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ORDER NUMBER
G-9-19

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

and

FortisBC Energy Inc.
Application regarding its 2018 Fourth Quarter Gas Cost Report
And Rate Changes effective January 1, 2019
For the Mainland and Vancouver Island Service Area

BEFORE:
R. I. Mason, Panel Chair/Commissioner
B. A. Magnan, Commissioner

on January 16, 2019

ORDER

WHEREAS:

A. On November 23, 2018, FortisBC Energy Inc. (FEI) filed its 2018 Fourth Quarter Report on Commodity Cost Reconciliation Account (CCRA), Midstream Cost Reconciliation Account (MCRA), Biomethane Energy Recovery Charge (BERC) Rates and Biomethane Variance Account (BVA) Annual Report for the Mainland and Vancouver Island Service Area based on the five-day average November 6, 7, 8, 9 and 13, 2018 forward gas prices (the 2018 Fourth Quarter Report or the Report);

B. By Order G-230-18, the British Columbia Utilities Commission (BCUC) approved the Commodity Cost Recovery Charge, BERC, MCRA Rate Rider 6 and Long Term Biomethane rate applicable for the Mainland and Vancouver Island Service Area, effective January 1, 2019;

C. On October 9, 2018, Enbridge's subsidiary, Westcoast Energy Inc., experienced a significant rupture on its T-South pipeline, which impacted the region as a whole and the resources within FEI's service area. FEI submits that, as a result of the incident, the midstream costs for 2019 include materially higher forecast costs during the winter period;

D. FEI calculates that the existing Storage and Transport Charges will under-recover the midstream costs in 2019 by approximately $55 million, and requests approval to increase the Storage and Transport Charge rates as set out in the Report in the schedule at Tab 2, Page 7;

E. The 2018 Fourth Quarter Report includes an alternative approach based on a 3-month rate recovery period to set the Storage and Transport Charges (Alternative Storage and Transport Charges), effective January 1, 2019, as set out in the Report in the schedule at ALTERNATIVE Tab 2, Page 7;

F. By Order G-230-18, the BCUC approved, on an interim basis, the Storage and Transport Charges applicable to the Sales Rate Classes within the Mainland and Vancouver Island Service Area. In addition, the BCUC established a regulatory timetable, which included one round of information requests, a deadline for submissions from stakeholders and a deadline for FEI responses to stakeholder submissions, to explore the merits of the Alternative Storage and Transport Charge;

G. On December 12, 2018, the BCUC received three submissions from the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al*. (BCOAPO), the Commercial Energy Consumers Association of British Columbia (CEC) and Brian Lennan (Lennan). In consideration of the submissions, FEI responded on December 18, 2018; and

H. The BCUC has reviewed the Report and the evidence filed in the proceeding and considers that approval is warranted.

NOW THEREFORE pursuant to sections 59–61 of the *Utilities Commission Act*, for the reasons attached as Appendix A to this order, the BCUC approves on a permanent basis the Storage and Transport Charges applicable to the Sales Rate Classes within the Mainland, Vancouver Island and Whistler Service Areas, effective January 1, 2019, as requested in the Report.

DATED at the City of Vancouver, in the Province of British Columbia, this 16th day of January 2019.

BY ORDER

Original Signed by:

R. I. Mason
Commissioner

Attachment

FortisBC Energy Inc.
Application regarding its 2018 Fourth Quarter Gas Cost Report
And Rate Changes effective January 1, 2019
For the Mainland and Vancouver Island Service Area

REASONS FOR DECISION

1.0 Application and background

The British Columbia Utilities Commission (BCUC) 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 and Letter L-15-16 dated June 16, 2015 (together the Guidelines).

In accordance with the Guidelines, FortisBC Energy Inc.'s (FEI) Midstream Cost Reconciliation Account (MCRA) balances are reviewed quarterly and FEI's Storage and Transport Charge (formerly known as the Midstream Cost Recovery Charge) are reset annually effective each January 1st. The Guidelines set out the mechanism for recovering MCRA costs using a 12-month rate model.

On November 23, 2018, FEI filed its 2018 Fourth Quarter Report on Commodity Cost Reconciliation Account (CCRA), MCRA, Biomethane Energy Recovery Charge (BERC) Rates and Biomethane Variance Account (BVA) Annual Report for the Mainland and Vancouver Island Service Area based on the five-day average November 6, 7, 8, 9, and 13, 2018 forward gas prices (the 2018 Fourth Quarter Report or the Report).

FEI requests approval for the Commodity Cost Recovery Charge, BERC, Long Term Biomethane rate, and the MCRA Rate Rider 6. These requests were previously considered and were all approved by BCUC Order G-230-18.

Additionally, FEI requests approval to increase the Storage and Transport Charges, applicable to all affected sales rate classes within the Mainland and Vancouver Island service area, as set out in the schedule at Tab 2, Page 7 of the Report.

On October 9, 2018, Enbridge's subsidiary, Westcoast Energy Inc., experienced a significant rupture on its T-South pipeline, which impacted the region as a whole and the resources within FEI's gas supply portfolio. FEI released the following statement on November 22, 2018 regarding the impact of the October 9 rupture of the Enbridge-owned natural gas transmission pipeline on FEI's natural gas supply:

> In the event of a prolonged period of colder than average weather, we could find ourselves in a position where demand is outpacing supply. If this imbalance extends over a number of days, it is possible that large-scale industrial and commercial customers would be faced with short-term curtailment. [1]

[1] FEI's November 22, 2018 12:00 p.m. Service Alert, https://www.fortisbc.com/MediaCentre/NewsReleases/2018/Pages/20181122-FortisBC-gas-supply-outlook-improves.aspx

2.0 Regulatory process

The Panel approved the increases to the Storage and Transport Charges on an interim basis, via Order G-230-18, on December 4, 2018. However, the Panel was concerned with the potential risk of curtailment to industrial, commercial and residential customers due to the impact of the T-South pipeline rupture, and considered that the establishment of a written submission process is warranted to explore the merits of the Alternative Storage and Transportation Charge, or other rates, which may incent conservation throughout the winter period.

By Order G-230-18 dated December 4, 2018, the BCUC established a regulatory timetable that included one round of Information Requests (IRs), stakeholder submissions and FEI's responses. On December 10, 2018, FEI submitted its responses to BCUC IR No. 1. On December 12, 2018, the BCUC received three submissions from the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society and the Tenant Resource and Advisory Centre *et al.* (BCOAPO), the Commercial Energy Consumers Association of British Columbia (CEC) and Mr. Brian Lennan, which was followed by FEI's response on December 18, 2018.

3.0 Storage and Transport Charges

FEI requests increases to the Storage and Transport Charges, based on a 12-month rate-setting method, in compliance with the Guidelines. However, following discussion with BCUC staff and the Provincial Government, FEI submitted for consideration an alternative approach based on a 3-month rate recovery period to set the Storage and Transport Charges (Alternative Storage and Transport Charges). The intent of the Alternative Storage and Transport Charges is to incent conservation and reduce the risk of customer curtailment due to effects of the T-South pipeline explosion.

Based on the five-day Average Forward Prices ending November 13, 2018, the midstream gas cost assumptions and the forecast midstream cost recoveries at existing rates, FEI calculates that the MCRA balances at December 31, 2018 and at December 31, 2019 are projected to be approximately $4 million surplus and $65 million deficit after tax, respectively.[2]

Storage and Transport Rates – Standard 12-month rate model

Utilizing the standard 12-month rate model, FEI proposes increases to the Storage and Transport Charge effective January 1, 2019 that range from an increase of $0.130/GJ to $0.421/GJ, depending on the rate schedule.[3] The Storage and Transport Charge for Rate Schedule 1 residential customers is proposed to increase by $0.421/GJ, from $1.064/GJ to $1.485/GJ, effective January 1, 2019.[4]

Storage and Transport Rates – Alternative approach

The Alternative Storage and Transport Charge is based on a 3-month rate setting period (January–March 2019) which would more quickly reflect the higher forecast January–March 2019 costs in the rates. Under this approach, FEI calculates increases to the Storage and Transport Charge effective January 1, 2019 that range from

[2] Exhibit B-1, Tab 1, p. 3, lines 15 and 33
[3] *Ibid.*, Tab 2, p. 7, line 42
[4] *Ibid.*, Tab 2, p. 7, Column 2 , lines 40 and 41

an increase of $1.113/GJ to $1.518/GJ, depending on the rate schedule.[5] The increase for residential customers is $1.518/GJ.[6]

The bill impact for a typical Mainland and Vancouver Island Rate Schedule 1 residential customer of the higher Alternative Storage and Transport rate compared to the standard 12-month method for the January–March period is approximately $41.[7]

4.0 Position of parties

In response to BCUC IR 1.1, FEI submits that during the period between October 9, 2018 and November 29, 2018, FEI believed there was a significant risk that customer curtailment could occur during the winter period. FEI submits that since that time, risk has declined for two main reasons: Enbridge has increased capacity on line for Huntingdon and the relatively mild weather in the Lower Mainland, Oregon and Washington allowed FEI to replenish natural gas storage assets in the region.[8]

FEI submits that it may be possible that higher natural gas rates could encourage conservation of gas.[9] FEI states that it has observed a correlation between price and demand over periods of time covering multiple years, but does not have sufficient information to determine the impact over shorter periods of times.[10] Therefore, FEI submits that it is not possible to estimate what change in the Storage and Transport Charge would meaningfully reduce the risk of customer curtailment associated with the T-South pipeline explosion.[11] FEI submits that, overall, studies on the elasticity values of natural gas have shown that natural gas demand is relatively inelastic to natural gas prices.[12]

FEI indicates that it has taken other actions to encourage customer conservation, and that the preliminary results of this effort show that customers have reduced consumption to a certain extent.[13]

BCOAPO submits that it trusts FEI has provided sufficient evidence showing that the risk of curtailment to customers has subsided enough that steep increases in the Storage and Transport rates are not necessary to incent conservation.[14] However, the BCOAPO notes that it considers the risk of curtailment to be a serious concern and a potential deadly issue.[15]

BCOAPO submits that the premise of a conservation rate relies upon the assumption that a change in the price of gas results in a corresponding and proportionate movement in gas demand, which is to say that the demand for natural gas is relatively elastic.[16]

[5] *Ibid.*, Alternative Tab 2, p. 7, line 21
[6] *Ibid.*
[7] *Ibid.,* p. 3
[8] Exhibit B-2, BCUC IR 1.1
[9] Exhibit B-2, BCUC IR 1.1.1
[10] *Ibid.*
[11] *Ibid.*
[12] *Ibid.*
[13] *Ibid.*
[14] BCOAPO submission dated December 12, 2018, p. 2.
[15] *Ibid.*
[16] BCOAPO submission dated December 12, 2018, p. 4

BCOAPO agrees with FEI and states that the evidence on record indicates that gas demand is relatively inelastic and that demand is likely to be unresponsive to prices changes in the short-term. [17] BCOAPO argues that there are no close substitutes available for most natural gas ratepayers' space heating requirements which is a key factor in determining if a good is relatively elastic or inelastic. [18]

Further, BCOAPO states it strongly opposes any rate that incents conservation over the short term due to concerns that many income-constrained and economically vulnerable ratepayers will be unable to absorb costs over such a short period of time. [19]

The CEC states that it recommends that the BCUC approve the Storage and Transport Charge based on the standard 12-month rate setting model. [20]

Lennan noted his concern that "the language used in the rate increase application makes no mention of removing the rate increase once the gas flow is restored this coming spring."[21]

FEI responds that, typically, the Storage and Transport Charges are set on an annual basis in accordance with BCUC approved methodology that utilizes a 12-month rate setting period.[22] FEI also states that gas cost rates are calculated based on the forecast costs FEI pays to other parties and these costs are passed through to ratepayers without markup. [23]

5.0 Panel determination

The Panel confirms the increase to Storage and Transport Charges proposed by FEI, based on the standard 12-month rate setting method, on a permanent basis.

The Panel finds there is insufficient evidence that the increased Alternative Storage and Transport Charge would motivate customers to conserve their use of natural gas during the current winter season. The Panel places considerable weight on FEI's submissions that demand for natural gas is relatively inelastic to changes in price, and notes the agreement of BCOAPO in this regard. In the absence of such evidence, the Panel does not consider that the Alternative Storage and Transport Charge is a useful method to reduce the risk of customer curtailment during the current gas shortage.

The Panel agrees with BCOAPO that price increases pose challenges and risks to low- and fixed-income customers. However, as BCOAPO has pointed out, curtailment of gas supply to vulnerable customers poses very serious risks, including health risks[24]. The question for the Panel is whether the Alternative Storage and Transport Charge would reduce the risk of the serious consequences attendant on a curtailment in gas supply, while acknowledging that the short-term rate increase would also pose risks to certain customers. In the absence of compelling evidence that the Alternative Storage and Transport Charge would materially reduce the risk of customer curtailment, the Panel finds that there is no basis to impose short-term rate increases that would be challenging to low- and fixed-income ratepayers.

[17] *Ibid.*, p.6
[18] *Ibid.*, p.7
[19] *Ibid.*
[20] CEC submission dated December 12, 2018, p.2.
[21] Lennan submission dated December 12, 2018
[22] Exhibit B-3, p. 2
[23] *Ibid.*
[24] BCOAPO submission dated December 12, 2018, p. 3

The Panel notes the general stakeholder support for maintaining the standard 12-month rate setting method as proposed by FEI. The Panel understands Lennan's concern regarding how any short-term rate increases would be rolled back as gas prices decline. However, the Panel does not intend to pursue the Alternative Storage and Transport Charge. The calculation of the Storage and Transport Charge will be based on the standard 12-month basis, which will smooth out the anticipated seasonal gas cost increases and decreases over the following year.

The Panel is satisfied with the submissions by FEI that the risk of customer curtailment has likely declined. However, the Panel encourages FEI to continue exploring opportunities and alternative practices that encourage customers to reduce natural gas consumption and to reduce the risk of customer curtailment until the T-South pipeline is returned to full service.