



LETTER L-93-11

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 38014

ALANNA GILLIS
ACTING COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: <http://www.bcuc.com>

VIA EMAIL

chdl@telus.net

December 8, 2011

Mr. John S. Barnes
President and General Manager
Central Heat Distribution Ltd.
Vancouver District Energy Utility
Suite 1, 720 Beatty Street
Vancouver, BC V6B 2M1

Dear Mr. Barnes:

Re: Central Heat Distribution Ltd.
Annual Contracting Plan and Hedging Strategy Request

On October 19, 2011, Central Heat and Distribution Ltd. (CHDL) submitted its 2011/2012 Annual Contracting Plan (Plan) to the British Columbia Utilities Commission (Commission) in response to Commission Letter L-78-11 and pursuant to section 44.1 of the *Utilities Commission Act* (Act). The non-confidential Executive Summary is attached as Appendix A to this Letter. In the filing, CHDL requested approval from the Commission to hedge up to 3,000 GJ per day of natural gas purchases, or nearly 25% of CHDL's annual requirements, to mitigate historic winter gas price volatility risk.

On November 22, 2011, CHDL submitted its responses to Commission Information Request No. 1 addressing questions related to annual load forecast, steam production capacity and upgrades, gas supply arrangements and price risk management and hedging.

The Commission accepts the filed Plan and specifically approves up to 3,000 GJ/day of fixed forward price purchases of natural gas for the period ending March 31, 2012 for the purpose of providing a level of price stability and predictability to customers. CHDL is directed to file any new physical supply contract(s) pursuant to section 71 of the Act. To the extent CHDL locks in a gas price(s), the filing must include justification that the fixed price(s) is(are) competitive relative to current forward prices when the arrangement(s) was(were) entered into.

The Commission will treat CHDL's Plan and Information Request responses as confidential as requested.

Yours truly,

Alanna Gillis

TS/dg
Attachment

CENTRAL HEAT DISTRIBUTION LTD.

**ANNUAL CONTRACTING PLAN
EXECUTIVE SUMMARY**

Central Heat Distribution Limited (CHDL) operates a district energy utility serving downtown Vancouver buildings. The utility provides energy in the form of steam to over two hundred commercial and residential buildings and has been regulated by the British Columbia Utilities Commission (BCUC) since the utility's inception in 1968.

CHDL provides energy in a competitive market that includes traditional energy from the electric and natural gas utilities. In recent years municipalities and larger utilities are also involved in developing district energy systems. CHDL is working with both to facilitate greater use of alternative energy and specific application would be made to the BCUC in the event broader use of alternative energy meets tests of community, environmental, and financial viability. In the near term Annual Contracting Plan, natural gas is the best fuel choice available to meet CHDL's energy needs.

Natural gas is the utility's most significant input cost thus management of its supply and cost are important priorities. Secure, diverse sources of natural gas are essential to the utility, as is prudent price risk management. Supply sources have been expanded to provide more competitive options and costs have been reduced, however ongoing diligent effort is required.

CHDL employs a strategy to meet the above goals that considers market conditions such as seasonal liquidity, natural gas storage and economic factors. Some hedging is considered prudent to offset the higher volatility of winter that can be experienced in BC, however we see little merit in a high percentage of supply hedging strategy. In the current market particularly, natural gas storage is above the five year average going into the gas year; shale gas is abundant and disbursed thus minimizing pipeline constraints. Economic activity in North America is also expected to continue to be weak in the near term.

CHDL looks to the BCUC for support of the utility's Annual Contracting Plan that would see under 25% of CHDL's overall supply being hedged.

Assuming LNG exports from BC are approved and operational in 2015, it is expected natural gas may experience market price pressure upward, hence some consideration will be made to firm up a portion of CHDL baseload supply needs over the next few years. A separate request for consideration will be made to the BCUC if that is the case.

CHDL has reviewed the July 12, 2011 Commission's decision with respect to FortisBC Energy 2011-2014 Price Risk Management Plan. CHDL's Annual Contracting Plan for natural gas is consistent with the direction outlined in the Commission's decision towards less hedging, as has been CHDL's practice. CHDL has found little basis for an extensive hedging strategy and although remaining open to change, request that the limited hedging strategy proposed be approved.