



**ORDER NUMBER  
G-225-19**

IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.  
Application for Approval of Tariff Changes to Rate Schedule 46 – Liquefied  
Natural Gas Sales, Dispensing and Transportation Service on a Permanent  
Basis, Effective April 1, 2019 and May 1, 2019

**BEFORE:**

B. A. Magnan, Commissioner

on September 16, 2019

**ORDER**

**WHEREAS:**

- A. On March 21, 2019, FortisBC Energy Inc. (FEI) submitted an application with the British Columbia Utilities Commission (BCUC) seeking approval, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA), for tariff changes to Rate Schedule 46 (RS 46) on a permanent basis effective April 1, 2019 (March 2019 Application);
- B. By Order G-233-18 dated December 7, 2018, the BCUC approved temporary tariff changes to the RS 46 tariff;
- C. On April 17, 2019, FEI submitted a subsequent application with the BCUC seeking approval, pursuant to sections 59 to 61 and 89 of the UCA, for amendments to the RS 46 tariff on an interim and permanent basis and amendments to FEI's General Terms and Conditions on a permanent basis, effective May 1, 2019 (April 2019 Application);
- D. In the interest of regulatory efficiency, by Order G-95-19 dated April 30, 2019, the BCUC established a regulatory timetable for review of both March 2019 and April 2019 Applications;
- E. By Order G-140-19 dated June 24, 2019, the BCUC accepted for filing the tariff pages attached as Appendix B to the March 2019 Application, making permanent the temporary tariff changes approved by Order G-233-18;
- F. By Order G-141-19 dated June 24, 2019, the BCUC amended the regulatory timetable established by Order G-95-19 to continue the review of the April 2019 Application, which included a workshop that was held on July 16, 2019, submissions on further process and further process to be determined;
- G. On July 24, 2019, pursuant to Order G-141-19, parties provided submissions on further process;

- H. By Order G-166-19 dated July 25, 2019, the BCUC amended the regulatory timetable as established by Order G-141-19, to include FEI's evidentiary update, submissions on FEI's evidentiary update and FEI written reply;
- I. By letter dated August 2, 2019, British Columbia Ferry Services Inc. requested an extension to file submissions on FEI's evidentiary update;
- J. On July 30, 2019, pursuant to order G-166-19, FEI filed with the BCUC an evidentiary update which included revised RS 46 tariff pages;
- K. By Order G-186-19 August 6, 2019, the BCUC amended the regulatory timetable as established by Order G-166-19; and
- L. The BCUC has reviewed the April 2019 Application and considers approval to be warranted.

**NOW THEREFORE** pursuant to sections 59 to 61 of the UCA and for reasons attached as Appendix A to this order, the BCUC orders as follows:

1. The amendments to RS 46 and FEI's General Terms and Conditions, as set out in the April 2019 Application and Evidentiary Update, are approved on a permanent basis, effective May 1, 2019.
2. FEI is to file the revised tariff pages in accordance with the proposed amendments, as set out in the April 2019 Application and Evidentiary Update, with the BCUC within 30 days of the date of this order.
3. FEI is to file a summary report providing an assessment of the RS 46 tariff amendment outcomes, including any feedback and comments received from RS 46 customers, no later than twelve months from the date of this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 16<sup>th</sup> day of September 2019.

BY ORDER

*Original signed by:*

B. A. Magnan  
Commissioner

Attachment

FortisBC Energy Inc.  
Application for Approval of Tariff Changes to Rate Schedule 46 – Liquefied  
Natural Gas Sales, Dispensing and Transportation Service on a Permanent  
Basis, Effective April 1, 2019 and May 1, 2019

## **REASONS FOR DECISION**

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### **1.0 Introduction**

#### **1.1 Application and Approvals Sought**

On April 17, 2019, pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA), FortisBC Energy Inc. (FEI) filed with the British Columbia Utilities Commission (BCUC) an application for approval of amendments to Rate Schedule (RS) 46 and FEI's General Terms and Conditions (GT&Cs) effective May 1, 2019 (April 2019 Application).

In the April 2019 Application, FEI sought to make the following amendments to RS 46 and FEI's GT&Cs:

- Change the structure of the commodity rate in RS 46 from a market-based index to the structure of the commodity-related charges applicable to all of FEI's other sales service customers that are served under bundled rate schedules, on an interim and permanent basis, with interim rates to be effective May 1, 2019; and
- Make the following housekeeping amendments regarding Biomethane service on a permanent basis effective May 1, 2019:
  - Amendments to RS 46 related to the calculation of the Biomethane rate for customers who elect Biomethane as part of their commodity option; and
  - Amendments to the GT&Cs to reflect the availability of Biomethane for RS 46.

#### **1.2 Regulatory Process**

On March 21, 2019, pursuant to sections 59 to 61 of the UCA, FEI filed an application with the BCUC seeking approval to make permanent temporary tariff changes, approved by Order G-233-18 dated December 7, 2018, to RS 46 Section 5.2 (Curtailed Dispensing Service) and Section 5.4 (Title Transfer) effective April 1, 2019 (March 2019 Application).

In the interest of regulatory efficiency, by Order G-95-19 dated April 30, 2019, the BCUC approved the RS 46 rate proposed FEI's April 2019 Application on an interim and refundable basis and established a regulatory timetable for review of both the March 2019 Application and the April 2019 Application, which consisted of:

- FEI notice to all RS 46 customers;
- One round of BCUC information requests (IR);
- FEI responses to BCUC IR;
- Letters of Comment;

- FEI response to Letters of Comment; and
- Further Process to be determined.

By May 23, 2019, pursuant to Order G-95-19, Ledcor Forest Products Partnership (Ledcor), Seaspán Ferries Corporation (Seaspán) and British Columbia Ferry Services Inc. (BC Ferries) had provided letters of comments, with neither Ledcor, Seaspán nor BC Ferries objecting to FEI's request to make permanent the temporary changes to RS 46 contemplated in the March 2019 Application. On May 30, 2019, FEI provided response to letters of comment, making no further submissions on the approvals sought in the March 2019 Application.

By Order G-140-19 dated June 24, 2019, the BCUC accepted for filing the tariff pages attached as Appendix B to the March 2019 Application, effective April 1, 2019.

By Order G-141-19 dated June 24, 2019, the BCUC amended the regulatory timetable as established by Order G-95-19 to continue the review process for the April 2019 Application, including:

- A procedural workshop;
- Submissions on further process; and
- Further process to be determined.

The procedural workshop provided the opportunity for FEI to present on the RS46 proposal and for the parties to ask for any clarifications and to provide input on further review process.

On July 24, 2019, pursuant to Order G-141-19, FEI filed its submission on further process proposing to file an evidentiary update, RS 46 customers to submit letters of comments and FEI to file reply comment. FEI further proposed a one-time extension to the date by which eligible customers can elect the transportation option, from August 31 to September 30, assuming the Application is approved.<sup>1</sup>

By Order G-166-19 dated July 25, 2019, the BCUC amended the regulatory timetable as established by Order G-141-19 establishing the remaining regulatory timetable, including FEI filing evidentiary update, submissions on FEI evidentiary update and FEI written reply comments.

## **2.0 April 2019 Application**

Since 2013, FEI has offered the Liquefied Natural Gas (LNG) sales, dispensing and transportation service under RS 46. In 2019, FEI provided service to 25 customers, with aggregate volumes of 1,264,398 gigajoules (GJ) per year<sup>2</sup>. Since inception, the LNG commodity rate in RS 46 has been set on a market-based index at the Huntington/Sumas market hub. The commodity rate for RS 46 is based on the Sumas Monthly Index Price plus the Market factor<sup>3</sup>. The Sumas Monthly Index Price is set by Platts and based on the transaction data collected for the last five business days of a month, known as bidweek, which includes prevailing regional market conditions such as weather, inventory levels and pipeline operational issues.

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<sup>1</sup> Exhibit B-7.

<sup>2</sup> Exhibit B-3, BCUC IR 1.1, p. 2.

<sup>3</sup> The charge that is the premium above the Sumas Monthly Index that is calculated by FortisBC Energy for that Month to cover costs related to securing incremental natural gas supply for that Month, including market premiums levied by suppliers for ensuring physical delivery of natural gas and any demand charges related to incremental physical purchases and contribution to the reservation fees and variable costs of core assets which may be used during that Month.

FEI submits that setting the RS 46 commodity rate based on a market-based index was based on the operational similarities between RS 46 customers and FEI's industrial customers, many of whom take service under FEI's transportation service rate schedules. Transportation customers choose this service because they are businesses that are commodity price-driven, have operational flexibility and have the ability and expertise to procure and manage their natural gas commodity supply themselves or through a gas marketer. FEI states that industrial customers who do not wish to manage their own commodity supply can choose to take sales service from FEI's bundled sales service option applicable to their demand profile, whereby FEI manages the customers commodity supply and costs. Currently, RS 46 customers do not have this option.

FEI notes that RS 46 customers differ from industrial and large commercial customers in that RS 46 customers typically do not have the ability to manage their commodity use by altering production or processes. For RS 46 customers, switching to alternative fuels has cost, operational, maintenance and environmental considerations and RS 46 customers typically do not have the operational flexibility to reduce, delay or stop service if fuel costs increase as their businesses require them to provide continuous service to their customers.<sup>4</sup>

## **2.1     Huntington/Sumas Price Volatility**

FEI states that the majority of the supply at the Huntington/Sumas market hub is delivered by the Westcoast Energy Inc. (WEI) Enbridge T-South system. The reliance on T-South, combined with regional market conditions, can result in the Sumas price significantly exceeding other market hubs, such as AECO/NIT and Station 2. This typically occurs over a short-term period, when regional demand in the Pacific North West (PNW) exceeds the delivery capacity at Huntingdon. FEI states that this volatility risk was one of the main reasons why FEI moved away from purchasing Huntingdon supply in its 2013/14 Annual Contracting Plan.<sup>5</sup>

On October 9, 2018, Enbridge experienced a rupture on its T-South System 13.5 km north of Prince George, BC. As a result of the rupture, Enbridge reduced the operating pressure on the remainder of its T-South system which remains at 85 percent pursuant to NEB order NB-001-2018, and the ongoing capacity restrictions have resulted in sustained Sumas price volatility. FEI states that after the T-South incident, the Sumas Monthly Index Price spiked to 6 times the pre-incident price in November and to an all-time high of 8 times the pre-incident price in December.

FEI states that the Sumas price volatility was further exacerbated by integrity maintenance and inspection on the T-South system, low levels of inventory and operational issues at storage facilities and record cold weather in February in the PNW, which resulted in increased demand for natural gas on FEI's system and throughout the PNW to serve natural gas customers as well as to serve the increase in demand for natural gas to generate electricity for heating.

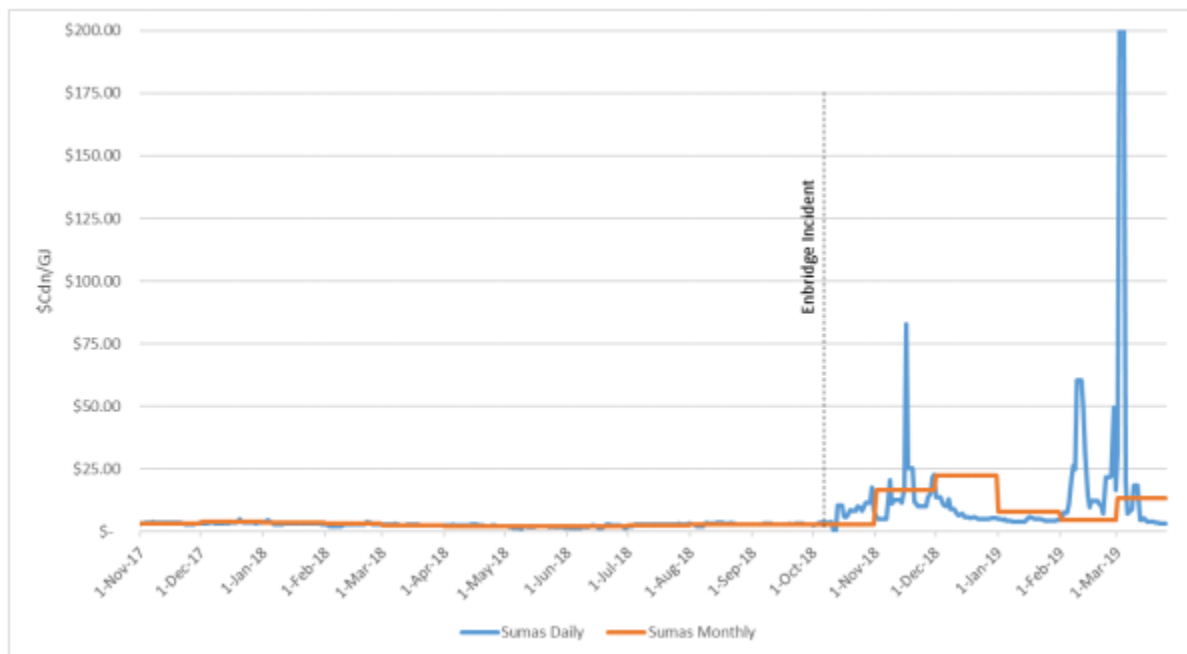
FEI notes that prior to the Enbridge incident, both the Sumas Daily and Monthly Index Price were relatively stable, and while influenced by daily index, the Sumas Monthly Index Price smoothed out some of the extreme volatility, as illustrated in Figure 1 below:

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<sup>4</sup> Exhibit B-2, p. 3.

<sup>5</sup> Exhibit B-3, p. 10.

**Figure 1: Sumas Daily and Monthly Index Prices<sup>6</sup>**



FEI submits that it expects the price volatility in the Sumas market to continue due to the constrained regional infrastructure and the uncertainty over when and/or if the T-South operating pressure returns to normal. In addition, FEI state that this uncertainty resulted in FEI securing Sumas Monthly Index Priced physical supply in the 2018/19 Annual Contracting Plan (ACP), and FEI has sought approval to continue to purchase some Sumas supply in the 2019/20 ACP.<sup>7</sup> FEI further states that even in the event T-South is able to operate at normal operating pressure, Sumas volatility could continue due to limited regional pipeline capacity and as new demand is introduced into the PNW.

FEI submits that until the Enbridge rupture and the resulting increase in the Sumas price, neither FEI nor its RS 46 customers requested review of the commodity pricing mechanism in RS 46.<sup>8</sup> However, given the higher and volatile price subsequently observed at Sumas, RS 46 customers have raised significant concerns regarding the financial impact to their operations from exposure to the commodity cost volatility.

FEI notes that setting the RS 46 commodity rate to the Sumas Monthly Index Price allowed customers to hedge through a marketer or counterparty, allowing them to lock into a fixed price. However, FEI understands that few, if any, RS 46 customers choose to manage the commodity risk in this way.

### 3.0 FEI's Proposed Amendment to the RS 46 Commodity Rate

In the April 2019 Application, FEI proposed amending the RS 46 commodity rate to align with the commodity-related charges in FEI's bundled sales service rate schedules (Rate Schedules 1 to 7), to replace the market-based commodity pricing with commodity pricing components including cost of gas, storage and transportation costs and applicable rate riders.<sup>9</sup>

<sup>6</sup> Exhibit B-2, p. 6.

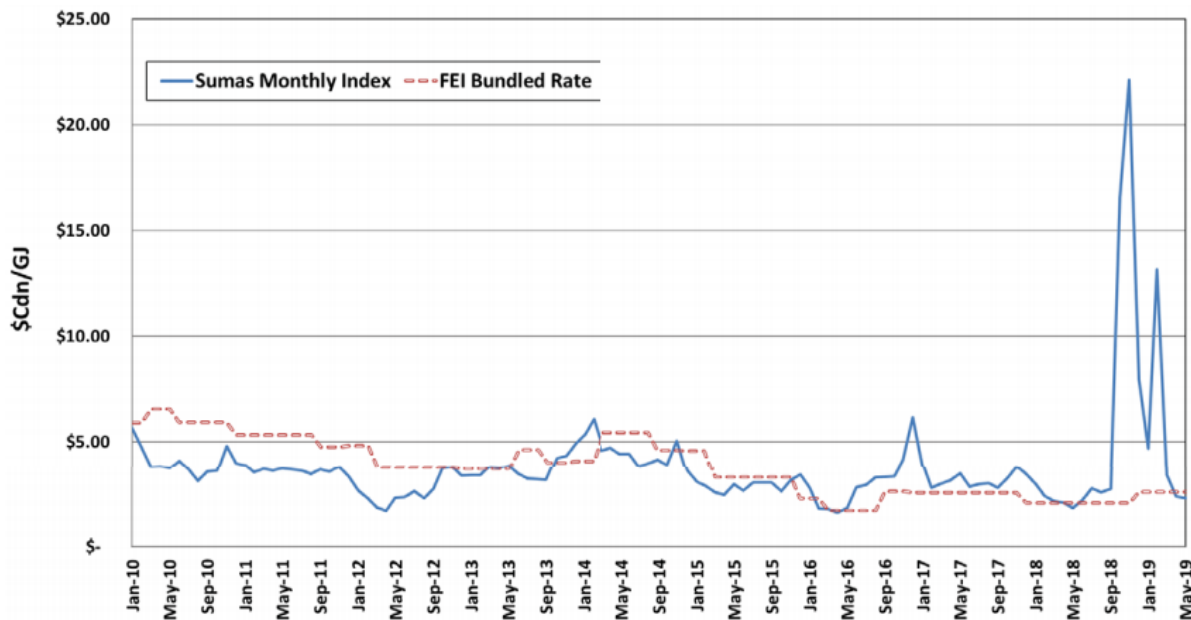
<sup>7</sup> Exhibit B-3, BCUC IR 1.4, pp. 3–4.

<sup>8</sup> Ibid., BCUC IR 1.5, pp. 5–6.

<sup>9</sup> Exhibit B-2, p. 7.

FEI submits that the proposed amendments align with the bundled sales service and the expectation and requirements of RS 46 customers for continuous, firm service. The FEI-managed commodity charges are a more accurate reflection of how FEI purchases commodity supply for RS 46 through the Annual Contracting Plan, which, under normal market conditions does not include Sumas supply<sup>10</sup> since commodity is purchased at the Station 2 and AECO/NIT market hubs on a 75%/25% split.<sup>11</sup> Further, FEI submits using commodity related charges based on FEI's bundled rate will stabilize commodity costs for RS 46 customers and address customers' concerns regarding Sumas pricing and volatility,<sup>12</sup> as shown in Figure 2:

**Figure 2: FEI Bundled Rate vs. Sumas Monthly Index Price**



FEI performed a review of the characteristics of customer classes and the demand profiles of FEI's bundled sales service rate schedules (Rate Schedules 1 to 7). While the commodity rate for all rate schedules is the same, the storage and transport costs vary. Considering the demand profile, customer type and service required, FEI submits that the aggregate demand profile of RS 46 customers is most similar to that of RS 5 – General Firm Service customers who are typically larger commercial customers or small industrial customers.<sup>13</sup>

FEI states that while RS 46 customers can elect for transportation/marketer service, the volume threshold under RS 46 required for a customer to elect to procure their gas commodity on their own or through a marketer is 5,000 GJ/day or 1,825,00 GJ/yr and no customer currently meets this threshold.<sup>14</sup>

<sup>10</sup> Exhibit B-3, BCUC IR 1.4, pp. 3–4.

<sup>11</sup> Exhibit B-5, p. 7.

<sup>12</sup> Exhibit B-2, p. 7.

<sup>13</sup> Exhibit B-3, BCUC IR 3.1, p. 18.

<sup>14</sup> Exhibit B-5, p. 18.

### *Position of Parties*

Vedder Transport Ltd. states it is in favour of the amendment to encompass RS 46 customers under classification of RS 5 as the solution creates stability in commodity prices for transportation users and their end customers.<sup>15</sup>

Ledcor provides written support to FEI's request to amend RS 46 to enable a bundled FEI-managed commodity option and states FEI's request should be adopted. Ledcor states that with the spikes in LNG pricing and inability to switch to alternative fuels or increase customer rates and/or curtail their business, Ledcor considered shutting down and selling their LNG assets.<sup>16</sup>

In its submission dated May 23, 2019, Seaspan states that it supports FEI's April 2019 Application to provide access to FEI's commodity services, subject to:

- (i) Remedying the self-supply threshold issue; Seaspan states that the April 2019 Application proposes RS 5 commodity price treatment for RS 46 customers but given the opt-out threshold volume of 1,825,000 GJ/yr, no customer can, or is likely ever able to take advantage of this option and opt-out of exposure to the high Sumas Index price;
- (ii) Retaining Sumas index-based pricing as an option; Seaspan further states that it supports customers having the option to retain the commodity pricing indexed to Sumas because this was selected in part, to facilitate financial hedging and customers may prefer to keep the status-quo assuming the customer is above a standard volume threshold, for example 6,000 GJ/yr for RS 25; and
- (iii) A direction for FEI to report back to the BCUC at the sooner of the next RS 46 tariff application, or 24 months, to provide additional information concerning the storage costs allocated to RS 46; Seaspan notes that FEI proposes to charge the same storage costs embedded in RS 5 to RS 46, but RS 5 demand has different characteristics than RS 46 and FEI relies on storage to manage RS 5 demand in a way that it does not for RS 46.<sup>17</sup>

In its Letter of Comment, BC Ferries stated that it recognizes the impact of volatility of prices at the Sumas-Huntingdon hub and supports efforts to mitigate the effects of volatility on RS 46 customers. BC Ferries also sought clarifications on a number of topics related to the proposed RS 46 structure. FEI provided BC Ferries with the required information in its written reply submission, dated August 23, 2019.<sup>18</sup>

### **3.1 FEI's Response to Submissions**

#### *Transportation Option & Self Supply Threshold*

FEI submits that it is not opposed to considering an adjustment to reduce the volume threshold which would allow more customers to elect to supply their own commodity or through a marketer as is done with FEI's Transportation rate.<sup>19</sup>

FEI suggests that a reasonable threshold would be 182,500 GJ/yr or 500 GJ/day, which equals approximately one LNG tanker every 2 days, as a 10,000-gallon LNG tanker typically holds 1,000 GJs of LNG.<sup>20</sup> Further, FEI states that terms and conditions of service will need to be established for RS 46 customers selecting

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<sup>15</sup> Exhibit B-3, Attachment 5.2.1.

<sup>16</sup> Exhibit E-1

<sup>17</sup> Exhibit E-2

<sup>18</sup> Exhibit B-8

<sup>19</sup> Exhibit B-3, BCUC IR 3.6, pp. 22–23.

<sup>20</sup> Exhibit B-4, p. 2.



transportation/marketer service and FEI would require an annual election from customers electing this service 60 days prior to the start of the gas winter, which begins November 1.<sup>21</sup>

### *Retaining Sumas Price Index*

FEI states that the primary purpose of the amendment to the RS 46 commodity rate was to address volatility and price exposure to market-based index pricing. FEI states that while it is possible to propose amendments to the RS 46 tariff to allow both options for commodity pricing, customers would be required to elect one tariff option or the other for the subsequent gas year. Further, all of FEI's rate schedules only have one commodity option, and alternative commodity options would incur additional costs associated with development and implementation of changes FEI's customer information and billing systems. FEI states that the most reasonable solution would be to reduce the volume threshold to elect the transportation service option.<sup>22</sup>

### *RS 46 Reporting*

FEI states that it uses Storage and Transport resources to manage its entire gas commodity portfolio throughout the gas year for all customers, including RS 46 customers. Therefore, as proposed by FEI, at this time it is appropriate for RS 46 to be allocated and pay the same level of Storage and Transport costs as RS 5 customers. FEI states that it reports Storage and Transport costs to the BCUC on a quarterly and annual basis and that these costs do not include any costs related to Tilbury LNG facilities, and as such, additional reporting on storage is not necessary.

FEI states that an assessment of the continuing appropriateness for RS 46 of the RS 5 Storage and Transport Charge can be included in a future rate design process or at some future time when the volumes at Tilbury are fully contracted.<sup>23</sup>

## **3.2 Evidentiary Update**

On July 30, 2019, FEI filed with the BCUC the evidentiary update, proposing the reduced contract demand threshold of 182,500 GJ/yr and the revised RS 46 tariff which included, among other things, terms and conditions related to the commodity changes and the transportation service option.

Subsequent to the evidentiary update, in their submission dated August 15, 2019, Seaspan provided support for approving the revised terms and conditions of RS 46 and stated that Seaspan would appreciate an opportunity in writing to assess whether the new general terms and conditions have functioned as intended in approximately 12 months' time, to ensure that the proposed changes are delivering the desired outcomes to all RS 46 customers.<sup>24</sup>

In its reply comments, FEI states it has no objection to Seaspan's request for an opportunity to file a written submission to assess whether the tariff amendments are delivering the desired outcomes for RS 46 customers.<sup>25</sup>

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<sup>21</sup> Transcript Volume 1, pp. 28–31.

<sup>22</sup> Exhibit B-4, p. 3.

<sup>23</sup> Exhibit B-4, pp. 3–4.

<sup>24</sup> Exhibit E-2-2

<sup>25</sup> Exhibit B-8

### *BCUC Determination*

The Panel notes that FEI's proposed amendment to the commodity rate in RS 46 is in response to the increased volatility observed at the Sumas market hub and addresses the significant concerns RS 46 customers have raised regarding the financial impact to their operations from exposure to the Sumas Index.

The Panel further notes that the proposal aligns the RS 46 commodity rate with that of other FEI rate schedules, more accurately reflects how FEI procure and manage commodity supply pursuant to the ACP and has the support from all interested parties that participated in this proceeding.

The Panel observes that the reduction in the threshold volume to 182,500 GJ/yr provides RS 46 customers with the option to take transportation service from FEI and for RS 46 customers to manage their supply independently or through a gas marketer.

In addition, as noted in section 3.2, RS 46 customers are seeking an opportunity to assess in writing whether the new general terms and conditions have functioned as intended and to ensure the proposed tariff changes are delivering the desired outcomes. The Panel notes that FEI has no objections to this request.

In consideration of the above, **the amendments to RS 46 and FEI's General Terms and Conditions, as set out in the April 2019 Application and Evidentiary Update, are approved on a permanent basis, effective May 1, 2019. The Panel directs FEI to file the revised tariff pages in accordance with the proposed amendments as set out in the April 2019 Application and Evidentiary Update with the BCUC within 30 days of the date of this order. The Panel directs FEI to file a summary report providing an assessment of the RS 46 tariff amendment outcomes, including any feedback and comments received from RS 46 customers, no later than twelve months from the date of this order.**