



ORDER NUMBER
G-133-17

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

and

FortisBC Energy Inc.
2017 Price Risk Management Plan

BEFORE:

H. G. Harowitz, Commissioner/Panel Chair
D. J. Enns, Commissioner
B. A. Magnan, Commissioner

On August 25, 2017

ORDER

WHEREAS:

- A. On June 13, 2017, FortisBC Energy Inc. (FEI) filed for approval, the 2017 Price Risk Management Plan (2017 PRMP or Application);
- B. In the Application, FEI requests the following:
 - 1. Extend the term and adjust hedging price targets for the medium term fixed-price hedging strategy approved by the Commission via Order E-10-16. FEI proposes a one-year extension to October 2020 and seasonal (summer and winter) price targets;
 - 2. A longer term fixed-price hedging strategy that includes hedges with terms of up to five years based on pre-defined market price targets. The hedging horizon would end in 2023; and
 - 3. That the Application be held confidential on the basis that it could impair FEI's ability to negotiate and obtain favorable commercial terms for any future natural gas hedging;
- C. On July 12, 2011, the Commission issued Order G-120-11 and accompanying Decision pursuant to the FEI and FortisBC Energy (Vancouver Island) Inc. 2011–2014 Price Risk Management Plan Application (2011–14 PRM Decision). The commission denied the request to implement a hedging program with the exception of the Sumas/AECO Basis Swaps element;
- D. On October 20, 2014, FEI filed with the Commission, the Price Risk Management Review Report (PRM Review Report). The PRM Review Report included recommendations by FEI for price risk management strategies meeting FEI's stated primary objectives of
 - 1. mitigating market price volatility to support rate stability, and

2. capturing opportunities to provide customers with more affordable and competitive rates for core sales customers that purchase their commodity supply directly from FEI.

FEI conducted the proposed Consultation Process during the first half of 2015 and on October 27, 2015, filed with the Commission the Price Risk Management Workshop Summary Report, which includes background information and a summary of the discussions during the Consultation Process;

- E. On December 23, 2015, FEI filed with the Commission, the 2015 Price Risk Management Application (2015 PRM Application), which included recommendations by FEI for price risk management strategies, which included the request for approval for the implementation of a medium-term hedging strategy based on pre-defined market price targets and maximum volume limits;
- F. On June 17, 2016, the Commission, by Orders E-10-16 and L-15-16, approved the 2015 PRM Application, which included, the medium-term hedging strategy based on the pre-defined price targets and maximum hedging percentages as defined within Section 2 of the 2015 PRM Application. The Commission denied the extension of the hedging program beyond March 31, 2019 (PRM Decision);
- G. On February 21, 2017, FEI filed a letter with the Commission, seeking clarification of Order E-10-16. FEI sought clarification that the implementation plan is to be rolled over each year during the hedging horizon and that there would no longer be a year three as the extension of the hedging horizon beyond approved timelines was denied in the Commission's 2015 PRM Application decision;
- H. On February 28, 2017 the Commission confirmed FEI's interpretation of the hedging implementation;
- I. On April 27, 2017, FEI filed the Price Risk Management 2017 Annual Report (Annual Report), which discusses the outcomes to date of the implemented tools and included recommendations for enhancing the hedging strategies discussed in FEI's 2015 PRM Application that were approved by the Commission under Order E-10-16; and
- J. The Commission has considered the nature of the approvals requested and finds that a hearing to review the Application is warranted.

NOW THEREFORE for the reasons attached as Appendix A to this order, the British Columbia Utilities Commission orders as follows.

1. A regulatory timetable as set out in Appendix B to this order is established for the review of 2017 Price Risk Management Plan.
2. FEI is to provide a copy of this order to all registered interveners in the FEI 2015 Price Risk Management Application, participants in the 2015 price risk management consultation process, licensed gas marketers in the FEI Customer Choice program, Commission-regulated natural gas and propane utilities, and FortisBC Energy Inc. Annual Review for 2017 Delivery Rates Application and participants in the 2015 price risk management consultation process.
3. Parties are invited to make submissions on the proposed scope of the proceeding and on the preferred review process. Persons who wish to participate in the regulatory proceeding are to complete and submit a Request to Intervene Form as set out in the Commission's Rules of Practice and Procedure attached to Order G-1-16 by Monday, September 11, 2017.

4. The Commission considers FEI's request for confidential treatment of the Application as reasonably necessary to protect future negotiations. The Commission will hold the Application confidential. Any requests for access to confidential material must be made in accordance with the Commission's Rules of Practice and Procedure.

DATED at the City of Vancouver, in the Province of British Columbia, this 25th day of August 2017.

BY ORDER

Original signed by:

H. G. Harowitz
Commissioner

Attachment

FortisBC Energy Inc.
2017 Price Risk Management Plan

REASONS FOR DECISION

1.0 Background

1.1 Application

On June 13, 2017, FortisBC Energy Inc. (FEI) filed with the Commission for approval, the 2017 Price Risk Management Plan (2017 PRMP or Application). In the Application FEI requests the following:

1. Extend the term and adjust hedging price targets for the medium term fixed-price hedging strategy approved by the Commission via Order E-10-16. FEI proposes a one-year extension to October 2020 and seasonal (summer and winter) price targets.¹
2. Longer term fixed-price hedging strategy that includes hedges with terms of up to five years based on pre-defined market price targets. The hedging horizon would end in 2023.²

In the Application, FEI notes: “The objectives of 2015 PRMP continue to be applicable in this 2017 PRMP”³.

2.0 Previous Decisions

On July 22, 2010, the Commission, by Orders E-23-10 and E-24-10, denied the 2010 Price Risk Management Plans (PRMPs) submitted by FEI and FortisBC Energy (Vancouver Island) Inc. (FEVI) respectively. FEI and FEVI were directed to conduct a review of the PRMP’s primary objectives in the context of the *Clean Energy Act* and increased domestic natural gas supply in consultation with Commission staff. FEI subsequently filed its Price Risk Management Plan Effective April 2011-October 2014 (2011 PRMP) for approval of the objectives and key elements of the 2011 PRMP, including measures for programmatic, defensive, and value hedging as well as basis swaps to hedge price exposure at the Sumas trading hub.

On July 12, 2011, the Commission denied the 2011 PRMP request to implement a hedging program with the exception of the Sumas/AECO basis swaps element. With regard to the objectives, the Commission determined that moderation of volatility of natural gas prices to stabilize customer rates is a reasonable goal for FEI to pursue, but rejected the notion that it necessarily follows that the 2011 PRMP was the most cost-effective approach or solution⁴. With regard to the objective related to the competitiveness of natural gas with other energy sources, the Commission determined that the need had not been established.⁵

On December 23, 2015, FEI filed the 2015 Price Risk Management Application (2015 PRM Application). FEI requested approval for (i) enhancements to the quarterly commodity rate setting mechanism (rate setting mechanism) and (ii) a medium-term hedging strategy for FEI based on pre-defined market price targets and maximum volume limits (medium-term hedging strategy). BCOAPO and CEC participated in the 2015 PRMP as interveners.

¹ Exhibit B-1, Application, p. 6.

² Ibid., pp. 7-9.

³ Ibid., p 1.

⁴ FortisBC Energy Inc. and FortisBC Energy (Vancouver) Inc., Application of the Price Risk Management Plan Effective April 2011-October 2014, Order G-120-11, Appendix A - Reasons for Decision, p. 22.

⁵ Ibid., p. 5.

By Order E-10-16, Letter L-15-16 and accompanying Decision dated June 17, 2016, the Commission approved the (i) rate setting mechanism. Regarding (ii) medium-term hedging strategy, the Commission determined that it is in the public interest to approve a medium-term three-year hedging strategy as proposed by FEI in the 2015 PRMP and approved the price targets which will apply to each winter or summer term or one-year term within the three-year horizon of April 2016 to March 2019.

The Panel denied extension of the hedging program beyond March 31, 2019. The Panel provided the following rationale and comments:

- The Panel’s approval considered the low-price commodity environment in which the application was made and questioned whether similar hedging programs would be as effective should prices rise.
- The Panel was reluctant to consider extension of this program beyond the three-year horizon contemplated in the 2015 PRMP.
- The Panel’s concern with extending the program beyond three years is not whether capturing hedging opportunities is appropriate in the current environment, but whether it is appropriate to apply a similar methodology in a higher pricing environment than exists today.

Further, the Panel stated that “the Panel was of the view that if FEI wishes to make any change to the term, the price targets or the methodology as outlined in its application, it must do so by a formal application.”⁶ The medium-term strategy approved under the 2015 PRMP continues to exist until October 2019.

3.0 Panel Discussion and Determination

For reasons set out below, the Panel is seeking comments from parties on the appropriate scope and process for reviewing this Application.

On April 27, 2017, FEI filed its Price Risk Management Annual Report (2017 Annual Report), in which it notes: “At this point in time, it is difficult to properly assess the effectiveness of the hedging program given that a relatively small percentage of hedging has been implemented and for only two summer terms. FEI suggests that more time is required to assess the effectiveness and impact on rates...”⁷

On June 17, 2016, the Commission, by Orders E-10-16 and L-15-16, denied the extension of the hedging program beyond March 31, 2019 (PRM Decision). The Decision stated “the Panel’s decision to approve the three-year hedging strategy is made with consideration to the low-price commodity environment which exists at this point in time.....[The Panel]...are reluctant to consider extension of this program beyond the three-year horizon contemplated in the Application. In our view a three-year horizon is a reasonable timeframe to properly assess the approved hedging program.”⁸

The Commission further stated: “FEI has stated the goal of price risk management is not to beat the market and clearly points out that it ‘does not know the direction or magnitude of future market price changes or whether the market prices may fall further than current levels.’Given these concerns, the Panel is not persuaded that the objective that of capturing opportunities to provide customers with more affordable rates has application beyond the current market-pricing environment.”⁹

⁶ FortisBC Energy Inc., 2015 Price Risk Management Decision and Order E-10-16 and Letter L-15-16.

⁷ FEI Price Risk Management Annual Report, April 27, 2017, p. 11.

⁸ FortisBC Energy Inc., 2015 Price Risk Management Decision and Order E-10-16 and Letter L-15-16, p. 24

⁹ Ibid., p. 9.

Although, as stated in the 2017 Annual Report, at present it is difficult to properly assess the effectiveness of the hedging program due to a short period of implementation, FEI submitted the Application and initiated a review process before the expiry of the hedging program as approved in the July 2016 Decision.

While FEI considers the prior PRM Decision supportive of FEI's proposed hedging activities presented in the Application, in the Panel's view, a review of the June 17, 2016 Decision reveals that the Commission approved a limited scope hedging for a limited period, with an expectation that this issue would be fully reviewed, including the fundamental questions on hedging, no later than in 3-years' time.

In that context, upon preliminary review of the Application, the Panel has identified some foundational questions, set out below.

1. Which objective, or combination thereof, should be used to assess the design and/or subsequent efficacy of FEI's hedging program:
 - a. Manage price volatility;
 - b. Manage supply security;
 - c. Take a market position in anticipation of future commodity price changes; or
 - d. Other?
2. What are the most appropriate strategies/mechanisms in support of the objective(s) identified in question 1 above:
 - a. FEI hedging program as applied for;
 - b. Use of other mechanisms already in place and/or available to FEI (e.g. quarterly gas cost adjustments, equal payment programs);
 - c. Existing third-party programs/mechanisms (e.g. Customer Choice Program); and/or
 - d. Other?
3. What are the potential costs/benefits of each strategy/mechanism under various future scenarios, and which parties ultimately bear the risk and/or reap the benefits (e.g. ratepayers, shareholders, other parties):
 - a. Are the exposures to costs and benefits symmetrical for each party;
 - b. Are some strategies/mechanisms more effective in one particular future scenario as opposed to other scenarios (e.g. stable price regime, volatile price regime, significant price increase, etc.)

Examination of these foundational questions would suggest an expanded scope for this proceeding, compared to the scope proposed by FEI in the Application. The Panel is therefore inviting parties to provide comments on both the scope and the review process, including explanations as to why there is support for a particular perspective, prior to establishing the regulatory scope and appropriate timetable for review of the Application.

The Panel orders that the regulatory timetable set out in Appendix B be established to provide interveners with an opportunity to make submissions on the proposed scope of the proceeding and on preferred review process.

FortisBC Energy Inc.
2017 Price Risk Management Plan

REGULATORY TIMETABLE

Action	Date (2017)
Intervener Registrations	Monday, September 11
FEI submission on scope and process	Monday, September 11
Intervener submissions on scope and process	Monday, September 25
FEI Reply submission	Monday, October 2
Further process	TBD