



**Doug Slater**  
Director, Regulatory Affairs

**Gas Regulatory Affairs Correspondence**  
Email: [gas.regulatory.affairs@fortisbc.com](mailto:gas.regulatory.affairs@fortisbc.com)

**Electric Regulatory Affairs Correspondence**  
Email: [electricity.regulatory.affairs@fortisbc.com](mailto:electricity.regulatory.affairs@fortisbc.com)

**FortisBC**  
16705 Fraser Highway  
Surrey, B.C. V4N 0E8  
Tel: (778) 578-3874  
Cell: (778) 214-3842  
Fax: (604) 576-7074  
Email: [doug.slater@fortisbc.com](mailto:doug.slater@fortisbc.com)  
[www.fortisbc.com](http://www.fortisbc.com)

May 30, 2019

British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, B.C.  
V6Z 2N3

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

Dear Mr. Wruck:

**Re: FortisBC Energy Inc. (FEI)**

**Applications for Approval of Tariff Changes to Rate Schedule 46 – Liquefied Natural Gas Sales, Dispensing and Transportation Service on a Permanent Basis, Effective April 1, 2019 and May 1, 2019 (Applications)**  
**FEI Response to Letters of Comment**

---

On March 21, 2019 and April 17, 2019, respectively, FEI filed the Applications seeking approval of various tariff changes to Rate Schedule (RS) 46 on a permanent basis. In accordance with British Columbia Utilities Commission (BCUC) Order G-95-19 setting out the Regulatory Timetable for the review of the Applications, FEI respectfully provides its response to the letters of comment from four RS 46 customers: Vedder Transport (Vedder)<sup>1</sup>, Ledcor Forest Products Partnership (Ledcor)<sup>2</sup>, Seaspan Ferries Corporation (Seaspan)<sup>3</sup> and British Columbia Ferry Services Inc. (BC Ferries)<sup>4</sup>.

In their letters of comment, Vedder and Ledcor support FEI's proposal to change the commodity structure as filed. Vedder states that it is in favor of FEI's proposal because "*the recommended solution creates stability in commodity prices for transportation users and their end customers*". Ledcor states that FEI's proposal should be adopted because it enables RS 46 customers "*to be positioned to develop longer range plans*".

In the remainder of this submission, FEI addresses the specific matters raised in the letters from Seaspan and BC Ferries.

---

<sup>1</sup> Exhibit B-3, Response to BCUC IR 1.5.2.1, Attachment 5.2.1.

<sup>2</sup> Exhibit E-1.

<sup>3</sup> Exhibit E-2.

<sup>4</sup> Exhibit E-3.

Response to Matters raised in Seaspan's Letter of Comment:

In its letter dated May 23, 2019, Seaspan supports FEI's application to provide RS 46 customers access to FEI's commodity services, subject to:

- (i) remedying the self-supply threshold issue identified in the Commission's Information Requests (IRs) by lowering the opt-out threshold; (ii) retaining Sumas index based pricing as an option; and (iii) a direction for FEI to report back to the Commission at the sooner of the next RS 46 tariff application, or 24 months, to provide additional information concerning the storage costs allocated to RS 46.

FEI will address each of these issues in turn.

***(i) Remedying the self-supply threshold issue identified in the Commission's Information Requests (IRs) by lowering the opt-out threshold***

Seaspan suggests lowering the threshold for RS 46 customers to be able to self-supply their commodity (on their own or by engaging a gas marketer). Seaspan suggests a threshold of 6,000 GJs per year making reference to RS 25; however, FEI is uncertain where Seaspan has obtained this reference as RS 25 does not have a minimum annual consumption in order to take transportation service under that rate schedule. Instead, the Basic Charge and Demand Charge in RS 25 are structured such that it is only favourable for customers with a relatively high volume and load factor. Currently RS 46 does have a transportation service option, but it is subject to minimum annual Contract Demand of 1,825,000 GJ (5,000 GJ per day) in order for a customer to procure its own natural gas commodity (Section 8.1(ii) LNG Service Charges). A customer that meets the contract demand requirement set in the rate schedule and who has selected this option would not pay the proposed Commodity Cost Recovery Charge and Storage and Transport Charge per GJ as they would be supplying their own commodity (on their own or through a gas marketer) at their own cost.

FEI is not opposed to lowering the threshold in RS 46 from 1,825,000 GJs per year, and suggests that a reasonable threshold would be 182,500 GJs per year or 500 GJs per day. This threshold equals approximately one LNG tanker every two days, as a 10,000 gallon LNG tanker typically holds approximately 1,000 GJs of LNG. Pursuant to Section 8.1(ii) LNG Service Charges of RS 46, by lowering the consumption threshold to 182,500 GJs per year, two RS 46 customers would qualify for the transportation service option based on 2019 forecasts. Various terms and conditions of service will need to be established for RS 46 customers selecting transportation service. For example, the requirement for customers (or their marketer) to provide the volume of gas required at the Huntingdon receipt point, the timing of liquefaction at the LNG facilities, and the management of balancing and inventory levels would need to be defined in terms and conditions in a tariff supplement between FEI and the RS 46 customer, if the customer qualifies for and chooses the transportation service option.

***(ii) Retaining Sumas index based pricing as an option***

The primary objective of proposing amendments to the commodity rate in RS 46 was to address the concerns expressed by many RS 46 customers about volatility and price

exposure risk of the market-based index pricing. While it may be possible to propose amendments to the tariff to allow both options for commodity prices, customers would be required to elect one option or the other for the entire gas year (November 1 of the calendar year to October 31 of the following calendar year). Similar to the transportation service rate options in other rate schedules, customers must commit for the gas year in order to allow FEI to properly forecast, procure, and manage the necessary volumes and supply required to serve bundled sales customers through the Annual Contracting Plan.

All of FEI's rate schedules each have only one commodity option available. As such, if the BCUC were to determine that alternative commodity options were necessary and appropriate for RS 46, FEI expects that it would need to incur costs associated with the development and implementation of changes to FEI's customer information and billing systems, which have not been considered at this time.

As such, the most reasonable alternative solution would be to reduce the minimum volume requirement to elect the transportation service option in RS 46, which would allow RS 46 customers that meet the minimum volume requirement to purchase their own commodity at market prices as discussed in FEI's response to Seaspans (i) above.

***(iii) A direction for FEI to report back to the Commission at the sooner of the next RS 46 tariff application, or 24 months, to provide additional information concerning the storage costs allocated to RS 46.***

The Storage and Transport charge for RS 5 and FEI's other bundled sales rate schedules pertains to third-party storage and pipeline transportation (often referred to as midstream costs) and are not related to any FEI on-system resources. The charges for moving the gas through FEI's system are accounted for separately and referred to as delivery charges. The current BCUC approved RS 5 Storage and Transport Charge of \$1.013 per GJ reflects the amounts FEI pays to other third-party companies to store and transport gas through their pipelines and infrastructure (upstream of the FEI system). FEI does not mark up these costs; customers pay what FEI pays to move gas to the FEI system interconnection point.

FEI reports to the BCUC on a quarterly and annual basis on the Storage and Transport costs. The BCUC reviews the Storage and Transport rates and approves any changes to the rates on an annual basis. The Storage and Transport Charge does not include any of the costs related to the Tilbury Expansion facility (the new LNG storage tank and liquefaction facilities recently constructed) or costs related to the original Tilbury LNG facilities.

The RS 46 dispensing charges (the LNG Facility Charge and the Electricity Surcharge) include the cost of the Tilbury facilities to liquefy and store LNG at Tilbury. Seaspans is correct in stating that the RS 46 Facility Charge includes an amount for movement of the gas from Huntingdon to Tilbury; however, this is for the FEI on-system delivery component and not related to the RS 5 Storage and Transport component. FEI further confirms that the RS 46 interim Storage and Transport charge of \$1.029 per GJ effective May 1, 2019, excludes any transportation costs related to the movement of gas on FEI's system from Huntingdon to Tilbury, as described in Note 5 to the RS 46 Table of Charges for LNG Service:

5. *The charges for transporting natural gas from the Interconnection Point to the LNG Facilities, defined as “firm demand toll” and as set out in Table of Charges in FortisBC Energy Rate Schedule 50, are embedded in the LNG Facility Charge in this Rate Schedule.*<sup>5</sup>

As such, FEI confirms there is no duplication in these charges.

FEI uses Storage and Transport resources to manage its entire gas commodity portfolio throughout the gas year for all customers, including RS 46 customers. Therefore, as proposed by FEI, at this time it is appropriate for RS 46 to be allocated and pay the same level of Storage and Transport costs as RS 5 customers. Given that FEI reports both quarterly and annually on its Storage and Transport costs, it is not necessary for FEI to provide any additional reporting to the BCUC on costs of underground storage as suggested by Seaspan. Further, the storage-related resources and the transport-related resources are complementary elements of an integrated package of midstream resources, so it would not be suitable to examine the storage allocations to RS 46 on a disaggregated basis. An assessment of the continuing appropriateness for RS 46 of the RS 5 Storage and Transport Charge can be included in a future rate design process or at some future time when the volumes at Tilbury are fully contracted.

Response to Matters raised in BC Ferries’ Letter of Comment:

In its letter, BC Ferries recognizes the impact of the volatility of prices at the Huntington-Sumas hub and supports efforts to mitigate the effects of this volatility on RS 46 customers. BC Ferries seeks clarification of four points, summarized as: 1) why did FEI not seek to change the commodity structure of RS 46 prior to the T-South incident; 2) a copy of the information FEI provided to Seaspan, seeking to understand the difference between the cost to procure the gas and the cost to supply the gas to RS 46 customers and whether RS 46 customers will be compensated for any difference; 3) confirmation that Storage and Transport charges are not a duplication of charges; and 4) process related to reducing the Transportation Service threshold in RS 46 and measures to be taken by FEI to ensure customers will benefit from the lowest possible prices for gas under the proposed commodity structure changes. FEI will address each point in turn.

**1) *Why did FEI not seek to change the commodity structure of RS 46 prior to the T-South incident***

FEI sought the change to the commodity structure for RS 46 as a means to address the concerns raised by customers regarding the market-based rate which the T-South incident highlighted. FEI did not seek a change prior to the T-South incident because, since inception in 2013, and previously in RS 16, the commodity rate had always been a market-based rate set at the Sumas Monthly Price Index. Until recently, the Sumas Monthly Price Index had been relatively stable and, at times, has been lower than FEI’s bundled commodity pricing

---

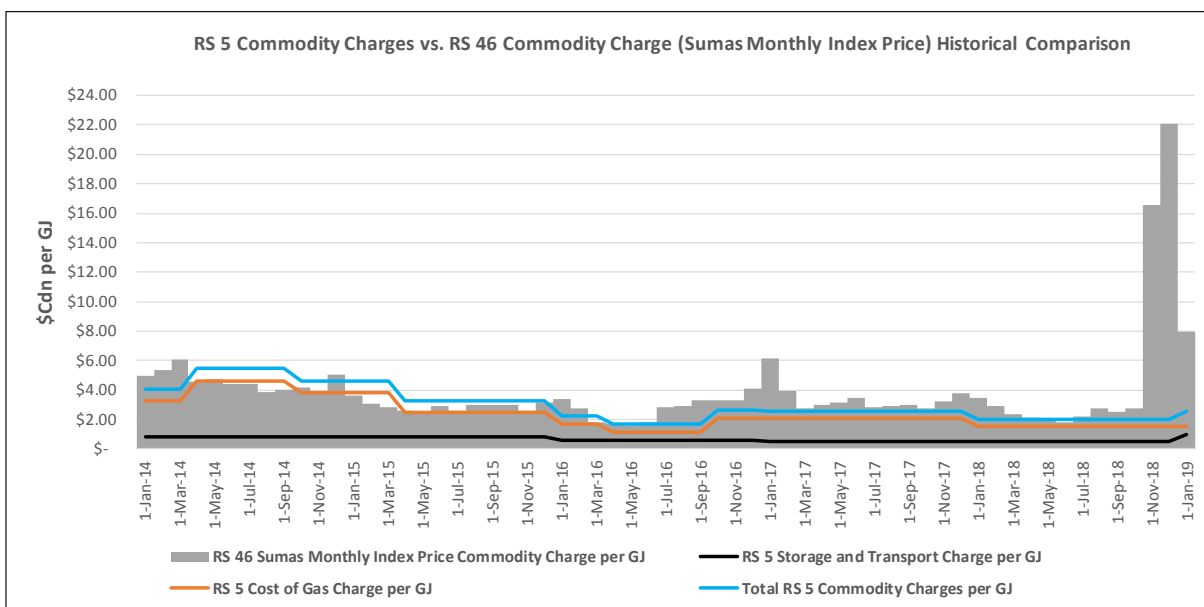
<sup>5</sup> On December 24, 2014, the BCUC issued Order G-207-14, effective January 1, 2015, approving amendments to RS 46 (including the addition of Note 5. (formerly Note 4.) and Direction No. 5, in accordance with OIC 749 (B.C. Regulation 265/2014, deposited December 22, 2014).

(refer to Figure 1 below). Further, RS 46 customers have not previously expressed concerns with the RS 46 commodity pricing structure and RS 46 customers have always had the option to enter into financial hedging transactions as a means to reduce their commodity risk related to the market price, although FEI understands most have not done so.

**2) A copy of the information FEI provided to Seaspan, seeking to understand the difference between the cost to procure the gas and the cost to supply the gas to RS 46 customers and whether RS 46 customers will be compensated for any difference**

For clarification, Seaspan asked for and received analysis from FEI regarding actual historical costs for a projected volume over a certain time period based on the Sumas Monthly Index, and projected costs for the same volume and for the same time period based on bundled commodity as proposed in the commodity change Application under consideration. The information FEI provided to Seaspan was specific to Seaspan and contains commercially sensitive information about volumes and billing amounts. As such, rather than provide BC Ferries with this commercially sensitive information, FEI has instead provided Figure 1 below which shows the historical rate information comparing the commodity rate in RS 5 and RS 46 over time. As discussed on page 2 of the Application, the commodity rate in RS 46 has been based on a market-based index since inception, and has never been associated with or based on particular supply contracts or costs to procure and supply the gas to RS 46 customers. As a result, the cost to procure the gas for RS 46 customers has no relationship to the costs to supply the gas.

**Figure 1: RS 5 vs. RS 46 Commodity Charges**



As can be seen by Figure 1 above, both the combined Total RS 5 Commodity Related Charges (Cost of Gas Charge and Storage and Transport Charge per GJ) have remained relatively stable since 2014. One can also see that, over the same period, the Sumas Monthly Index Price has been less stable than the Total RS 5 Commodity Related Charges

with periods of both higher and lower prices relative to RS 5. However, the T-South incident and contributing factors discussed in the Application resulted in the most dramatic and significant volatility experienced by RS 46 customers.

With respect to compensation for any rate differential, the BCUC's rate-setting powers are prospective in nature, meaning that refunds or compensation for differences between hypothetical or alternative rate scenarios after the fact is not an available option. For this reason, FEI requested approval of the proposed changes to the commodity rates on an interim basis to be effective at the earliest possible date on behalf of customers, which allowed the BCUC to make the changes quickly, although subject to the BCUC decision after it completes its review of the proposal. Further, FEI manages its actual commodity and midstream costs on an overall portfolio basis and does not track the actual costs by customer class for any of its customer classes, including RS 46. Instead, any differences between the overall actual commodity and midstream costs and the revenue recovered through the BCUC-approved commodity and Storage and Transport rates are reviewed by the BCUC quarterly with any surpluses refunded to or shortfalls recovered from customers in subsequent periods.

**3) Confirmation that Storage and Transport charges are not a duplication of charges**

Please refer to the discussion above where FEI addresses Seaspans (iii).

**4) Process related to reducing the Transportation Service threshold in RS 46 and measures to be taken by FEI to ensure customers will benefit from the lowest possible prices for gas under the proposed commodity structure changes.**

Please refer to the discussion above where FEI addresses Seaspans (i) regarding the Transportation Service threshold. With oversight from the BCUC, FEI continuously assesses the available mix of resources in its portfolio that ensures an appropriate balance of security, diversity, and reliability of gas supply for its customers. This balance is managed while also focusing on minimizing the overall costs of its portfolio. Strategies to ensure the total portfolio remains cost-effective include reselling any excess resources that are above FEI's Core load requirements at the location resulting in the highest contribution to reduce the net portfolio costs.

If further information is required, please contact the undersigned.

Sincerely,

**FORTISBC ENERGY INC.**

***Original signed:***

Doug Slater

cc (email only): Registered Parties