



British Columbia
Utilities Commission

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VIA EMAIL

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March 18, 2016

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

Dear Ms. Roy:

Re: FortisBC Energy Inc.
Mainland, Vancouver Island, and Whistler Service Areas
Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Report Quarter Gas Costs
2016 First Quarter Gas Cost Report

Further to your March 3, 2016 filing of the above noted gas cost report, enclosed please find Commission Order G-37-16.

Yours truly,

Laurel Ross

ES/cms
Enclosure



ORDER NUMBER
G-37-16

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

and

FortisBC Energy Inc.
Application for Approval of the 2016 First Quarter Gas Cost Report
and Commodity Cost Recovery Rate Change effective April 1, 2016
for the Mainland, Vancouver Island, and Whistler Service Areas

BEFORE:

D. M. Morton, Commissioner
H. G. Harowitz, Commissioner
K. A. Keilty, Commissioner
R. D. Revel, Commissioner

on March 17, 2016

ORDER

WHEREAS:

- A. On March 3, 2016, FortisBC Energy Inc. (FEI) filed its 2016 First Quarter Report on Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account Quarterly Gas Costs for the Mainland, Vancouver Island, and Whistler Service Areas based on a five-day average of the February 18, 19, 22, 23, and 24, 2016 forward gas prices (2016 First Quarter Report);
- B. 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);
- C. The gas cost rate setting mechanism described in the Guidelines sets rates at a level required to ensure recovery of projected gas costs over the 12 month period following the effective date while taking into consideration outstanding balances in the gas cost deferral account;
- D. By Order G-188-15 dated December 3, 2015, the Commission approved a decrease in the Commodity Cost Recovery Charge applicable to Sales Rate Classes within the FEI Mainland, Vancouver Island, and Whistler Service Areas to a rate of \$1.719 per gigajoule (GJ), effective January 1, 2016;
- E. In the 2016 First Quarter Report, FEI forecasts that the commodity cost recoveries at the existing rate will be 150.6 percent of costs for the following 12 months, which exceeds the 95 to 105 percent recovery to cost ratio threshold set out in the Guidelines;
- F. The tested rate decrease, in relation to the forecast over recovery of gas costs using the rate setting mechanism set out in the Guidelines, is a decrease of \$0.578/GJ to the Commodity Cost Recovery Charge, which falls outside the rate change threshold of \$0.50/GJ indicating that a change to the Commodity Cost Recovery Charge is warranted, effective April 1, 2016;


- G. A decrease of \$0.578/GJ to the Commodity Cost Recovery Charge from \$1.719/GJ to \$1.141/GJ would reduce the total annual bill, including gas cost and delivery rates, for a typical residential customer with an average annual consumption of 90 GJ by approximately \$52 or 7.0 percent for Mainland, \$52 or 4.6 percent for Whistler, and for a typical residential customer with an average annual consumption of 45 GJ by approximately \$26 or 4.8 percent for Vancouver Island;
- H. In the 2016 First Quarter Report, FEI notes extreme volatility in the market during February 2016 and indicates that if the Commodity Cost Recovery Charge is decreased by 0.578/GJ effective April 1, 2016 as tested, based on current forward indications, FEI would expect a subsequent increase of \$0.686/GJ to the Commodity Cost Recovery Charge on January 1, 2017;
- I. FEI proposes to leave the current Commodity Cost Recovery Charge unchanged at April 1, 2016, in the interest of rate stability and giving consideration of the current circumstances;
- J. By letter dated March 4, 2016, the Commission provided an opportunity for stakeholders to provide written comments to the Commission in regard to the approval sought by FEI;
- K. On March 7, 2016, Access Gas Services Inc. filed comments in regard to FEI's proposal in the 2016 First Quarter Report indicating that it did not support a departure from the rate setting mechanism set out in the Guidelines, and on March 10, 2016, FEI filed a response;
- L. On March 10, 2016, FEI also filed further information and clarifications in response to Commission staff questions; and
- M. The Commission reviewed the 2016 First Quarter Report and submissions from parties and determines that FEI's request to leave the current Commodity Cost Recovery Charge rate unchanged at April 1, 2016, should be denied and the tested Commodity Cost Recovery Charge decrease calculated in accordance with the rate setting mechanism set out in the Guidelines should be approved.

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. FortisBC Energy Inc.'s request that no change in the Commodity Cost Recovery Charge for the Mainland, Vancouver Island, and Whistler Service Areas be made April 1, 2016, is denied.
2. FortisBC Energy Inc. is directed to decrease the Commodity Cost Recovery Charge applicable to Sales Rate Classes within the Mainland, Vancouver Island, and Whistler Service Areas by \$0.578/GJ to a rate of \$1.141/GJ, effective April 1, 2016.
3. FortisBC Energy Inc. must notify all customers affected by the rate change by way of a bill insert or bill message to be included with the next monthly gas billing.
4. FortisBC Energy Inc. is to file with the Commission, no later than 45 days from the date of this order, amended Gas Tariff pages in accordance with this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of March 2016.

BY ORDER


K. A. Keilty
Commissioner

Attachment

FortisBC Energy Inc.
Application for Approval of the 2016 First Quarter Gas Cost Report
and Commodity Cost Recovery Rate Change effective April 1, 2016
for the Mainland, Vancouver Island, and Whistler 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 British Columbia Utilities Commission (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 did not accumulate 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 twelve month period based on forward prices for the period. The Guidelines contemplate that "the Guidelines should be applied in a flexible manner, considering the full circumstances prevailing at the time when a quarterly report is under review."

2.0 FEI COMMODITY RATE PROPOSAL

On March 3, 2016, FEI filed with the Commission its Mainland, Vancouver Island, and Whistler Service Areas CCRA and MCRA Quarterly Gas Costs 2016 First Quarter Report (2016 First Quarter Report), which included forecasted gas costs based on the five-day average of the February 18, 19, 22, 23 and 24, 2016 forward prices (five-day average forward prices ending February 24, 2016).

Using current rates and the five-day average forward prices ending February 24, 2016, the CCRA balance is projected to be a surplus of \$37 million after tax at March 31, 2016. Based on the five-day average forward prices ending February 24, 2016, the ratio of 12 month forecast commodity cost recoveries using current rates to the sum of the 12 month forecast commodity purchase costs and the CCRA deferral balance at March 31, 2016 (R/C Ratio) is 1.506. This R/C Ratio indicates that current rates will over-recover over the next 12 months. The R/C Ratio is outside the dead-band of 0.95 to 1.05 set out in the Guidelines. The tested Commodity Cost Recovery Charge (CCRC) change required to achieve an R/C Ratio of 1.00 by March 31, 2017, is calculated to be a decrease of \$0.578/GJ, which exceeds the \$0.50/GJ threshold set out in the Guidelines.

FEI proposes to leave the current CCRC unchanged at April 1, 2016 on the basis that "extreme volatility" existed in the market during February 2016 and that based on current forward indications FEI would expect a subsequent commodity rate increase of \$0.686/GJ on January 1, 2017. FEI acknowledges that there was a general downward trend in market prices throughout most of February 2016 but submits that there was market price volatility within the overall downward trend, particularly at Station 2 during the last half of February 2016 and early March 2016. FEI states that under the current circumstances and in the interest of rate stability it is appropriate to consider leaving rates unchanged at this time. FEI explains that the CCRC will be reviewed again in June 2016 and that this "should give the market time to settle from the current events."¹ FEI references the following language in Letter L-40-11 as providing the Commission with a level of flexibility in dealing with rate change proposals:

¹ FEI 2016 First Quarter Gas Cost Report, p. 3.

The Commission also agrees with FEI that the Guidelines should be applied in a flexible manner, considering the full circumstances prevailing at the time when a quarterly report is under review. The Commission intends to consider the full circumstances and other criteria in the view of the commodity and midstream cost recovery rates. As well as the Guideline trigger mechanism and rate methodology, consideration will be given to factors such as current rate deferral balances and, based on the forecast costs, the appropriateness of any rate proposals over a 24-month timeframe.

FEI adds that should the Commission decide that a CCRC decrease is required at this time, FEI proposes that the calculated \$0.578/GJ decrease be approved, resulting in a commodity rate of \$1.141/GJ effective April 1, 2016.

3.0 STAKEHOLDER COMMENT

On March 7, 2016, Access Gas Services Inc. (Access Gas) submitted comments to the Commission regarding FEI's 2016 First Quarter Report.

Access Gas opposes FEI's proposal to leave the CCRC unchanged at April 1, 2016. Access Gas states that there is "always going to be volatility present in natural gas prices and there is no evidence that prevailing 'volatility' will dissipate in advance of the next quarterly gas cost review."²

Access Gas provides several reasons to support its claim that FEI should not deviate from the Guidelines. Access Gas explains that:

- customers already have alternate purchasing options if they want to achieve rate stability;
- price transparency requires that gas cost recovery rates be reflective of market conditions to send the correct price signal to customers;
- in order to manage the size of the deferral account, the overpayments to FEI in the recent quarter should be returned to customers as quickly as possible; and
- the determination of the quarterly CCRC should be an efficient mechanical process without any arbitrary selection of parameters and that this would not require public input.

FEI replied to Access Gas's comments on March 10, 2016 stating that the "request to leave the current commodity rate [CCRC] of \$1.719/GJ unchanged at April 1, 2016 is more reflective of the forecast average cost of gas of \$1.571/GJ for the 12-month period April 1, 2016 to March 31, 2017 than a commodity rate decrease to \$1.141/GJ effective April 1, 2016."³ FEI address Access Gas' comment regarding an efficient quarterly rate setting process by reiterating that the Guidelines state that consideration should be given to the full circumstances at the time when a quarterly report is under review.

4.0 COMMISSION DETERMINATION

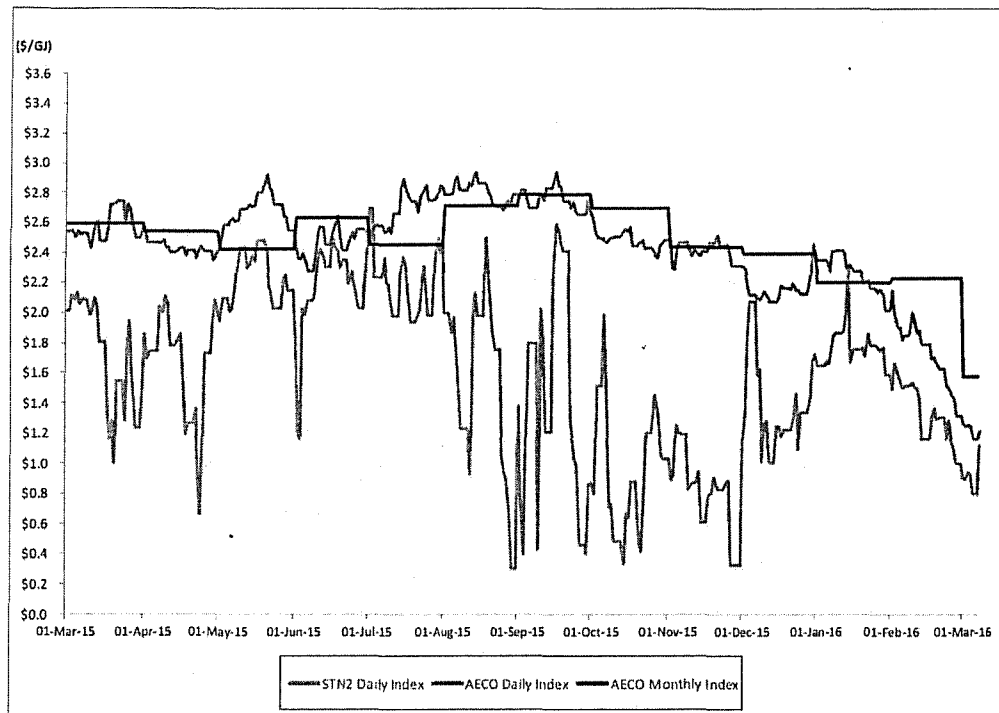
As described in Letter L-5-01 of the Guidelines, the factors the Commission considers should be balanced in the gas cost rate setting process include rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process.

The Commission acknowledges that it retains the discretion to deviate from the mechanistic approach to quarterly gas cost rate adjustment. In response to a question from Commission staff, FEI provides the following figure which shows the Station 2 and AECO daily and monthly index prices from March 2015 to March 2016.

² Access Gas' Comment on FEI's 2016 First Quarter Report, e-mail dated March 7, 2016.

³ FEI's Reply to Access Gas' Comment, p. 3.

Figure 1 : Station 2 and AECO/NIT daily and monthly index prices from March 1, 2015 to March 8, 2016⁴



The Commission notes that since January 2016 there has been an overall downward trend in natural gas daily prices as evidenced by both the AECO and Station 2 graphs in Figure 1 above. The Commission observes that the Station 2 daily price volatility exhibited from January 2016 to March 2016 appears to be less than that shown for the three previous quarters.

In response to an information request from Commission staff, FEI calculates that based on current forward prices and deferral account information, if the CCRC remains unchanged at April 1, 2016, then at July 1, 2016 a CCRC rate decrease of \$0.530/GJ from the current CCRC of \$1.719/GJ would be indicated based on the Guidelines. The Commission considers that that it would be in the interest of ratepayers to receive the rate decrease at April 1, 2016, as opposed to July 1, 2016.

As set out in the FEI 2015-16 Annual Contracting Plan, that was accepted by the Commission via Letter L-28-15 dated July 9, 2015, FEI's CCRA portfolio allocation is 75 percent Station 2 and 25 percent AECO purchases. FEI states that about 60 percent of FEI's overall CCRA portfolio is monthly priced supply based on the AECO monthly index and the remaining 40 percent is daily priced supply.⁵ This 40 percent daily priced component comprises of both AECO and Station 2 daily priced supply. The Commission notes that FEI's approach to purchasing natural gas commodity by using different price indices helps to reduce exposure to volatility in any one index and, in particular, to the Station 2 daily index.

Based on all the information presented, the Commission finds that FEI has not presented a compelling reason to depart from the commodity rate setting mechanism set out in the Guidelines at this time. **The Commission denies FEI's request to leave the Commodity Cost Recovery Charge for the Mainland, Vancouver Island and Whistler Service Areas unchanged at April 1, 2016. FEI is directed to decrease the Commodity Cost Recovery Charge for the sales rate classes within the Mainland, Vancouver Island, and Whistler Service Areas by \$0.578/GJ to a rate of \$1.141/GJ, effective April 1, 2016.**

⁴ FEI's Response to Commission Staff IR, p. 2.

⁵ FEI 2016 First Quarter Gas Cost Report, p. 4.