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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-39-15**

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

and

**FortisBC Energy Inc.
Application regarding its 2015 First Quarter Gas Cost Report
and Commodity Cost Recovery Rate Change effective April 1, 2015
for the Mainland, Vancouver Island and Whistler Service Areas**

BEFORE:

L. F. Kelsey, Commissioner
C. A. Brown, Commissioner
H. G. Harowitz, Commissioner
K. A. Keilty, Commissioner
N. E. MacMurchy, Commissioner
I. F. MacPhail, Commissioner
B. A. Magnan, Commissioner
D. M. Morton, Commissioner

March 12, 2015

O R D E R

WHEREAS:

- A. The British Columbia Utilities Commission (Commission) established guidelines for gas cost rate setting in Letter L-5-01 dated February 5, 2001, and further modified the guidelines in Letter L-40-11 dated May 19, 2011 (together the Guidelines);
- B. The gas cost setting mechanism described in the Guidelines sets rates at a level required to ensure recovery of projected gas costs and outstanding balances in the gas cost deferral account over the 12 month period following the effective date;
- C. By Order G-133-14 dated September 12, 2014, the Commission approved a decrease in the Commodity Cost Recovery Charge for sales rate classes within the FortisBC Energy Inc. (FEI) Lower Mainland, Inland and Columbia Service Areas to a rate of \$3.781/gigajoule (GJ), effective October 1, 2014;
- D. On March 5, 2015, FEI filed its 2015 First Quarter Report on Commodity Cost Reconciliation Account and Midstream Cost Reconciliation Account Quarterly Gas Costs for the Mainland, Vancouver Island and Whistler Service Areas based on a five-day average February 11, 12, 13, 17, and 18, 2015 forward gas prices (2015 First Quarter Report), and discusses two scenarios for a rate change;

- E. The first scenario (Scenario One) in the 2015 First Quarter Report forecasts that commodity cost recoveries at the existing rate will be 152.1 percent of costs for the following 12 months, which exceeds the 95 to 105 percent recovery to cost ratio threshold set out in the Guidelines;
- F. The Scenario One tested rate decrease, in relation to the forecast over recovery of gas costs using the standard rate setting mechanism set out in the Guidelines, will be a decrease of \$1.295/GJ to the Commodity Gas Recovery Charge, which falls outside the rate change threshold indicating that a change to the commodity rate is required, effective April 1, 2015;
- G. A decrease of \$1.295/GJ to the Commodity Cost Recovery Charge of \$2.486/GJ will reduce the total annual bill, including gas cost and delivery rates, for a typical Mainland residential customer with an average annual consumption of 90 gigajoules by approximately \$117 or 12.7 percent;
- H. FEI filed a second scenario (Scenario Two) in the 2015 First Quarter Report with the stated goal of reducing rate fluctuation volatility. The proposed rate decrease to forecast over recovery gas costs for the 24 months period would be \$1.019/GJ, effective April 1, 2015;
- I. FEI requests approval to flow-through, based on Scenario Two, a decrease of \$1.019/GJ to the Commodity Cost Recovery Charge from \$3.781/GJ to \$2.762/GJ effective April 1, 2015;
- J. FEI's requested rate decrease would reduce the total annual bill, including gas cost and delivery rates, for a typical Mainland residential customer with an average annual consumption of 90 gigajoules by approximately \$92 or 10.0 percent;
- K. The 2015 First Quarter Report forecast a Midstream Cost Reconciliation Account balance at existing rates of approximately \$9 million deficit after tax at December 31, 2015, and a balance of approximately \$2 million surplus after tax at December 31, 2016;
- L. The following parties filed submissions in regard to the First Quarter Report between March 5 and 10, 2015: Access Gas Services Inc., Just Energy (B.C.) Limited Partnership, Bluestream Energy Inc., Direct Energy Marketing Limited, British Columbia Old Age Pensioners' Organization *et al.*, and Commercial Energy Consumers Association of British Columbia;
- M. FEI filed a response to these submissions on March 10, 2015; and
- N. The Commission reviewed the 2015 First Quarter Report and submissions from the parties and determines that the requested rate change outlined in Scenario Two in the 2015 First Quarter Report should be denied and the rate change in Scenario One calculated in accordance with the standard rate setting mechanism set out in the Guidelines should be approved.

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NOW THEREFORE pursuant to section 61(4) of the *Utilities Commission Act*, and for the reasons attached as Appendix A, the British Columbia Utilities Commission orders as follows:

1. The requested rate decrease of \$1.019/GJ in the Commodity Cost Recovery Charge for the Mainland, Vancouver Island, and Whistler Service Areas is denied.
2. FortisBC Energy Inc. is directed to decrease the Commodity Cost Recovery Charge for the sales rate classes within the Mainland, Vancouver Island, and Whistler Service Areas by \$1.295/GJ to a rate of \$2.486/GJ, effective April 1, 2015.
3. FortisBC Energy Inc. must notify all customers that are affected by the rate change by way of a bill insert or bill message to be included with the next monthly gas billing.

DATED at the City of Vancouver, in the Province of British Columbia, this 16th day of March 2015.

BY ORDER

Original signed by:

D. Morton
Commissioner

Attachment

FortisBC Energy Inc.
Application regarding its 2015 First Quarter Gas Cost Report
and Commodity Cost Recovery Rate Change effective April 1, 2015
for the Mainland, Vancouver Island and Whistler Service Areas

REASONS FOR DECISION

1.0 BACKGROUND

FortisBC Energy Inc. (FEI) is required to report its Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) performance on a quarterly basis. The CCRA balances are reviewed and adjusted quarterly as required, whereas the MCRA balances are reviewed quarterly and adjusted annually as required.

The British Columbia Utilities Commission (Commission) guidelines for gas cost rate setting were originally established in Commission Letter L-5-01 dated February 5, 2001, and further modified in Commission Letter L-40-11 dated May 19, 2011 (together the Guidelines). The Guidelines were established in 2001 in response to high gas prices and the need to change rates more frequently than once per year to ensure significant deficits were not accumulated in gas cost deferral accounts in times of rising prices. In establishing the Guidelines in L-5-01 the Commission took into account rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process.¹

The methodology set out in the Guidelines determines a commodity rate change to recover projected gas costs and outstanding CCRA deferral account balances over a twelve month period based on forward prices for the period. The Guidelines do contemplate 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.”²

2.0 FEI REQUESTED RATE CHANGE

FEI filed its Mainland, Vancouver Island and Whistler Service Areas CCRA and MCRA Quarterly Gas Costs 2015 First Quarter Report (2015 First Quarter Report) on March 5, 2015, and in the 2015 First Quarter Report FEI presents two scenarios for determining the Commodity Cost Recovery Charge rate change to be effective April 1, 2015. The first scenario (Scenario One), based on the 12 month amortization period established in the standard rate setting mechanism established in the Guidelines, projects a rate decrease of \$1.295/GJ and the second scenario (Scenario Two), based on a 24 month amortization period, projects a rate decrease of \$1.019/GJ.

¹ Commission Letter L-5-01 dated February 5, 2001, Appendix H

² Commission Letter L-40-11 dated May 19, 2011, p. 2

FEI notes that, based on current market expectations (i.e. five-day average forward gas prices for February 11, 12, 13, 17, and 18, 2015), setting the commodity rate based on the mechanism established in the Guidelines would require a rate increase within the next twelve months while the 24 month view calculated rate change may not need adjustment until sometime after April 2016. FEI proposes that the rate be set on the basis of a 24 month period “[I]n the interest of rate stability, referring to both frequency and the size of the rate change.”³

FEI references the following language in Letter L-40-11 as providing a level of flexibility in dealing with rate change proposals:

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 current rate deferral balances and, based on the forecast costs, the appropriateness of any rate proposals over a 24-month timeframe.⁴

FEI also notes that its proposed commodity rate of \$2.762/GJ based on the 24 month view is closer to the current forecast cost of gas of \$2.770/GJ for the 12 month period from April 1, 2015 through March 31, 2016, as compared to the \$2.486/GJ commodity rate calculated based on the 12 month view established in the Guidelines.⁵

3.0 SUBMISSIONS

The following parties filed submissions with the Commission in regard to the 2015 First Quarter Report:

- Access Gas Services Inc. filed a submission dated March 5, 2015;
- Just Energy (B.C.) Limited Partnership filed a submission dated March 6, 2015;
- Bluestream Energy Inc. filed a submission dated March 9, 2015;
- Direct Energy Marketing Limited filed a submission dated March 9, 2015;
- British Columbia Old Age Pensioners’ Organization *et al.* (BCOAPO) filed a submission dated March 9, 2015; and
- Commercial Energy Consumers Association of British Columbia (CEC) filed a submission dated March 10, 2015

FEI filed a reply submission dated March 10, 2015.

The first four parties listed above are marketers participating in the Customer Choice Program (Marketers). The Marketers submit that the Commodity Cost Recovery Charge must remain reflective of current market conditions for natural gas in British Columbia and that, as the only variable rate option available to small commercial and residential consumers on the FEI system, consumers rely on the representations made by FEI

³ FEI 2015 First Quarter Gas Cost Report, p. 4

⁴ Commission Letter L-40-11, p. 2

⁵ FEI 2015 First Quarter Gas Cost Report, p. 3

that the Commodity Cost Recovery Charge rate is a flow through variable rate in order to make informed decisions when evaluating their options. All four Marketers oppose FEI adopting the 24 month view scenario.

BCOAPO and CEC support FEI's requested rate decrease. BCOAPO submits that, based on a recent poll of the client groups, rate stability is of high value and ranks second only to low rates as a priority.⁶ CEC states that the point of view of customers is generally to value rate stability and smooth transitions relative to changes in market prices. CEC also submits that "the Commission should have a process where regular customer group interveners, in FEI's regulatory processes, are provided notice of decisions affecting gas costs for customers and are provided an opportunity to participate in providing input to the Commission's decisions."⁷

FEI filed a response to the submissions of the Marketers reiterating FEI's view that a 24 month view is warranted and is consistent with the Guidelines.

4.0 COMMISSION DETERMINATION

As described in Letter L-5-01 of the Guidelines, the factors the Commission considers should be balanced in the gas cost rate setting process include rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process. As evidenced by the submissions from the parties, views vary regarding the relative importance of these factors for customers and there is not a consensus regarding the appropriate balance.

The Commission acknowledges that it retains the discretion to deviate from the mechanistic approach to quarterly gas cost rate adjustment and give consideration to "factors such as the current deferral balances, and based on the forecast costs, the appropriateness of any rate proposals over a 24 month time frame."

Based on the information presented, the Commission finds that FEI has not presented a compelling reason to depart from the standard commodity rate setting mechanism set out in the Guidelines at this time. **The requested decrease of \$1.091/GJ to the Commodity Cost Recovery Charge for the Mainland, Vancouver Island and Whistler Service Areas is denied. FEI is directed to decrease the Commodity Cost Recovery Charge for the sales rate classes within the Mainland, Vancouver Island, and Whistler Service Areas by \$1.295/GJ to a rate of \$2.486/GJ, effective April 1, 2015.**

⁶ BCOAPO submission dated March 9, 2015, p. 1

⁷ CEC submission dated March 10, 2015, p. 2