalgamated Entity) and directed the FEU to file a rate design application for the Amalgamated Entity no later than two years after the effective date of the amalgamation of the FEU and Terasen Gas Holdings Inc.;
- B. On May 13, 2014, FEI applied to the Commission for approval to increase the existing charge per gigajoule (GJ) of Balancing Gas supplied in Rate Schedules 23, 25, 26 and 27, to the Sumas Daily Price average for the month plus \$0.10 per GJ, effective January 1, 2015 (Application) pursuant to sections 59 through 61 of the *Utilities Commission Act*;
- C. By Order G-71-14 dated June 6, 2014, the Commission established a written hearing process and a regulatory timetable with two rounds of information requests to review the Application;
- D. On July 31, 2014, FEI filed a letter with the Commission requesting a two week extension to the deadline for FEI responses to Commission and intervener Information Request No. 2 due to the larger than expected number of information requests from the Commission and interveners;
- E. On August 5, 2014, the Commission issued Order G-109-14 establishing an amended regulatory timetable;

**BRITISH COLUMBIA  
UTILITIES COMMISSION**

**ORDER  
NUMBER G-187-14**

2

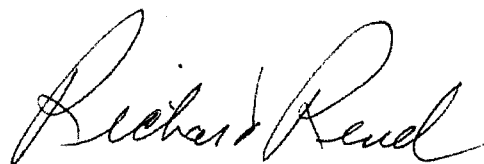
- F. In this proceeding, British Columbia Old Age Pensioners Organization et al. (BCOAPO), Cascadia Energy Ltd. (Cascadia), Commercial Energy Consumers Association of British Columbia (CEC), Just Energy (B.C.) Limited Partnership, Sentinel Energy Management (Sentinel), and Shell Energy North America (Canada) Inc. registered as interveners. Independent Energy Consulting and Access Gas registered as interested parties;
- G. During the course of the proceeding, information requests were submitted to FEI by the Commission, CEC, Cascadia and Sentinel, and FEI responded to two rounds of information requests;
- H. On August 28, 2014, FEI submitted its final submission. On September 11, 2014, BCOAPO, Cascadia, CEC, and Sentinel submitted their final submission, and on September 17, 2014, FEI submitted its reply submission; and
- I. The Commission reviewed the Application, the evidence submitted through the review process and the submissions of all participants, and determines that FEI's Application should be denied. The reasons are as stated in the decision issued concurrently with this order.

**NOW THEREFORE**, pursuant to sections 59-61 of the *Utilities Commission Act*, for the reasons set out in the Decision, the British Columbia Utilities Commission orders as follows:

1. FortisBC Energy Inc.'s (FEI) Application to amend the charge for Balancing Gas supplied in Rate Schedules 23, 25, 26 and 27 to the Average of the Sumas Daily Price for the Month plus \$0.10 per GJ (Canadian dollars) is denied.
2. FEI is directed to file a rate design application on Monthly Balanced Transportation Service by no later than one year from the date of this order.
3. FEI is directed to comply with all of the directives set out in the in the Decision.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 1<sup>st</sup> day of December 2014.

BY ORDER



R. D. Revel  
Panel Chair/Commissioner