Diane Roy
Vice President, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

BCUC File 59340

REDACTED

November 29, 2018

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary and Manager. Regulatory Support

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1598917

2018 Price Risk Management Plan (2018 PRMP or the Application) – Winter 2018/19 Price Risk Update - REDACTED

FEI is filing this letter in anticipation of the interest of the British Columbia Utilities Commission (BCUC) and interveners in the potential impact that the Enbridge pipeline rupture could have on FEI's 2018 PRMP. In this letter, FEI provides information on the Enbridge pipeline rupture and its impact on gas prices in British Columbia (BC) and Alberta. For the reasons set out below, there is no change to the approvals sought in the 2018 PRMP as a result of the Enbridge pipeline rupture, and FEI affirms that the requests in the 2018 PRMP remain appropriate.

In the 2018 PRMP, FEI seeks approval to extend and modify its medium-term hedging strategy. The objectives of the 2018 PRMP include mitigating market price volatility to support commodity rate stability and capturing opportunities to maintain commodity rates at historically low levels. To meet these objectives, the 2018 PRMP includes hedging strategies for FEI's commodity supply requirements with AECO/NIT market price exposure. The regulatory review process for the 2018 PRMP completed on June 28, 2018, with the

filing of FEI's Reply Submissions. A decision from the BCUC on the Application is currently pending.

On October 9, 2018, Enbridge's subsidiary, Westcoast Energy Inc. (WEI), experienced a significant rupture of its T-South pipeline, which has impacted regional supply availability. The incident has restricted gas flows to all delivery points south of Station 2 between Station 4B and Huntingdon. It has also impacted the resources in the FEI Annual Contracting Plan (ACP) required to meet customers' needs. More details are provided in the following sections.

Background

On October 9, 2018, WEI's pipeline ruptured near Prince George, causing WEI to declare a Force Majeure from Station 4B to Huntingdon. On Oct. 31, Enbridge announced the completion of repairs to its 36-inch natural gas transmission pipeline. Although the 36-inch transmission line is returning to service, it will not be operating at full capacity and natural gas supply in BC will continue to be limited.

WEI recently reported that the restrictions on T-South will continue following its repair, as the pipeline is expected to ramp up from 55 percent to operate at 85 percent of capacity during November 2018[1]. A return to full maximum operating pressure requires certification of all loops of the T-South system from Station 2 to Huntingdon, which will take some time to complete. As a result, it is expected at this time, that the restrictions on T-South will likely continue throughout the winter of 2018/19.

This will have a significant impact on the availability of FEI's T-South pipeline capacity throughout the winter 2018/19 season, which is a vital asset to FEI as it delivers FEI's Station 2 baseload and seasonal supply to the Interior, Lower Mainland, Vancouver Island, and Whistler areas of the province.

On October 24, 2018, FEI filed an amendment to the 2018/19 ACP (Amendment) on a confidential basis, requesting BCUC approval to [redacted] of physical term supply for November 1, 2018 to March 31, 2019 to make up for the loss, to the extent possible, of FEI's firm T-South Huntingdon delivery pipeline capacity. These supply arrangements will be based off of a Sumas monthly or daily index price at the Huntingdon delivery point. This is the only available short-term supply option for FEI. Prior to the WEI pipeline rupture, the 2018/19 ACP had no physical Huntingdon supply as part of the portfolio.

[redacted]

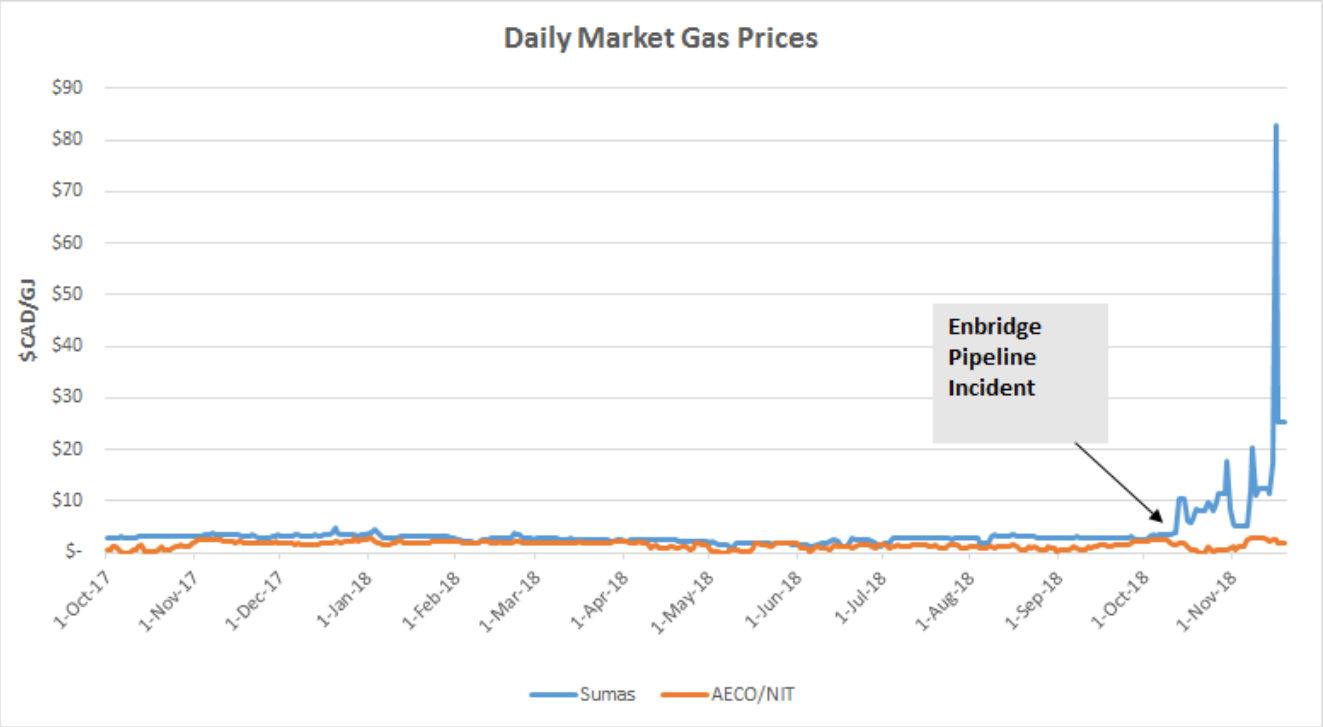
Market Dynamics

As a result of this pipeline incident, regional gas market prices have been significantly

[1] https://noms.wei-pipeline.com/notices/ci_notice.show?id=51100.

impacted, particularly those at the Sumas market hub. AECO/NIT market prices, however, have not been significantly impacted.

The following figure shows AECO/NIT and Sumas daily prices before and after the incident.



As shown above, the incident caused Sumas daily prices to become considerably more volatile. Sumas prices spiked well above $10 per Gigajoule (GJ) several times and reached as high as $82 per GJ on November 16, whereas AECO/NIT daily prices have been volatile but within a narrower range of $0 per GJ to $3 per GJ. This increased volatility in Sumas pricing is due to the further constraints the rupture has placed on the supply-demand dynamics of the marketplace in BC and in particular the locational-basis risk at the Huntingdon/Sumas market hub, as discussed in section 4.2.2 of the 2018/19 ACP.

It is important to understand the different gas market dynamics that exist in BC compared to Alberta in light of this incident. The Huntingdon/Sumas market hub is, for the majority of its supply, fed from a single source, the WEI T-South system. This reliance combined with regional market forces can severely disconnect Sumas prices from other market hub prices, such as AECO/NIT and Station 2. Such periods of pricing disconnect typically occur when increased demand in the Pacific Northwest region exceeds the delivery capacity at Huntingdon and causes Sumas prices to increase significantly above prices at other regional market hubs. In this case, however, the significant supply disruption is the primary cause of the current price disconnect.

The Alberta marketplace has different dynamics than the BC market. Alberta has

considerably greater liquidity because of the the large volume of tranasactions and number of maket players compared to BC. The AECO/NIT market has more diversity with a larger number of production plants, commercial storage facilities, greater pipeline diversity, and provides more takeaway outlets for the gas to flow to more end-use markets. In contrast, the BC marketplace has far less liquidity due to the limited number and size of end-use markets it accesses, greater pipeline risk given limited regional pipeline infrastructure, and only one main commercial storage facility. While BC currently produces close to 5 billion cubic feet (Bcf) per day of natural gas, only 1.8 Bcf per day maximum flows on T-South. The balance flows east, largely to Alberta, where it is added to the Alberta market hub and forms part of the 12.5 Bcf per day that is traded at AECO/NIT.

Due to the different marketplace dynamics between the AECO/NIT and Sumas markets, the underlying objectives and strategies to mitigate the potential price risks are not the same. The objectives for the 2018 PRMP relating to the AECO/NIT maket include capturing opportunities to maintain commodity rates at historically low levels, whereas the objective relating to the Sumas market would include mitigating any Sumas winter price disconnection risk.

ACP and Price Risk

As outlined in the 2018/19 ACP, FEI purchases the majority of its commodity supply based on AECO/NIT index pricing and, as such, the hedging requests in the 2018 PRMP are based on AECO/NIT market prices. FEI's recent purchases at Huntingdon for winter 2018/19 add Sumas price risk to its supply portfolio. As discussed in section 4.2.3 of the 2018/19 ACP, FEI considers hedging any Sumas price exposure due to the price disconnection risks at the Huntingdon/Sumas market hub. However, FEI does not consider it appropriate to hedge the Sumas price risk for the incremental purchases outlined in the Amendment for winter 2018/19, for the following reasons:

- market prices at Sumas for the rest of winter 2018/19 have already reacted to the incident (as shown in the figure above) and so FEI is not able to implement hedges at favourable price levels;

[redacted]

[redacted]

- [redacted] FEI is not able to hedge daily Sumas prices as there is not an active, liquid market for this.

[2] [redacted]

Next Steps

FEI believes the 2018 PRMP objectives, strategies, and evidence relating to AECO/NIT price risk remain relevant and, therefore, there is no change to the requests sought in the Application as a result of the Enbridge pipeline incident. The requests in the 2018 PRMP remain appropriate and FEI requests approval of the Application from the BCUC. FEI continues to evaluate its Sumas price risk in light of the Enbridge pipeline incident and for potential impacts beyond winter 2018/19.

After resource requirements for the 2019/20 gas year are determined and the 2019/20 ACP is developed and submitted to the BCUC by May 1, 2019, FEI will contsider whether including Sumas price risks is appropriate in a future PRMP application.

CONFIDENTIALITY

Pursuant to Section 18 of the BCUC's Rules of Practice and Procedure regarding confidential documents established by Order G-1-16, FEI requests that commercially sensitive information related to FEI's physical contracting strategy be treated confidentially. The commercially sensitive information should be protected and not publicly disclosed in order to preserve and not impair FEI's ability to negotiate and obtain favorable commercial terms for any future natural gas contracting.

The sensitive details of FEI's physical contracting strategy have been redacted in this Winter 2018/19 Price Risk Update to the public and the interveners of the 2018 PRMP proceeding.

If further information is required, please contact Mike Hopkins, Senior Manager, Price Risk & Resource Planning at (604) 592-7842.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy