

# BCUC Workshop – FEI Rate Schedule 46 Commodity Change effective May 1, 2019

Sarah Smith – Director, Natural Gas for Transportation, Regional LNG and Renewable Natural Gas

Doug Slater – Director, Regulatory Affairs

Shawn Hill – Director, Energy Supply and Gas Control

July 16, 2019

*Energy at work*



**FORTIS BC™**

# Agenda

- Background
  - Overview FEI business model for natural gas service
  - Overview of regional supply hubs and prices
  - 2018 Enbridge supply incident – impact to regional prices
- Summary of RS46 Commodity Amendment Application
- Summary of Issues and Themes from Information Requests and Customer Communications
- Questions

# Summary of RS 46 Commodity Amendment Application

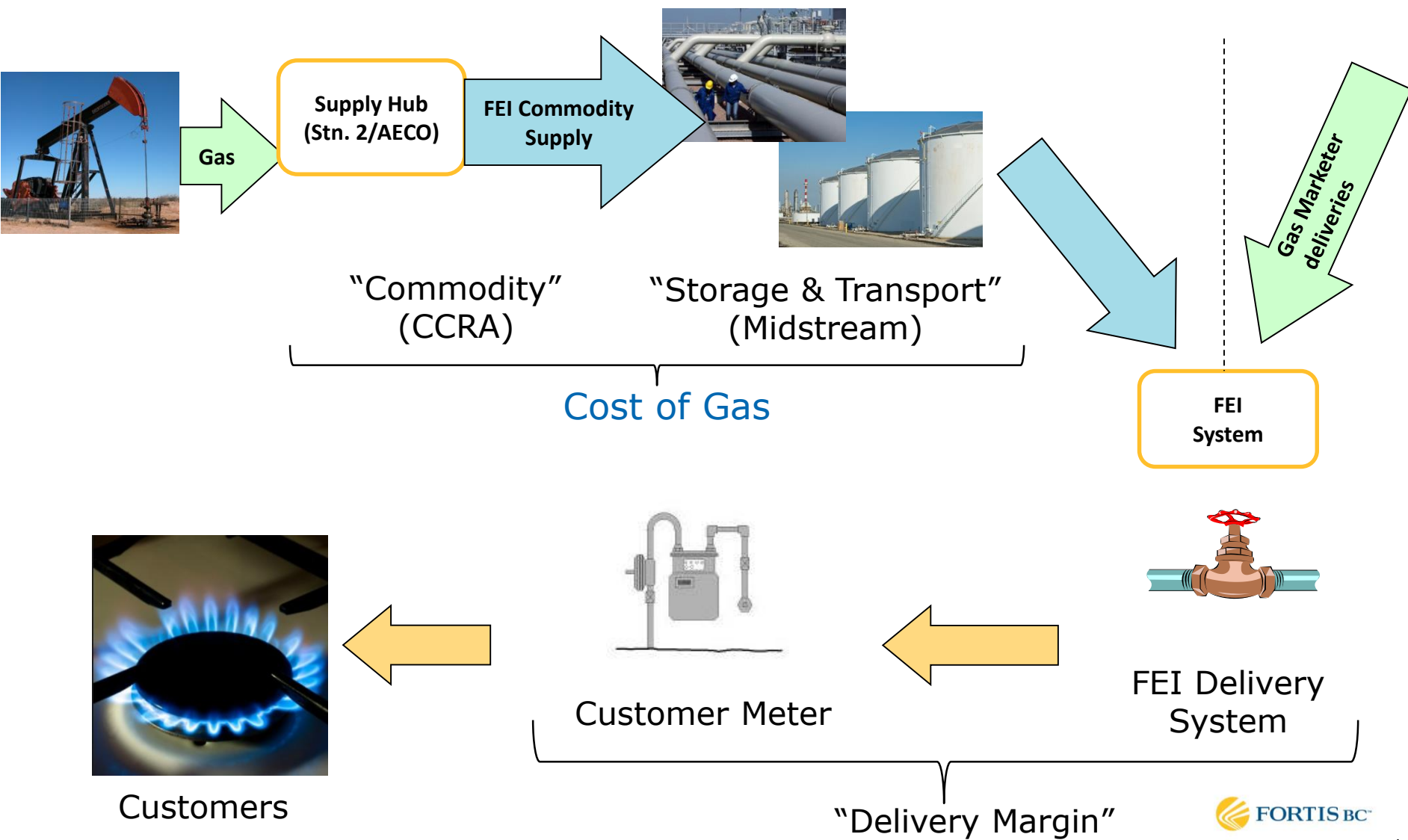
In response to customer concerns with the volatility of the Sumas Monthly price index, FEI put forward the Application to seek approval to amend RS 46.

## **Approvals Sought:**

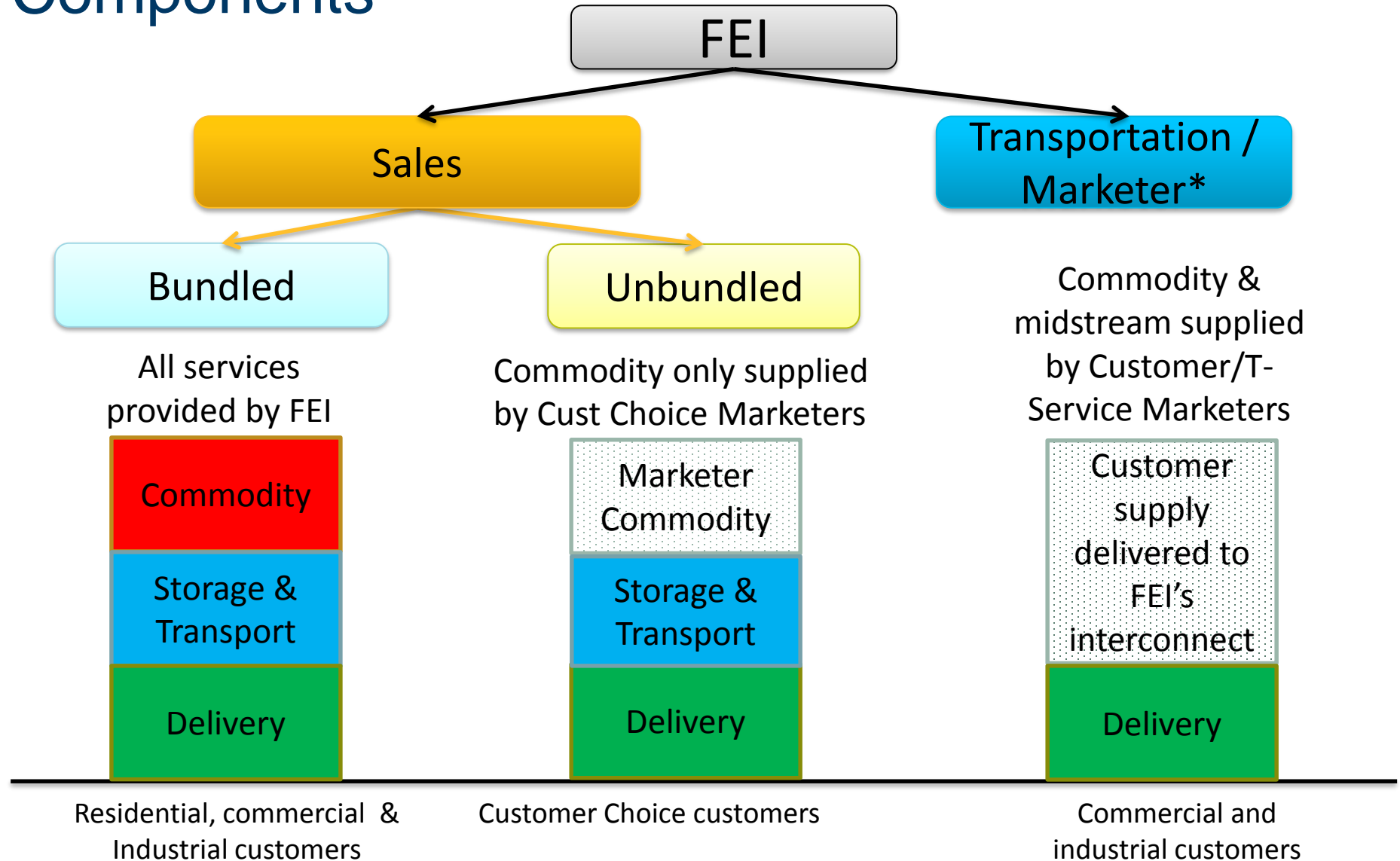
- To change the structure of the commodity rate in RS 46 from a market-based index to the structure of the commodity-related charges applicable to all of FEI's other sales service customers that are served under bundled rate schedules, on an interim and permanent basis, with interim rates to be effective May 1, 2019

# FEI Business Model – From Wellhead to Burner tip

## Gas Customers

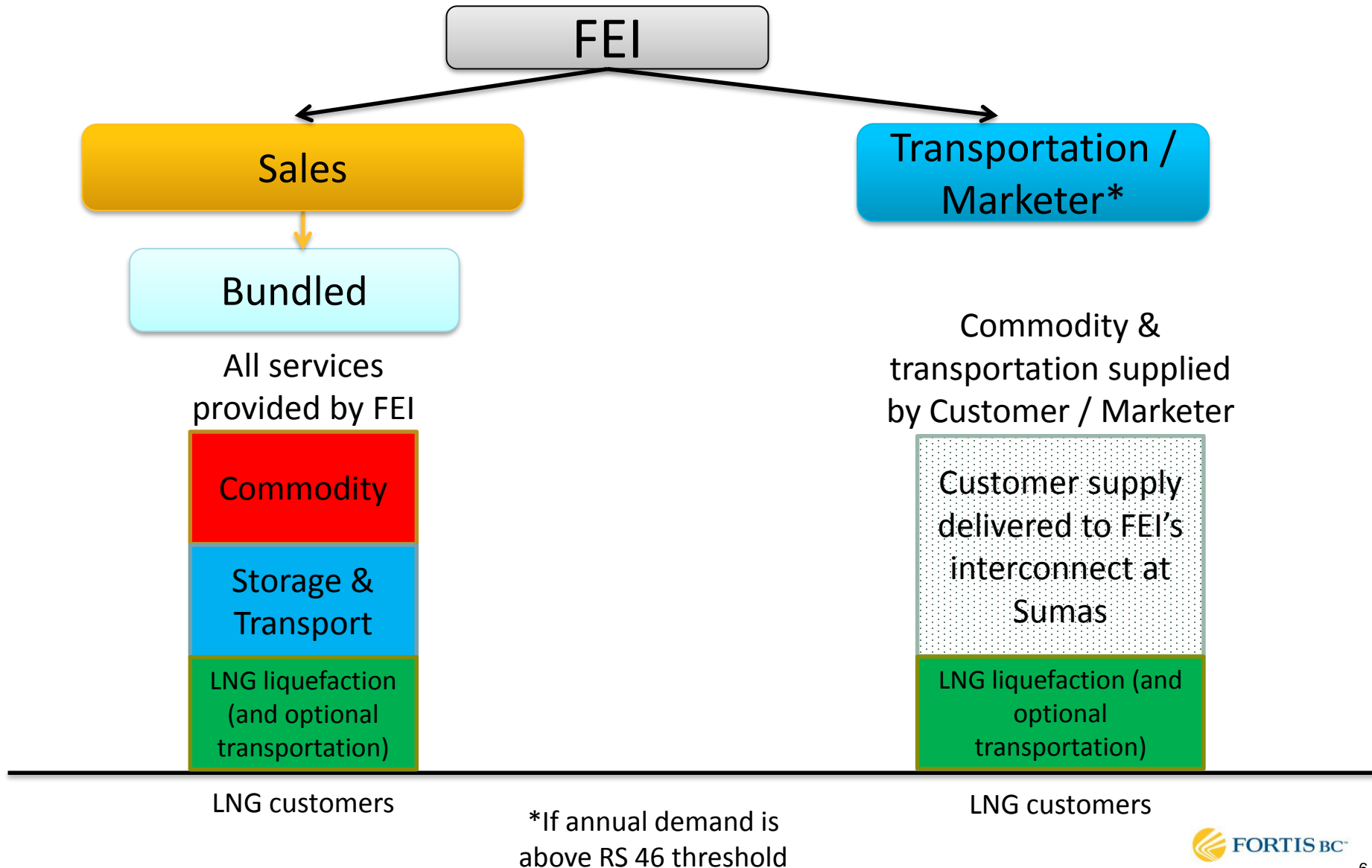


# FEI Res/Comm Customer Business Model & Bill Components



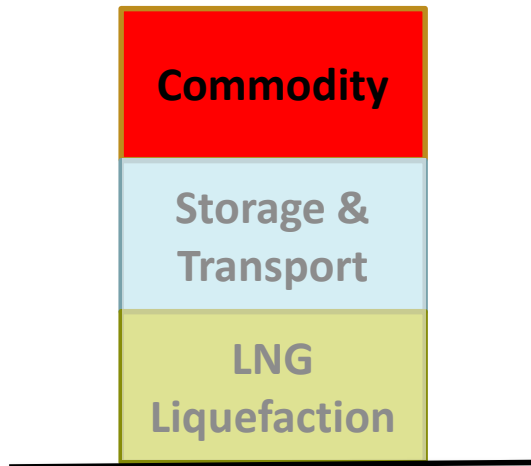
\* Marketer in this context means Shipper, Shipper Agent, or Self-Supply by customer

# FEI LNG Customer Business Model & Bill Components



# Bundled LNG Service Bill Components – Commodity Rate

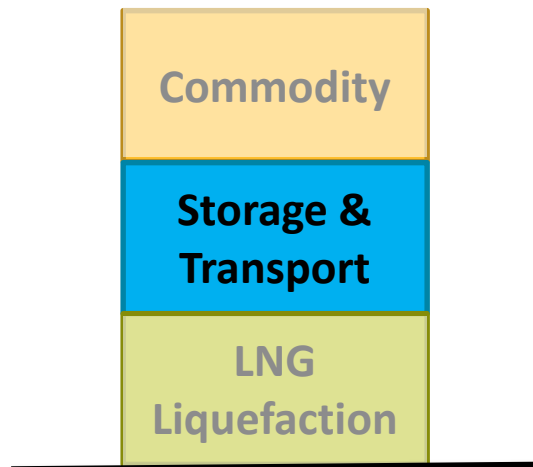
## Commodity Rate



- Annual base load commodity purchases
- Station 2 and AECO/NIT supply (75%/25% split)
- Market index-based pricing
- Daily and monthly priced (40/60% split)
- Reviewed quarterly and approved by BCUC

# Bundled LNG Service Bill Components – Storage and Transport Rate

## Storage & Transport Rate



- 3<sup>rd</sup> party charges to store and move gas to FEI's system
  - Market index-based pricing - winter commodity purchases
  - Upstream pipeline capacity
  - Market storage and FEI LNG storage
- Reviewed quarterly (Historically rates change annually)
- Mostly fixed demand charge components (i.e., storage and transportation)



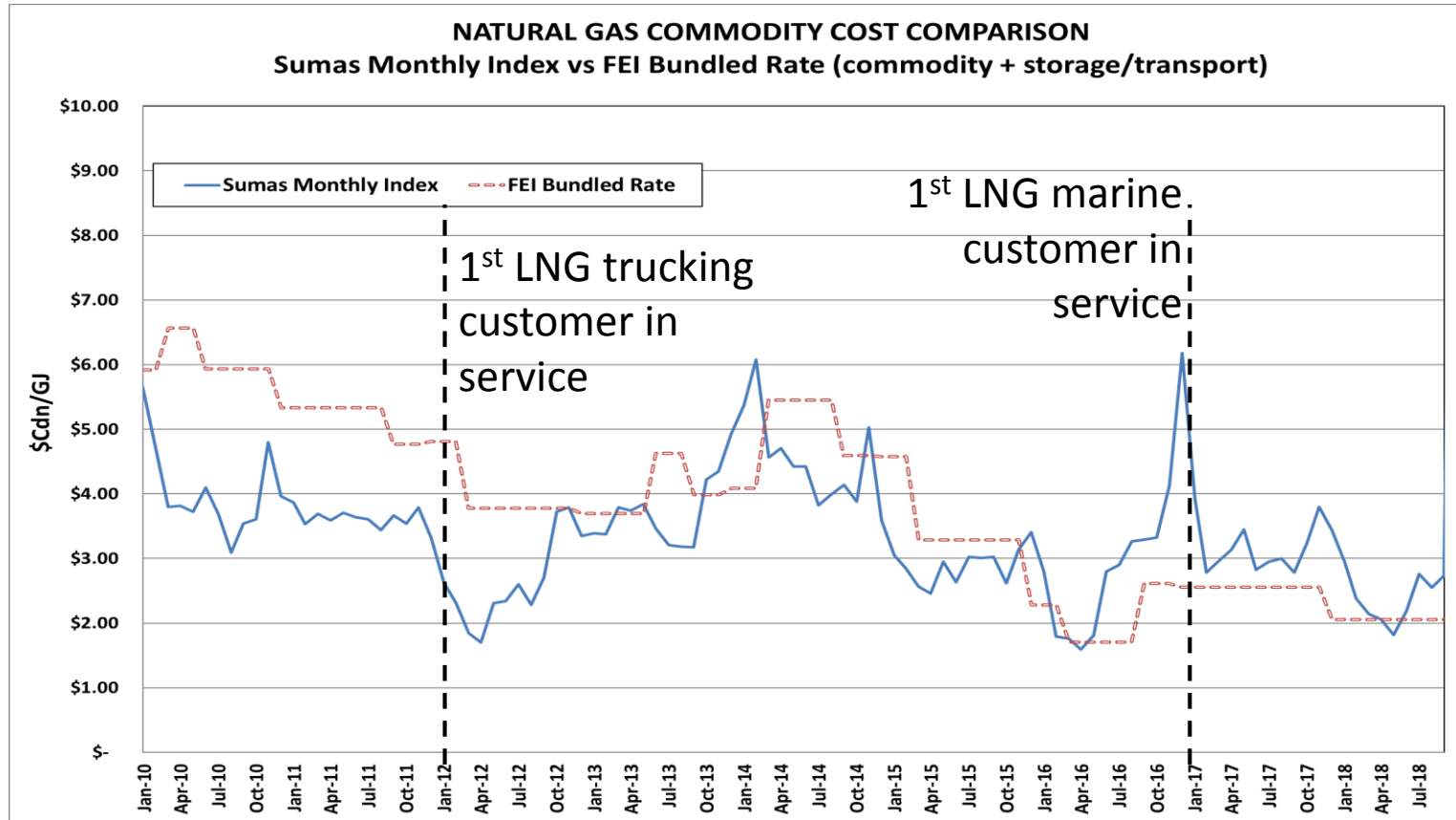
# Regional Gas Market Resources



## BC Market Issues:

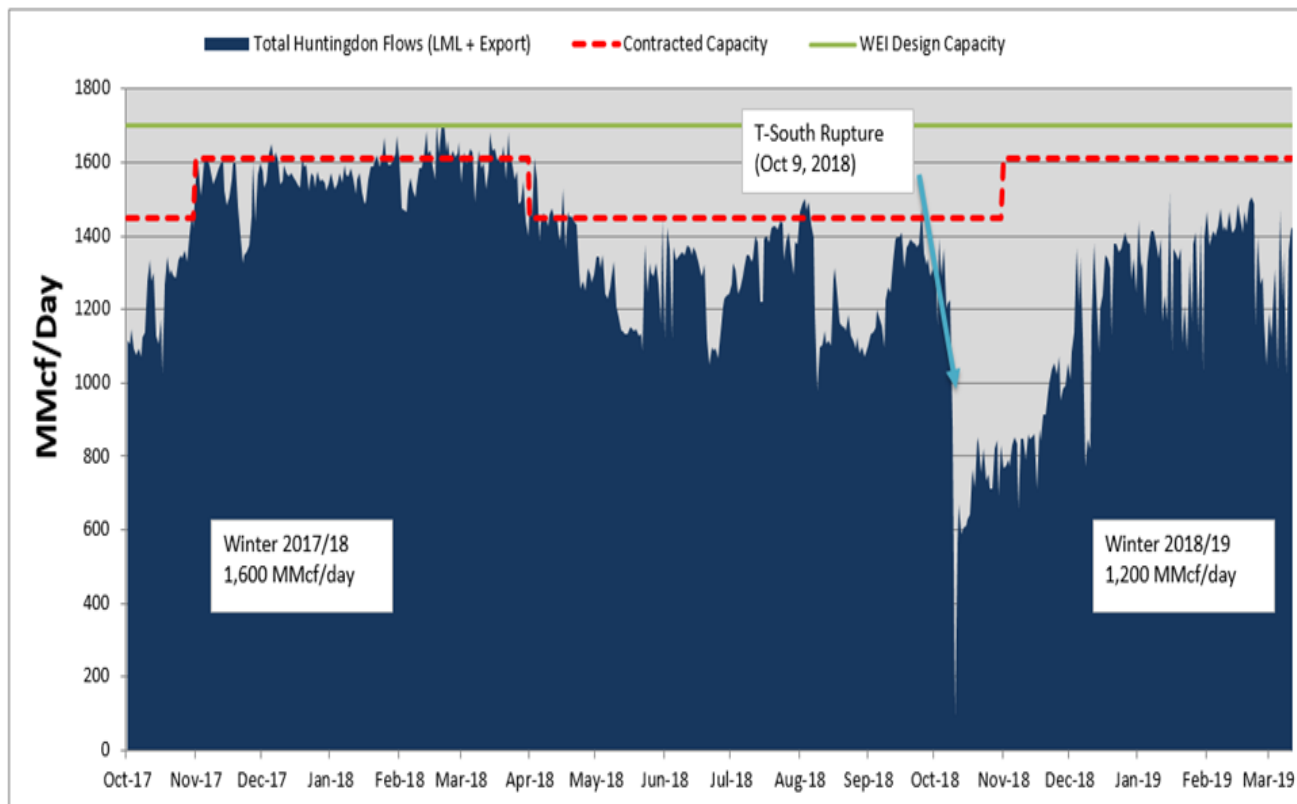
- Limited Resources in the Region and Seasonal Demand
- Baseload Resources - T-South 1.6 Bcf/day and NWP Gorge 0.6 Bcf/day
- Short Term Assets (JPS/Mist/LNG) help with colder than normal weather.
- Short Term Assets cannot replace pipeline capacity for the winter.
- Coincidental demand and peaks on gas and power systems that are serviced by natural gas infrastructure.
- Future risk in region – Will incremental demand arrive before any pipeline expansion?

# FEI Bundled Rate (commodity + storage & transport) vs. Sumas Monthly up to Enbridge Incident



- Certain market conditions can result in Sumas priced commodity being lower than FEI's bundled rate (holding fixed costs to access supply hubs at Station 2 and AECO)
- Low cost supply at Station 2 has recently resulted in FEI's bundled rate being lower than the Sumas monthly index.

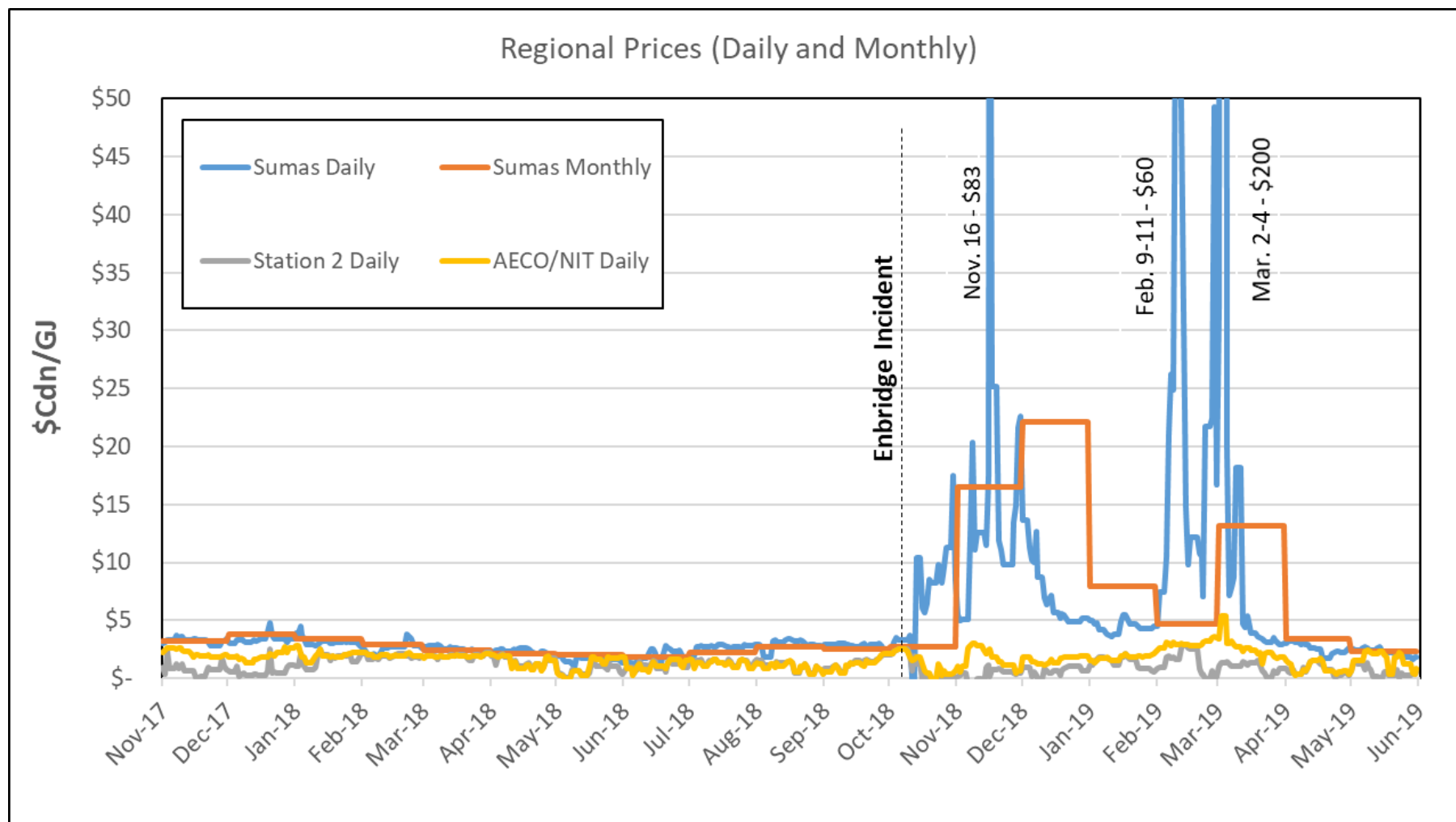
# 2018 Enbridge Incident and Winter Supply Conditions



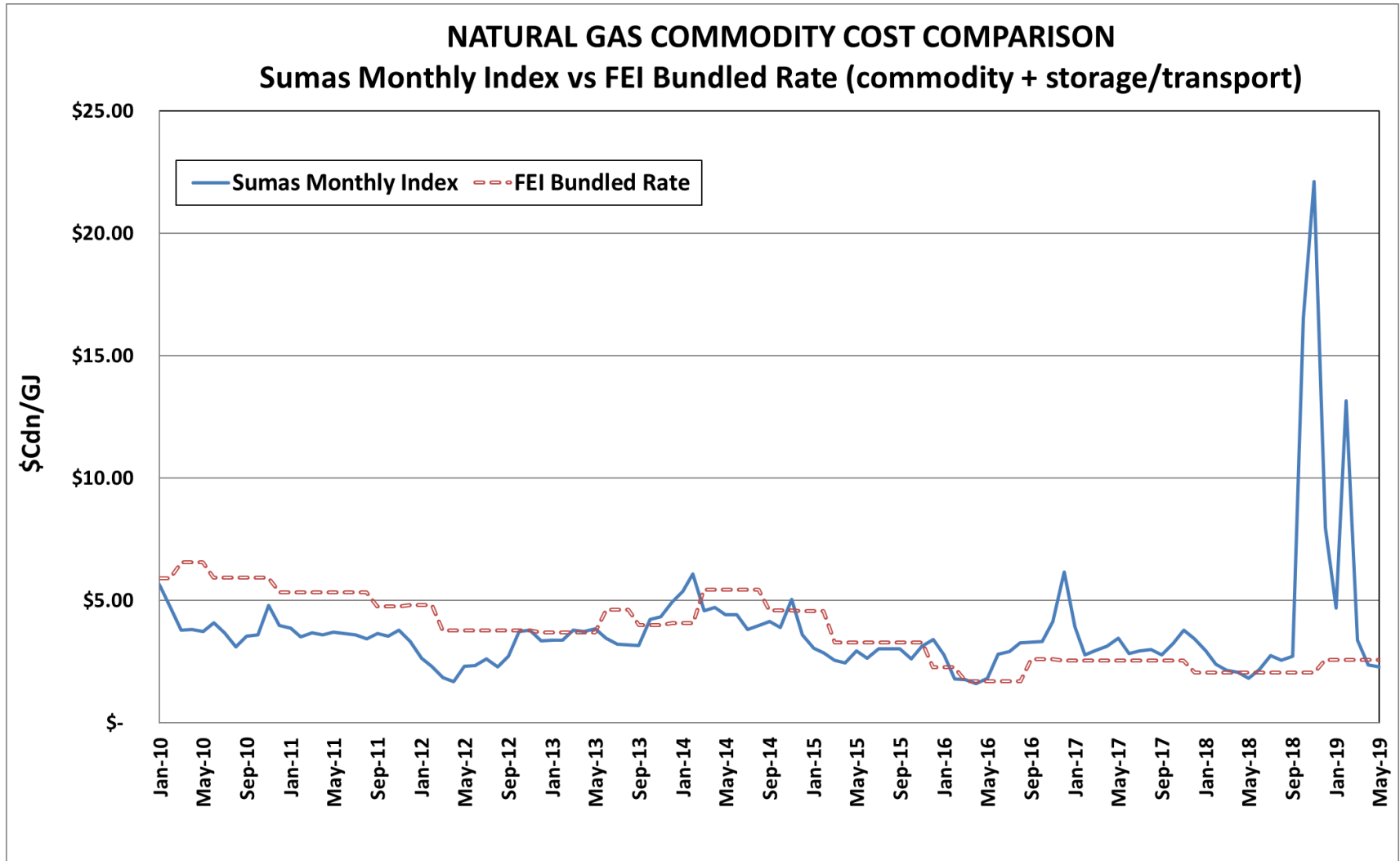
- Enbridge rupture resulted in 400 MMcf/day less supply to the market compared to previous winters.
- An already supply sensitive market at Sumas/Huntingdon was disrupted as a result of reduced supply flows over an extended period of time

# Regional Market Prices

Volatility in regional prices (Sumas) shows constrained market was due to the T-South flow restrictions.



# FEI Bundled Rate (commodity + storage & transport) vs. Sumas Monthly Since Enbridge Incident



# Summary of RS 46 Commodity Amendment Application

In response to customer concerns with the volatility of the Sumas Monthly price index, FEI put forward the Application to seek approval to amend RS 46.

## **Approvals Sought:**

- To change the structure of the commodity rate in RS 46 from a market-based index to the structure of the commodity-related charges applicable to all of FEI's other sales service customers that are served under bundled rate schedules, on an interim and permanent basis, with interim rates to be effective May 1, 2019

# Illustration of Proposed Change

Comparison of proposed changes to RS 46 customer bill.

Pre-Commodity Amendment Application	Post-Commodity Amendment Application	Change (Y/N)
LNG Liquefaction Charge	LNG Liquefaction Charge	N
Transportation Charge (optional service)	Transportation Charge (optional service)	N
Tanker Charge (optional service)	Tanker Charge (optional service)	N
LNG Commodity Charge – Sumas Monthly plus Market Factor	Cost of Gas plus Storage and Transport	Y

# Issues and Themes Raised in Information Requests and Customer Communications



# Reasons for Application

1. Address customer concerns of rate volatility

2. More closely align the RS 46 commodity charge with FEI's Annual Contracting Plan

3. Align RS 46 commodity charge with FEI's bundled sales service rate schedules

# Additional Matters for Consideration: Lower Threshold for Transportation/Marketer Service

- Current threshold in RS 46 for transportation / marketer service is 5,000 GJ per day, or 1,825,000 GJ per year
- To date, no RS 46 customer has met the current threshold
- FEI is open to a lower threshold, should RS 46 customers express interest in this
  - Should be set at a sufficient level to avoid added undue administrative costs

# Proposed Lower Threshold

- FEI is open to a lower threshold of 500 GJ per day or 182,500 GJ per year for RS 46 customers to secure their own commodity and use transportation/marketer service
  - This threshold equals about one LNG Tanker every two days
  - LNG customers opting to buy their commodity would not pay the proposed Commodity Cost Recovery Charge and Storage and Transport Charge per GJ as they would be supplying their own commodity to Sumas (on their own or through a gas marketer) at their own cost
  - Annual RS 46 customer election for transportation/marketer service is required

# Customer Request to retain Sumas Monthly Commodity within FEI's Bundled Service

- FEI is open to providing commodity based on the Sumas Monthly Price Index in addition to the bundled rate as proposed in the Application to RS 46 customers
- Must be an annual election for Sumas Monthly Price Index or bundled commodity
- Allowing this option would be inconsistent with FEI's other rate schedules
  - 2 options exist: (i) FEI-managed bundled; or (ii) transportation/marketer service
  - Transportation/marketer customers can access market indices through marketer

# Summary

- Concerns with commodity rate volatility this past winter were raised by RS 46 customers
- The approvals sought in the Application address these customer concerns
- FEI is amenable to lowering the demand threshold to enable transportation / marketer service under RS 46
- FEI proposes 2 options for RS 46 customers:
  - (1) bundled service with FEI; or
  - (2) transportation / marketer service
  - However FEI is amenable to retaining Sumas Monthly Price Index based on an annual election should the Commission direct FEI to do so

# Questions



# Thank you



**Find FortisBC at:**

Fortisbc.com

talkingenergy.ca

604-576-7000

