



LETTER L-40-11

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VIA EMAIL

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May 19, 2011

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

Dear Ms. Roy:

Re: FortisBC Energy Inc.
Report on Gas Cost Deferral Accounts and Rate Setting Mechanisms

On February 5, 2001, the British Columbia Utilities Commission (Commission) issued Letter L-5-01 with Guidelines for a quarterly gas cost reporting process and the conditions when BC Gas Utility Ltd. (now FortisBC Energy Inc. [FEI]) would generally be expected to apply for changes to commodity cost recovery rates. These Guidelines now apply for the FEI Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) and have generally been adopted by other natural gas and propane utilities in British Columbia.

In the letter that accompanied Order G-106-10 dealing with FEI's 2010 Second Quarter Gas Cost Report, the Commission directed Commission staff to work with FEI to investigate improvements to the MCRA forecasting capability and to revalidate the methodology associated with the quarterly review of CCRA costs and commodity rates. Following several discussions with Commission staff, on March 10, 2011 FEI filed the subject Report, recommending three changes to improve the quarterly review and rate setting mechanisms. FEI characterizes the changes as "minor improvements." Commission Letter L-29-11 established a written comment process for the recommended changes. The only submission that the Commission received was FEI's Reply Submission dated May 6, 2011.

The Commission has considered the submissions made by FEI in support of the proposed changes to the Guidelines and agrees that the changes will improve the quarterly reporting process for the reasons presented by FEI. Therefore, the Commission approves the following three revisions to the Guidelines in Letter L-5-01.

Natural Gas Commodity Price Forecast

A five-day average of forward prices taken on consecutive market dates be adopted. The use of a five-day average will provide an appropriate mechanism that reduces price variability while providing an average price that reflects current market conditions.

CCRA Rate Adjustment Mechanism

The CCRA rate change trigger mechanism will be the ± 5 percent trigger ratio plus a minimum rate change threshold of $\pm \$0.50/\text{GJ}$. The addition of a second parameter of a minimum $\$/\text{GJ}$ rate change threshold value will have the effect of keeping the deadband from becoming too narrow during periods when the price of natural gas remains low, thereby providing slightly more stability to the existing mechanism during low price environments for natural gas. This provides a balance of maintaining manageable deferral balances, providing appropriate price signals to customers, and avoidance of minor CCRA rate changes in low price environments.

MCRA Rate Adjustment Mechanism

One-third of the cumulative MCRA deferral balance at the end of each year will be amortized into the next year's midstream rates. This amortization methodology has the net effect of dampening the year-to-year rate change impacts by elongating the amortization period related to any individual year's deficit or surplus and smoothes the annual weather-related MCRA variances. Over a multiyear period the annual weather variations would be expected to offset themselves as the weather will trend to normal over the long run.

Consideration of Full Circumstances

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 review 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 the current deferral balances and, based on the forecast costs, the appropriateness of any rate proposals over a 24-month timeframe.

The Commission anticipates that the Guidelines, as revised by this Letter, will apply for FEI's 2011 Second Quarter Gas Cost Report, and that they will also generally apply for other natural gas and propane utilities.

Yours truly,

Alanna Gillis

TS/cms

cc: Gas and Propane Utilities
Gas Marketers (NGM)
TGI-2010-11RR-RI

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