



British Columbia
Utilities Commission

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LETTER L-8-16

VIA EMAIL

electricity.regulatory.affairs@fortisbc.com

April 21, 2016

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

Dear Ms. Roy:

Re: FortisBC Inc.
2016/2017 Annual Electric Contracting Plan

On March 9, 2016, FortisBC Inc. (FBC) filed its 2016/2017 Annual Electric Contracting Plan (AECF) for the period from October 1, 2016 to September 30, 2017 (operating year) for acceptance by the British Columbia Utilities Commission (Commission).

The AECF outlines FBC's plans to meet the peak demand requirements and annual energy requirements for the 2016/2017 operating year and the near future. The major components of the FBC 2016/2017 AECF are:

- A Nomination under the Power Purchase Agreement between FBC and BC Hydro for the 2016/2017 operating year equal to 822 GWh, less any firm market contracts that FBC can enter into, pursuant to section 5 of the 2016/2017 AECF; and
- FBC's proposed plan for entering into firm market contracts for operating years 2016/2017 through 2019/2020, which includes a maximum market purchase of 219 GWh for operating year 2016/2017.

The Commission accepts the FBC 2016/2017 AECF as in the public interest.

The information in the FBC 2016/2017 AECF will be treated as confidential, as requested by FBC, as it contains commercially sensitive information. A copy of the non-confidential Executive Summary for the FBC 2016/2017 AECF is available to the public and is attached to this letter.

Yours truly,

Original signed by:

Laurel Ross

ES/cms
Enclosure

1 EXECUTIVE SUMMARY

2 INTRODUCTION

3 The purpose of the Annual Electric Contracting Plan (AECPP) is to outline FortisBC Inc.'s (FBC
4 or the Company) plan to meet the peak demand requirements and annual energy requirements
5 of the Company for the operating year commencing October 1, 2016 and ending September 30,
6 2017 (the 2016/17 operating year¹ or 2016/17). The AECPP outlines FBC's plan for portfolio
7 optimization to maximize benefits to customers. It includes a review of the market environment,
8 load forecast and available resources, provides the justification for FBC's Annual Energy
9 Nomination (PPA Nomination) under a power purchase agreement between FBC and British
10 Columbia Hydro and Power Authority (BC Hydro) (the PPA), and facilitates the required
11 separate acceptance under section 71 of the *Utilities Commission Act*² (UCA) of energy supply
12 contracts (ESCs) that have been contemplated under the AECPP.

13 The 2016/17 AECPP is similar to the previous year's plan accepted by the British Columbia
14 Utilities Commission (Commission) by Letter L-18-15 in that it has the same two major
15 components, which are updated as reflected in the Request for Commission Acceptance section
16 below.

17 OBJECTIVES OF THE FBC 2016/17 AECPP

18 Consistent with FBC's AECPP for 2015/16 as accepted by the Commission in Letter L-18-15, the
19 objectives of FBC's AECPP for 2016/17 are as follows:

- 20 1. To ensure a firm supply of resources to meet expected annual energy and peak capacity
21 requirements and to maintain an appropriate balance of:
 - 22 a. cost minimization for FBC customers through optimization of FBC resources and
23 market purchases
 - 24 b. reliability and security, to ensure that cost effective power is available when needed
25 to meet load;
 - 26 c. flexibility, to minimize the risk from changes to load forecast, generation and
27 transmission availability, wholesale power market and BC Hydro rates; and
 - 28 d. operational efficiency, in order to be able to supply load requirements while
29 maintaining contractual compliance.

¹ FBC has aligned its operating year for power supply with the PPA Contract Year because the focus of the AECPP is the PPA Nomination and the maximum market purchases associated with it.

² *Utilities Commission Act*, R.S.B.C. 1996, Chapter 473.

- 1 2. To be consistent with FBC's most recent 2012 Long-Term Resource Plan (LTRP),
2 included as part of the 2012 Integrated System Plan dated June 30, 2011, as accepted
3 by the Commission by Order G-110-12 dated August 15, 2012.

4 ***UPDATES SINCE THE 2015/16 AECP***

5 On March 18, 2015, FBC filed its 2015/16 AECP on a confidential basis with the Commission.
6 The 2015/16 AECP identified FBC's intention to make its PPA Nomination for the 2015/16
7 contract year equal to 708 GWh, less any firm market contracts that FBC could enter into, as
8 described in section 5 of the 2015/16 AECP.

9 The Commission accepted the 2015/16 AECP on April 16, 2015, by way of Letter L-18-15.

10 On June 24, 2015, FBC entered into market contracts for the winter of 2015 and the winter of
11 2016. As a result of these contracts, the Company made its PPA nomination of 690 GWh under
12 the PPA before June 30, 2015. On August 10, 2015, FBC filed an application for acceptance of
13 these ESCs between FBC and Powerex Corp. (**Powerex**) to purchase wholesale market
14 energy and the Commission accepted the ESCs by way of Order E-19-15.

15 As the Company is required to take 75 percent of its nominated energy, FBC retained
16 approximately 173 GWh (690 times 0.25) of flexibility over the 2015/16 operating year to
17 account primarily for variations in forecast load but also to allow for further optimization in
18 response to any spot market opportunities that may become available.

19 On April 2, 2015, the Waneta Expansion (**WAX**) project reached substantial completion, and the
20 WAX Capacity Purchase Agreement (**WAX CAPA**) became effective. This is consistent with
21 the assumptions in the 2015/16 AECP.

22 Following WAX substantial completion, the Residual Capacity Agreement (**RCA**) between FBC
23 and BC Hydro, which was approved by the Commission by Order G-161-14, became effective
24 on May 1, 2015. Under the RCA, FBC contracted to release a 50 MW block of capacity
25 available to FBC under the WAX CAPA to BC Hydro for a ten year period.

26 On February 17, 2015, FBC entered into the Capacity and Energy Purchase and Sale
27 Agreement (**CEPSA**) with Powerex. The CEPSA was accepted by the Commission in Order E-
28 10-15, and became effective on May 1, 2015. The CEPSA is a master agreement that sets the
29 terms and conditions for future market transactions entered into by FBC with Powerex. Under
30 the CEPSA, FBC will purchase all of its market energy requirements from Powerex, and will sell
31 to Powerex any remaining surplus capacity that may be available after meeting FBC's load
32 requirements, in each case, at market based prices. The CEPSA does not create any obligation
33 for FBC to purchase or sell any volume, nor does it modify FBC's portfolio optimization strategy
34 detailed in the 2015/16 AECP or 2016/17 AECP. The CEPSA does, however, facilitate FBC's
35 implementation of the plan. The CEPSA expires on September 30, 2018, and can be extended
36 on annual basis through September 30, 2025 upon the mutual agreement of FBC and Powerex.

1 Between December 10 and December 18, 2015, FBC entered into three ESCs with Powerex
2 under the terms of the CEPSC, for market energy in the fourth quarter of 2016 and 2017 that
3 were consistent with the 2015/16 AECP. FBC submitted these contracts for Commission
4 acceptance on February 3, 2016. The Commission accepted the ESCs by way of Order E-2-16
5 on February 26, 2016.

6 **REQUEST FOR COMMISSION APPROVAL**

7 Under the PPA, FBC is required to submit its annual PPA Nomination to BC Hydro prior to June
8 30th of each year. FBC is thus requesting the Commission's acceptance of the 2016/17 AECP
9 by May 1, 2016, in order to give FBC sufficient time to execute the plan and to enter into market
10 contracts prior to June 30th. With respect to the 2016/17 operating year and in context of the
11 AECP, the Company requests the Commission's acceptance of the following:

- 12 • A PPA Nomination for 2016/17 equal to 822 GWh, less any firm market contracts that
13 FBC can enter into pursuant to section 5 of the 2016/17 AECP; and
- 14 • FBC's proposed plan for entering into firm market contracts for operating years 2016/17
15 through 2019/20, which includes maximum market purchases of 219 GWh for operating
16 year 2016/17.

17 Consistent with the 2015/16 AECP and Letter L-18-15, FBC is requesting that the information
18 contained in the AECP, with the exception of the Executive Summary, be kept confidential
19 pursuant to Section 71(5) of the Act as the AECP contains market sensitive information. Since
20 FBC continues to operate within a competitive environment, disclosure of this information could
21 prejudice FBC's ability to obtain favourable commercial terms in future power purchasing
22 contract negotiations or renegotiation of subsequent contracts, to the detriment of customers.

23 **LOAD FORECAST**

24 In order to determine FBC's future energy and capacity requirements, FBC must first forecast
25 customer load requirements. The FBC load forecast applicable for 2016 is based on the load
26 forecast developed for FBC's Performance Based Ratemaking Plan Annual Review for 2016
27 Rates, and is provided in Table E-1 below.

28 **ENERGY ANALYSIS**

29 FBC has sufficient firm energy resources in place to meet its energy load forecast over the short
30 term (4 year period). Table E-1 below shows the FBC energy load forecast and the available
31 resources for operating years 2016/17 to 2019/20.

Table E-1: FBC Available Energy Resources Compared to Forecast Load

Yearly Energy Requirements				
(GWh)	2016/17	2017/18	2018/19	2019/20
FBC Gross Load Forecast [A]	3,557	3,584	3,604	3,615
FBC Resources				
FBC Owned Resources	1,589	1,594	1,594	1,594
Brilliant PPA	919	919	919	919
BRX	79	30	-	-
IPP and Other	4	4	4	4
Contracted Market	145	50	-	-
PPA Tranche 1	1,041	1,041	1,041	1,041
PPA Tranche 2	711	711	711	711
Total FBC Energy Resources	4,487	4,348	4,269	4,269
Total Resources Excluding PPA [B]	2,735	2,596	2,517	2,517
Incremental Energy Requirement [C]= [A]-[B]	822	987	1,087	1,098

The incremental energy requirement is the gross load forecast, less the total of FBC resources excluding the PPA. In the absence of additional market contracts, FBC would be able to supply all of its incremental energy requirements for 2016/17 from the PPA and would select a PPA Nomination of 822 GWh. If FBC is able to enter into firm market contracts or other arrangements prior to June 30, 2016 that would allow FBC to further optimize its portfolio as contemplated in this AECP, it will reduce its PPA Nomination accordingly.

FBC CAPACITY ANALYSIS

FBC has sufficient firm capacity resources in place to meet substantially all of its expected demand over the near term (4 year period). The 2016/17 AECP includes the optimization of available capacity resources within the operating year in order to maintain reliable supply to meet peak demand requirements and minimize cost to FBC customers.

FBC'S ANNUAL ELECTRIC CONTRACTING PLAN

The AECP is a robust plan that provides FBC with an operating framework in 2016/17 that will ensure a reliable and secure supply of energy while minimizing cost to FBC customers. FBC will enter into market contracts taking into account the objectives outlined above, the available resources shown in Table 1 above, and the actual market price environment. The actions that FBC takes, and the subsequent PPA Nomination that FBC submits prior to June 30, 2016, will depend on actual energy supply offers that FBC may receive, and the contracts that it is able to execute that are in accordance with this AECP. FBC will contract for market purchases and reduce the PPA Nomination if the market purchases:

- 1 i. ensure sufficient flexibility in the use of PPA energy and capacity;
- 2 ii. are at a lower total cost than if supplied from the PPA;
- 3 iii. help to reduce FBC's portfolio risk; and
- 4 iv. are required to meet FBC's forecast load.

5 Furthermore, within the operating year, FBC will continue to further optimize its portfolio of
6 energy and capacity resources to minimize cost to FBC customers.

7 *MANAGING PORTFOLIO RISK*

8 The contracting plan presented above is based on certain assumptions at the time of the filing of
9 this AECP. FBC's access to energy under the PPA remains at 1,752 GWh of energy in each
10 year, regardless of the PPA Nomination, and as such FBC has very little risk that it will not have
11 sufficient energy to meet its load. This is shown in Table 1 above. FBC's risks are mainly the
12 cost of supply which includes changes to forecast PPA rates, market price risk, currency risk,
13 load forecast changes, generation availability and transmission availability. The contracting
14 plan for the 2016/17 operating year attempts to minimize these risks by ensuring sufficient
15 flexibility in the use of PPA energy and capacity, entering into fixed price contracts to provide
16 price certainty to FBC, and managing the portfolio to address changes to load and resource
17 availability throughout the operating year in order to minimize the cost to FBC customers.

18 *CONCLUSION*

19 FBC's AECP for 2016/17 outlines FBC's load and resource balance over the next four years,
20 and FBC's plan for optimizing its portfolio over the twelve months beginning October 1, 2016.
21 The 2016/17 AECP provides FBC with an operating framework that will ensure a reliable and
22 secure supply of energy while minimizing cost to FBC customers. FBC recommends that the
23 Commission accept the 2016/17 AECP as set out in section 2.