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February 7, 2019

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

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

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598917

2017 Price Risk Management Plan (PRMP) and the 2018 Revised PRMP (the Application)

FEI Supplemental Submission on New Evidence

In accordance with British Columbia Utilities Commission Order G-21-19 setting out the remainder of the Regulatory Timetable for the review of New Evidence relating to the above referenced Application, attached please find FEI's Supplemental Submission.

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

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Doug Slater

Attachments

cc (email only): Registered Interveners

BRITISH COLUMBIA UTILITIES COMMISSION

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

and

FortisBC Energy Inc.

2017 Price Risk Management Plan and 2018 Revised Price Risk Management Plan

FORTISBC ENERGY INC.

SUPPLEMENTAL SUBMISSION

ON NEW EVIDENCE

February 7, 2019

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PART ONE: INTRODUCTION

1. FortisBC Energy Inc. (FEI or the Company) filed its 2018 Price Risk Management Plan (2018 PRMP or the Application) on January 5, 2018, seeking approval from the British Columbia Utilities Commission (BCUC) to extend and modify its medium-term hedging strategy. FEI filed its Reply Submission on June 28, 2018, and was awaiting a BCUC decision when, on October 9, 2018, Enbridge's subsidiary, Westcoast Energy Inc., experienced a significant rupture of its T-South pipeline (Enbridge Incident).

2. Although the Enbridge Incident has no impact on FEI's Application, in anticipation of the interest of the BCUC and interveners, FEI filed a Winter 2018/19 Price Risk Update letter (Update Letter) to the BCUC on November 29, 2018. As explained in the Update Letter, the Enbridge Incident restricted gas flows on T-South to Huntingdon during winter 2018/19 and the Sumas daily price significantly increased as a concequence. To continue to meet customer needs, FEI made incremental purchases at Huntingdon,[1] which impacts the Midstream Cost Reconciliation Account (MCRA) supply portfolio only. The proportion of commodity supply purchased at AECO/NIT index pricing for FEI's Commodity Cost Reconciliation Account (CCRA), however, is unchanged because of the Enbridge Incident and continues to make up the majority of the CCRA portfolio.[2] The hedging strategies proposed in the 2018 PRMP are based on FEI's AECO/NIT price exposure in the CCRA and so do not change as a result of the Enbridge Incident.

3. In short, the Enbridge Incident has no impacts on the proposed hedging strategy.[3] Therefore, for the reasons set out in FEI's Final and Reply Submissions in May and June of 2018, respectively, the approvals sought in the Application should be granted. FEI's customers will benefit from the hedging strategy. The current low AECO/NIT market price environment provides the opportunity for FEI to maintain low commodity rates for customers and mitigate market price volatility to improve commodity rate stability for customers.

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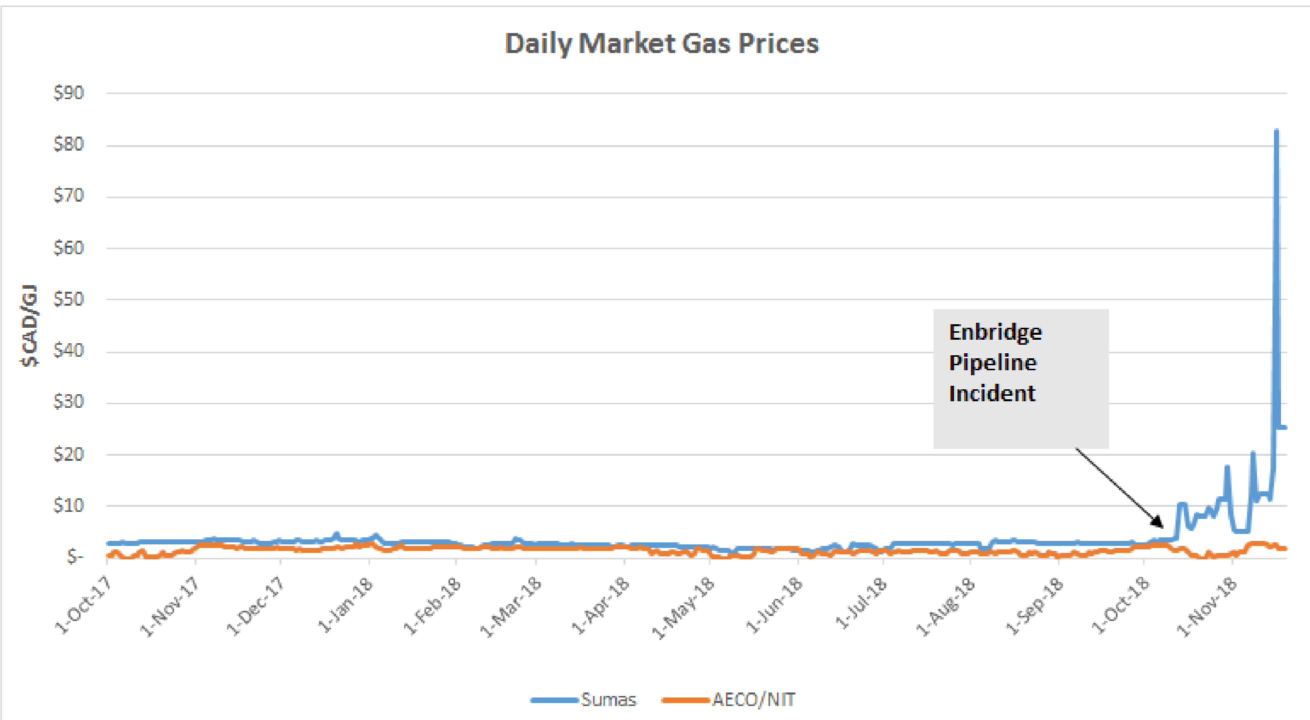
[1] Exhibit B-10, page 1.
[2] Exhibit B-12, IR 1.3.1.
[3] Exhibit B-10, page 5.

PART TWO: ENBRIDGE INCIDENT DOES NOT IMPACT HEDGING STRATEGY

4. The Enbridge Incident does not impact FEI's proposed hedging strategy in the Application because the hedging requests in the 2018 PRMP are based on AECO/NIT market prices,[4] which have not been significantly impacted by the Enbridge Incident. The Enbridge Incident restricted gas flows south of Station 2 to Huntingdon but did not restrict flows to the Station 2 or AECO/NIT markets.

5. The following figure from FEI's Update on the Enbridge Incident shows the AECO/NIT and Sumas daily prices before and after the Enbridge Incident. As seen in the figure below, while the Sumas daily price increased dramatically after the Enbridge Incident, AECO/NIT daily prices were not significantly impacted.



6. As explained in the Update Letter, the Enbridge Incident restricted gas flows on T-South to Huntingdon during winter 2018/19, and impacted the resources in the FEI 2018/19 Annual Contracting Plan (2018/19 ACP) required to meet customers' needs.[5] Specifically, in response to the Enbridge Incident, FEI requested approval of an amendment to the 2018/19 ACP (2018/19 ACP Amendment) on a confidential basis, requesting BCUC approval to transact for up to 120 Terajoules (TJ) per day of physical term supply for winter 2018/19 at Huntingdon, based on Sumas pricing, to make up for the loss, to the

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[4] Exhibit B-10, page 4.

[5] Exhibit B-10, page 1.

extent possible, of FEI's firm T-South Huntingdon delivery pipeline capacity.[6] On October 26, 2018, the BCUC approved FEI's plan as set out in the 2018/19 ACP Amendment and requested FEI, in all future ACPs, to assess whether Huntington supply should be included in the FEI commodity portfolio.[7] Subsequently, FEI purchased Huntingdon supply for the remainder of winter 2018/19 based on daily and monthly Sumas index pricing.[8] As a result, FEI's purchases at Huntingdon for winter 2018/19 added Sumas price risk to some of its supply portfolio.

7. However, FEI's incremental purchases at Huntingdon for winter 2018/19 as a result of the Enbridge Incident impact the MCRA supply portfolio only. The proportion of commodity supply purchased at AECO/NIT index pricing for FEI's CCRA portfolio is unchanged because of the Enbridge Incident and continues to make up the majority of the CCRA portfolio.[9] The hedging strategies proposed in the 2018 PRMP are based on FEI's AECO/NIT price exposure in the CCRA and so do not change as a result of the Enbridge Incident.

8. While AECO/NIT market prices have not been significantly impacted by the Enbridge Incident, FEI expects volatility to continue in the AECO/NIT market and may increase over the next five years as more outlets for the AECO/NIT market come from pipeline developments as discussed in Section 3.1.3 of the 2018 PRMP.[10] Therefore, FEI's hedging strategy as proposed in the 2018 PRMP remains appropriate.

PART THREE: FEI WILL CONTINUE TO ASSESS HUNTINGDON SUPPLY AND SUMAS PRICE RISK

9. FEI will assess whether Huntingdon supply is included in its supply portfolio in the next 2019/20 ACP which it plans to submit to the BCUC by May 1, 2019. At that time, FEI will consider whether including Sumas price risks is appropriate in a future PRMP application.[11]

10. The Enbridge Incident caused Sumas prices to become considerably more volatile.[12] FEI expects this volatility to continue in the Sumas market because of the constrained regional infrastructure, particularly in the winter, even after the Enbridge Incident is fully resolved. Due to growing regional

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[6] Exhibit B-10, page 2.
[7] Exhibit B-10, page 2.
[8] Exhibit B-10, page 4.
[9] Exhibit B-12, IR 1.3.1.
[10] Exhibit B-12, IR 1.1.4.
[11] Exhibit B-10, page 5.
[12] Exhibit B-10, page 3.

demand with limited pipe capacity, volatility may even increase if new demand like more gas-fired generation, methanol or liquefied natural gas (LNG) facilities are initiated in the Pacific Northwest. For the most part, Sumas price disconnections from other market hubs in the past have been demand driven, but the Enbridge Incident has caused volatility from lack of supply, showing that volatility at Sumas can be caused from both sides of the supply and demand equation.[13]

11. Assuming FEI includes Huntingdon purchases in its next ACP, there are several ways in which FEI could mitigate the associated Sumas price risk.[14]

12. One method is to resell some of its Huntingdon supply that is not required for customer load due to normal or mild weather conditions. In this case, FEI could resell the Huntingdon supply at the same price index at which it was purchased, thereby eliminating the Sumas price risk, at least for the portion of supply being resold. FEI would incur Sumas price risk for the portion of supply not being resold, if it is required by core customers.

13. Another method would be to hedge the Sumas monthly price risk in the ACP portfolio through financial derivatives. FEI could mitigate the Sumas price risk through the implementation of Sumas-AECO/NIT basis swaps which are financial transactions where FEI locks in the forward price spread between Sumas and AECO/NIT monthly prices. FEI implemented these basis swaps, with BCUC approval, prior to winter 2013/14 when FEI had Sumas monthly price exposure in its portfolio. The Sumas-AECO/NIT basis swaps can mitigate monthly price exposure but not daily price exposure as there is no active market for daily price hedging at Sumas.[15]

14. However, the above methods are not for consideration in the present proceeding, but will be the subject of a future PRMP application if, in fact, FEI includes Huntingdon purchases in its next ACP and concludes that it should mitigate the associated Sumas price risk.

PART FOUR: CONCLUSION

15. The 2018 PRMP objectives, strategies, and evidence relating to AECO/NIT price risk remain relevant and there is no change to the requests sought in the Application as a result of the Enbridge

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[13] Exhibit B-12, IR 1.1.2.
[14] Exhibit B-12, IR 1.4.2.
[15] Exhibit B-11, IR 1.5.

Incident.[16] If approved, the 2018 PRMP hedging strategy would position FEI to capture opportunities to maintain commodity rates at historically low levels and mitigate market price volatility to support commodity rate stability for customers.

16. As the resource requirements for the 2019/20 gas year are determined and the 2019/20 ACP is developed and submitted to the BCUC by May 1, 2019, FEI will consider whether including hedging strategies to mitigate Sumas price risk is appropriate in a future PRMP application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: February 7, 2019

Original signed by Doug Slater
Doug Slater

[16] Exhibit B-12, IR 1.4.3.