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VIA EMAIL
gas.regulatory.affairs@fortisbc.com

March 13, 2014

Ms. Diane Roy
Director, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc.
2014 First Quarter Gas Cost Report and
Commodity Cost Recovery Rate Change effective April 1, 2014
for the Lower Mainland, Inland and Columbia Service Areas

Further to your March 5, 2014 filing noted above, enclosed please find Commission Order G-37-14 with Reasons for Decision.

Yours truly,

Erica Hamilton

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Enclosure

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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER G-37-14

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

FortisBC Energy Inc.
Application regarding its 2014 First Quarter Gas Cost Report
and Commodity Cost Recovery Rate Change effective April 1, 2014
for the Lower Mainland, Inland and Columbia Service Areas

BEFORE: L.F. Kelsey, Commissioner
C.A. Brown, Commissioner
R.D. Revel, Commissioner
C. van Wermeskerken, Commissioner

March 13, 2014

O R D E R

WHEREAS:

A. The British Columbia Utilities Commission (Commission) established guidelines for gas cost rate setting in Letter L-5-01 dated February 5, 2001, and further modified the guidelines in Letter L-40-11 dated May 19, 2011 (together the Guidelines);

B. The gas cost setting mechanism described in the Guidelines sets rates at a level required to ensure recovery of projected gas costs and outstanding balances in the gas cost deferral account over the 12 month period following the effective date;

C. By Order G-147-13 dated September 12, 2013, the Commission approved a decrease in the Commodity Cost Recovery Charge for sales rate classes within the FortisBC Energy Inc. (FEI) Lower Mainland, Inland and Columbia Service Areas to a rate of $3.272/gigajoule (GJ), effective October 1, 2013;

D. On March 5, 2014, FEI filed its 2014 First Quarter Report on the Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) Quarterly Gas Costs for the Lower Mainland, Inland and Columbia Service Areas (2014 First Quarter Report), which projects a CCRA deficit balance of $11 million after tax at March 31, 2014, and a CCRA deficit balance of $111 million after tax at March 31, 2015, based on a five-day average of the February 12, 13, 14, 18, and 19, 2014 forward gas prices and the current Commodity Cost Recovery Charge;

E. The 2014 First Quarter Report forecasts a MCRA balance at existing midstream rates of approximately $29 million surplus after tax at December 31, 2014, and a balance of approximately $7 million surplus after tax at December 31, 2015, based on the five-day average of forward gas prices ending on February 19, 2014;

F. In the 2014 First Quarter Report FEI discusses two alternative scenarios for increasing the Commodity Cost Recovery Charge to reflect forward prices and recover projected deficit balances in the CCRA;

G. The first scenario presented by FEI in the 2014 First Quarter Report forecasts that commodity cost recoveries at the existing rate will be 70.5 percent of costs for the following 12 months, and the tested rate increase related to the forecast required for recovery of gas costs and the outstanding CCRA balance based on a 12 month amortization is $1.368/GJ (Scenario One), which exceeds the rate change threshold indicating that a change to the commodity rate is required effective April 1, 2014. The Scenario One rate increase is determined according to the methodology described in the Guidelines;

H. A Commodity Cost Recovery Charge increase of $1.368/GJ for Lower Mainland Rate Schedule 1 as calculated in Scenario One is equivalent to an increase of approximately $130 or 14.1 percent per year for a typical residential customer's annual bill based on an average annual consumption of 95 GJ;

I. The markets indicate the natural gas forward prices will fall off after March 2015. Under a Scenario One rate increase and these longer term forward prices FEI anticipates the potential need to flow-through a rate decrease in October 2014;

J. With the objective of reducing rate fluctuation volatility FEI filed a second scenario in which FEI proposes the forecast recovery of projected gas costs and outstanding CCRA balances over a 24 month period and a corresponding rate increase of $0.868/GJ, which also exceeds the rate change threshold, effective April 1, 2014 (Scenario Two);

K. FEI requests approval to flow-through, based on Scenario Two, an increase of the Commodity Cost Recovery Charge from $3.272/GJ to $4.140/GJ for natural gas sales rate class customers in the Lower Mainland, Inland, and Columbia Service Areas effective April 1, 2014;

L. During the period from March 7 through 10, 2014, the Commission received a number of submissions from marketers active in the Customer Choice Program with all opposed to FEI departing from the methodology set out in the Guidelines; and

M. The Commission reviewed the 2014 First Quarter Report and the marketer submissions and determines that the requested rate change outlined in Scenario Two in the 2014 First Quarter Report should be denied and the rate changes should be set as calculated in accordance with the Guidelines in Scenario One as the Commission does not find sufficient reason to deviate from the Guidelines at this time.

.../3

NOW THEREFORE pursuant to section 61(4) of the *Utilities Commission Act*, and for the Reasons attached as Appendix A, the British Columbia Utilities Commission orders as follows:

1. The requested increase of $0.868/GJ to the Commodity Cost Recovery Charge is denied.

2. FortisBC Energy Inc. is directed to flow-through an increase in the amount of $1.368/GJ to the Commodity Cost Recovery Charge from $3.272/GJ to a rate of $4.640/GJ for the sales rate classes within the Lower Mainland, Inland, and Columbia Service Areas effective April 1, 2014.

3. FortisBC Energy Inc. must notify all affected customers of the rate changes by way of a bill insert or bill message to be submitted to the Commission prior to its release with the next monthly gas billing.

DATED at the City of Vancouver, in the Province of British Columbia, this 13th day of March 2014.

BY ORDER

L.F. Kelsey
Commissioner

Attachment

FortisBC Energy Inc.
Application regarding its 2014 First Quarter Gas Cost Report
and Commodity Cost Recovery Rate Change effective April 1, 2014
for the Lower Mainland, Inland and Columbia Service Areas

REASONS FOR DECISION

1.0 BACKGROUND

FortisBC Energy Inc. (FEI) is required to report its Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) performance on a quarterly basis. The CCRA balances are reviewed and adjusted quarterly as required, whereas the MCRA balances are reviewed quarterly and adjusted annually as required.

The Commission guidelines for gas cost rate setting were originally established in Commission Letter L-5-01 dated February 5, 2001, and further modified in Commission Letter L-40-11 dated May 19, 2011 (together the Guidelines). The Guidelines were established in 2001 in response to high gas prices and the need to change rates more frequently than once per year to ensure significant deficits were not accumulated in gas cost deferral accounts in times of rising prices. In establishing the Guidelines in L-5-01 the Commission took into account rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process.

The methodology set out in the Guidelines determines a commodity rate change to recover projected gas costs and outstanding CCRA deferral account balances over a 12 month period based on forward prices for the period.

2.0 FEI REQUESTED RATE CHANGE

FEI filed its Lower Mainland, Inland, and Columbia Service Areas CCRA and MCRA Quarterly Gas Costs 2014 First Quarter Report (2014 First Quarter Report) on March 5, 2014 and in the 2014 First Quarter Report FEI presents two scenarios for determining the Commodity Cost Recovery Charge rate change to be effective April 1, 2014. The first scenario (Scenario One), based on the 12 month amortization period established in the Guidelines, projects a rate increase of $1.368/GJ and the second scenario (Scenario Two), based on a 24 month amortization period, projects a rate increase of $0.868/GJ.

Given that the current forward prices for the 12 months beyond March 31, 2015 show a return to lower market prices, FEI estimated that under Scenario One a subsequent rate decrease may be determined as early as October 2014. In the interests of providing customers with longer term rate stability FEI requests that the lower rate increase determined in Scenario Two be approved.

3.0 MARKETER SUBMISSIONS

The following four marketers (Marketers) filed submissions with the Commission in regard to the 2014 First Quarter Report:

- Direct Energy (B.C.) Limited filed a submission dated March 7, 2014;
- Bluestream Energy Inc. filed a submission dated March 9, 2014;
- Access Gas Services Inc. filed a submission dated March 10, 2014; and
- Just Energy (B.C.) Limited Partnership filed a submission dated March 10, 2014.

All of the Marketers opposed FEI's requested Commodity Cost Recovery Charge rate change on the basis it did not accurately reflect recent price movement in natural gas markets and all were of the view that the mechanism set out in the Guidelines should be applied in regard to determining the quarterly Commodity Cost Recovery Charge rate changes. It was noted that customers have alternatives under the Customer Choice Program, the FEI commodity rate is advertised to customers as a "flowthrough" market based rate, and departing from the established rate setting practice sends confusing messages to the customer.

Access Gas Services Inc. discussed the degree to which the goal of rate stability is achieved with the existing mechanisms set out in the Guidelines. Bluestream Energy Inc. noted confusing messages on pricing can not only make it difficult for customers considering or participating in the Customer Choice Program to evaluate the alternatives but also customers who are eligible for transportation service. Several of the Marketers noted they view the basis for FEI's proposed departure from the Guidelines as undermining the Customer Choice Program. Other concerns expressed were that FEI's approach could potentially introduce inequities between customers who may migrate between the Customer Choice Program and the FEI rates during the two year time period, and may increase the carrying costs of the CCRA deferral account balance. Bluestream also noted that it believes the projected CCRA deficit may be as much as $20 million higher than presented by FEI if the CCRA projection does not accurately reflect the most recent pricing that transpired for February and March 2014 after the date of FEI's forward price strip.

FEI was provided copies of each of the submissions and requested to file any comments it might have in regard to the marketer submissions by March 11, 2014; FEI did not file further comments.

4.0 COMMISION DETERMINATION

As noted in the Letter L-40-11, the Commission retains the discretion to deviate from the mechanistic approach to quarterly gas cost rate adjustment and "consideration will be given to factors such as the current deferral balances, and based on the forecast costs, the appropriateness of any rate proposals over a 24 month timeframe."

The Commission notes that the Customer Choice Program was established under the British Columbia Energy Plan and forms part of government policy. In the FEI Lower Mainland, Inland and Columbia Service Areas customers have an alternative if they require rate stability. The Commission recognizes Marketers' concerns regarding the impact of a deviation from the Guidelines on price transparency.

The Commission also notes the concern that projected cost of gas for the months of February and March 2014 may tend to be understated given the timing of the calculation required in order to file on March 5, 2014, and given where markets settled for March.

Although longer term forward prices show a return to lower levels, as noted by FEI, natural gas storage levels in North America are at unusually low levels exiting the winter heating season. The current situation is such that any number of factors including additional cold weather over the remainder of the heating season, warmer than normal summer weather, facility outage or other factors that may impact natural gas markets have a greater potential than usual to result in higher market prices in the shorter term.

Based on the foregoing factors, the Commission sees no compelling reason to depart from the standard commodity rate setting mechanism set out in the Guidelines at this time. **The requested increase of $0.868/GJ to the Commodity Cost Recovery Charge is denied. FEI is directed to flow-through an increase in the amount of $1.368/GJ to the Commodity Cost Recovery Charge from $3.272/GJ to a rate of $4.640/GJ for the sales rate classes within the Lower Mainland, Inland, and Columbia Service Areas effective April 1, 2014.**