British Columbia Utilities Commission

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Log No. 51827

LETTER L-15-16

VIA EFILE

June 17, 2016

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

Dear Ms. Roy:

Re: FortisBC Energy Inc.
2015 Price Risk Management Application

In 2001 and 2011, the British Columbia Utilities Commission (Commission) established guidelines for reviewing the quarterly gas cost reporting for FortisBC Energy Inc.'s (FEI) Commodity Cost Reconciliation Account (CCRA) and Midstream Cost Reconciliation Account (MCRA) and for setting the respective gas cost rates. These guidelines were established through public processes and are as set out in Commission Letter L-5-01 and Letter L-40-11, together referred to as the Guidelines. The Guidelines were anticipated to generally apply for other natural gas and propane utilities.

On October 20, 2014, FEI filed with the Commission the Price Risk Management Review Report. This report included recommendations by FEI for price risk management strategies to meet the primary objectives in the interests of core sales customers that purchase their commodity supply directly from FEI and a proposal of a stakeholder consultation workshop process led by FEI for the purpose of discussing issues and concerns with the goal of acquiring input and feedback regarding proposed price risk management strategies and plans. On October 27, 2015, FEI filed with the Commission the Price Risk Management Workshop Summary Report, which included background information and a summary of the discussions in the stakeholder consultation workshop process that took place during the first half of 2015.

On December 23, 2015, FEI filed with the Commission the 2015 Price Risk Management Application (Application), which includes requests for approval to implement enhancements to the Guidelines regarding FEI's CCRA deferral account and the Commodity Cost Recovery Charge (CCRC) for FEI's Mainland, Vancouver Island and Whistler Service Areas. These requested approvals are referred to as the Scope A portion of the

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Application. Specifically, FEI requests approval to implement a revision to the FEI commodity rate setting mechanism to add a maximum commodity rate change limit of $1.00 per GJ (increase or decrease), and to incorporate criteria to assist in determining when consideration is to be given to the appropriateness of commodity rate proposals for a 24-month outlook.

The Commission has considered the proposed changes to the Guidelines and agrees that the changes will improve the quarterly reporting process for the FEI CCRA deferral account and the CCRC for FEI's Mainland, Vancouver Island and Whistler Service Areas for the reasons presented by FEI. Therefore, the Commission approves the following revisions to the Guidelines set out in Letters L-5-01 and in L-40-11 as they apply to FEI's CCRA and CCRC.

<u>Commodity rate change cap</u>

The Commission approves FEI's proposal to implement a commodity rate change cap of +/- $1.00 as an enhancement to the Commission's Guidelines with the following two provisions that will apply with respect to the FEI CCRA rate and the CCRA deferral account:

- The $1.00/GJ cap is restricted for use in two consecutive quarterly review periods where the rate change has been in the same direction. The cap cannot be applied for the third quarter once it has been applied for the preceding two quarters.
- A requirement for use of the $1.00/GJ cap is that the CCRA deferral account does not exceed the plus or minus maximum of $60 million after tax.

<u>Criteria for clarification of when consideration is to be given to commodity rate proposals beyond standard 12 month outlook</u>

The Commission approves FEI's proposed three criteria to assist the Commission when considering commodity rate change proposals using timeframes of 24 months rather than the standard 12-month prospective period with the proviso that all of the criteria are met. The approved criteria are as follows:

- When a commodity rate change is indicated using a standard 12-month prospective period;
- When there is a difference of $0.75/GJ or more between the average CCRA weighted average cost of gas (WACOG) for year one versus year two of the 24-month prospective period; and
- When the direction of the commodity rate change indicated using a standard 12-month prospective period is opposite to the direction of the CCRA WACOG for year two compared to the CCRA WACOG for year one.

The Commission accepts that the purpose of adding these criteria is to provide clarity as to those circumstances where it may be appropriate for the Commission to consider rate changes utilizing a 24-month outlook. These criteria are being added for greater regulatory efficiency and in no way are intended to bind future Commission panels by fettering their discretion.

Applicability to other FEI service areas and other natural gas and propane utilities

The Guidelines, as revised by this Letter, will apply specifically for FEI's quarterly natural gas cost reports for the CCRA and the CCRC for FEI's Mainland, Vancouver Island and Whistler service areas from the date of this letter. The Commission accepts that these revisions may not be applicable for FEI's propane operations in Revelstoke and natural gas operations in the Fort Nelson service area and other natural gas and propane utilities.

FEI may come forward at a later date with a proposal to also apply some or all of the elements of the revised Guidelines to Revelstoke and Fort Nelson. Other gas and propane utilities may also apply for application of these Guideline revisions to the extent practicable when filing their gas cost reports and commodity rate change applications.

Yours truly,

Original signed by
Laura Sharpe on behalf of:

Laurel Ross

CM/yl
cc: Registered Interveners