CREATIVENERGY

10 April 2019

Via Email

Mr. Patrick Wruck
Commission Secretary
BC Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: British Columbia Utilities Commission (BCUC, Commission)
Creative Energy Vancouver Platforms Inc. (Creative Energy)
Application for a Fuel Cost Adjustment Charge (FCAC) Rate Rider (Application)

Please find attached Creative Energy's response to British Columbia Old Age Pensioners' Association et al. (BCOAPO) Information Request (IR) No. 1, in accordance with Order G-52-19.

For further information, please contact the undersigned.

Yours sincerely,

Rob Gorter
Director, Regulatory Affairs & Customer Relations

Enclosure

Cc: Registered Interveners

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Creative Energy Vancouver Platforms Inc.
Application for Fuel Cost Adjustment Charge (FCAC) Rate Rider

CREATIVE ENERGY RESPONSE TO BCOAPO INFORMATION REQUEST NO. 1

1.0 Reference: Exhibit B-1, Application, page 5, Table 1, Indicative Natural Gas Commodity Price Forecast and Actual, October 2018 – February 2019

1.1 Please provide the source(s) for the price forecasts in the referenced table and the receipt/delivery point(s) for which the price forecasts are applicable.

RESPONSE:

Please refer to the response to BCUC IR 3.2.2.

1.2 Please describe how the actual prices in the referenced table were calculated.

RESPONSE:

Please refer to the response to BCUC IR 3.2.2.

2.0 Reference: Exhibit B-1, Application, page 4

The referenced page states:

Creative Energy has been contending with extraordinarily high natural gas commodity prices this winter due to the supply constraint arising from the Enbridge pipeline explosion in Northern BC on October 10, 2018, and related delayed maintenance activities. The impact of that natural gas shortage on prices has been exacerbated by higher than expected customer demand due to colder than normal weather persisting in the region, in addition to other constraints arising from compression issues at the underground storage facility at Jackson Prairie, creating further pressure on natural gas commodity prices.

2.1 How has CE arranged for delivered physical supply to make up for the supply constraints since the Enbridge pipeline explosion occurred? Please indicate the supply source(s), pricing (contract, spot, etc.), supplier, delivery/receipt point, and agent(s) involved.

RESPONSE:

Creative Energy's gas supply was physically constrained through the curtailments by FortisBC Energy Inc. (FEI) of its firm and interruptible customers in the October 9-13 period following the pipeline

explosion. During the FortisBC Hold to Authorize, effective February 27, 2019, and in consideration of the very high natural gas prices expected in late February/early March 2019, Creative Energy's supply was also effectively constrained.

As discussed in the responses to BCUC IRs 4.2.1 and 4.2.2, Creative Energy was able to maintain its provision of reliable and uninterrupted service to customers by switching to its backup fuel system during the periods of curtailment and market constraints. That is, during this period of market constraint Creative Energy has been able to provide an uninterrupted supply of heating and has been able to moderate the impact to customers by switching to its backup fuel supply when warranted.

Cascadia's predominant supplier is BP, but also includes Shell and other suppliers. As Creative Energy's gas marketer, Cascadia makes daily nominations for gas delivery at the Sumas trading hub on a day ahead basis, excepting Fridays where nominations are made for the adjacent Saturday through Monday, inclusive. Pricing is based on the applicable daily index at Sumas and reconciled at the close of each month for final billing.

2.2 Please provide the amount of gas CE had in storage at Jackson Prairie when the Enbridge pipeline explosion occurred, and CE's contractually specified daily withdrawal maximum.

RESPONSE:

Creative Energy does not have physical storage at Jackson Prairie. Please refer to the response to BCUC IR 4.1 for a further summary of the compression issue at the storage facility and the impact of this on withdrawal rates and market prices.

2.3 How much of the shortfall due to supply constraints since October has CE been able to cover by withdrawing gas from storage? Please provide the monthly amounts withdrawn for this purpose.

RESPONSE:

Not applicable. Please refer to the response to BCOAPO IR 2.2.

2.4 Is there any contractual liability on the part of the storage service provider at Jackson Prairie due to the "compression issues," i.e., inability of a customer to withdraw gas at the contractually specified rate? If so, how is that liability being accounted for in CE rates either now or in the future?

RESPONSE:

Creative Energy does not have physical storage at Jackson Prairie and therefore there are no contractual obligations on behalf of the storage provider that extend to Creative Energy. Any contractual liability on the part of the storage provider at Jackson Prairie has no applicability to Creative Energy's rates.

Please also refer to the response to BCOAPO IR 2.1.

2.5 Can CE confirm that the storage services provider at Jackson Prairie is an independent third party, completely unrelated to CE?

RESPONSE:

Confirmed.

2.6 Can CE confirm that all of its supply sources that it has used since the October explosion are independent third parties, completely unrelated to CE? If not, please provide details.

RESPONSE:

Confirmed. Cascadia is an independent third-party gas marketer, completely unrelated to Creative Energy, procuring physical supply of natural gas on Creative Energy's behalf from independent third-party suppliers.

Creative Energy notes that prior to the acquisition of Central Heat Distribution Ltd. (Central Heat) by Creative Energy in 2013 there was a period of time during which the CEO of Central Heat served as a Director on the Board of Cascadia.

3.0 Reference: Exhibit B-1, Application, page 7, Table 6, Customer Bill Impact versus Cost Recovery Amortization, and page 8.

The second referenced page states:

Creative Energy was in the summer of 2018 contemplating hedging strategies, including a strategy to secure advance purchase contracts for up to 30 percent of our overall gas supply requirement. On July 16, 2018, Creative Energy applied to the BCUC for approval of a contracting plan that included such hedging strategies. Please refer to Attachment 1 – Creative Energy 2018-2019 ACP Executive Summary. However, the BCUC did not accept that proposal until October 11, 2018, which was the day after the Enbridge pipeline failed and therefore too late for Creative Energy to implement a cost-effective hedging strategy for this winter.

3.1 Had the application for hedging approval been received and had the hedging strategy been fully implemented at the time of the Enbridge pipeline explosion, please provide the impact it would have had on the FCSA balance and on the information that was presented in Table 6.

RESPONSE:

Had a hedging strategy been fully implemented prior to the time of the Enbridge pipeline explosion, Creative Energy could have been able to hedge up to 3,000 GJ per day at prices that would have in all likelihood been lower than market actuals.

Qualifying this response for the inherent uncertainty given its counterfactual nature, a high-level estimate of the impact on the balance FCSA is as follows: for a 10 percent lower hedging price compared to market, the balance in the FCSA would have been approximately 5% lower and, likewise,

for a 5% reduction in the balance of the FCSA, the rate rider to amortize the balance over 18 months would be 7% lower. In this broad frame and referring to an example from Table 6 of the Application, if the hedging price on 3,000 GJ per day were to have been 20% lower than market over the winter 2018/2019 period, the 18-month rate rider of $4.80/M# reported in Table 6 would be about 14% lower, or $4.13/M#, and the estimated customer bill impact would be 18 percent instead of 21 percent.

As the hedging strategy was not implemented, Creative Energy does not know for certain what hedging price could have been secured.

3.2 Is CE convinced that the hedging/storage/backup gas supply strategies it is currently employing would materially mitigate a similar incident, should one occur, in the future?

RESPONSE:

As discussed in the Application and in the response to BCUC IR 4.2.1, Creative Energy has been unable to implement a cost-effective hedging strategy for this winter. However, it has been able to maintain uninterrupted steam service and moderate the impact of high gas prices to customers by alternatively switching to its backup fuel supply when warranted. As noted above in the responses to BCOAPO IR series 2.0, Creative Energy does not hold physical storage of natural gas.

The combined impacts of the pipeline explosion in October, the persistent polar vortex and the problems at Jackson Prairie are a highly unusual situation. Creative Energy is considering its future strategy to secure natural gas, including whether to subscribe to bundled (commodity and delivery) service from FEI.

3.3 Please compare and contrast the pros and cons of an 18-month and 24-month amortization period. As a part of your response, please elaborate on why CE proposes the use of the 18-month rate setting period over the 24-month alternative.

RESPONSE:

Creative Energy's proposal reflects a balanced consideration of the bill impact to customers and the intergenerational equity issue and additional carrying costs that arise from a material delay in the recovery of costs already incurred to deliver service. This is the essential trade-off that arises from the consideration of alternative amortization periods.

As discussed in the response to BCUC IR 1.2, the Commission has considered one-year amortization periods for recovery/crediting of fuel cost variances to be reasonable under normal circumstances; however with regard to the winter of 2018/2019 Creative Energy is seeking to amortize the excess amount in the FCSA over 18 months with a balanced consideration of bill impacts. An 18-month amortization period will result in a higher monthly customer bill impact but over a shorter duration in comparison to a 24-month amortization period, which would lower the monthly customer bill impact, but which would persist for a longer duration and would then also include additional carrying costs for recovery.

In general, longer duration recovery periods will worsen any intergenerational equity issues because the match between cost causation and cost recovery by and from the affected customers will depart

from the time-period in question. It may be too precise to suggest a material difference between 18 months and 24 months with respect to intergeneration equity because neither period effectively matches cost causation and recovery.

Please also refer to the response to BCUC IR 1.1.

4.0 Reference: Exhibit B-1, Application, pages 8 and 9

The referenced pages state:

*Creative Energy has used Cascadia Energy Limited (**Cascadia**) since November 2009 to supply the physical natural gas commodity. Since 2011, typically in July each year, and in compliance with Commission Letter L-78-11, Creative Energy has filed an Annual Contracting Plan (**ACP**) with the Commission for its review and acceptance in advance of the winter heating season Annual Contracting Plans discuss demand requirements, supply resources, risk factors and may also request specific approval of a hedging strategy in advance of the winter heating season to reduce price volatility risk.*

…

Creative Energy's three-year contract with Cascadia expires on October 31, 2019. In the normal course Creative Energy will be reviewing gas supply proposals and alternatives early this year with a view to seeking Commission approval of a preferred gas supply contracting strategy as part of its 2019-2020 ACP, as also directed by Order G-213-18. As part of its planned review of alternatives, Creative Energy will evaluate the benefits and costs of procuring its natural gas supply directly from FortisBC, in addition to the transportation service that it already receives from that utility. Creative Energy is not in a position at this time to report on this review.

4.1 Can CE confirm that Cascadia is an unrelated third party supplier?

RESPONSE:

Confirmed. Please see the response to BCOAPO IR 2.6.

4.2 Can CE confirm that under the terms of its contractual arrangements with Cascadia, the financial consequences of the supply disruption to CE and its ratepayers are/were not – in any part – the responsibility of Cascadia?

RESPONSE:

Confirmed.

4.3 Does CE agree that under the application, the ultimate financial consequences of the supply constraints will be borne entirely by ratepayers?

RESPONSE:

Creative Energy's fuel costs will be borne entirely by ratepayers under the Application. As discussed

in the response to BCUC IR 1.5, and as supported overall by its Application and response to IRs generally, Creative Energy does not envision a scenario where the Commission would not approve the recovery of fuel costs from customers.

4.4 Can CE confirm that Enbridge is not financially responsible for any consequences that impact CE and its ratepayers as a result of the Enbridge explosion?

RESPONSE:

Creative Energy cannot confirm whether or not Enbridge has any liability or financial responsibility to Enbridge's customers, regulators or the government as a result of the pipeline explosion. Creative Energy notes that it is not a customer of Enbridge. Creative Energy also notes that Enbridge declared Force Majeure on October 9, 2018 and that it is still operating under that Force Majeure declaration.

4.5 Does CE have any relationship with Cascadia other than a contractual relationship in respect of supplying gas commodity to CEV?

RESPONSE:

In addition to Creative Energy's contractual relationship with Cascadia in respect of gas supply, Creative Energy and Cascadia have a landlord/tenant relationship for the rental of separate office space in Creative Energy's building at 720 Beatty Street. That relationship has no bearing or effect on the services Cascadia provides Creative Energy to procure a physical supply of gas, although it does facilitate timely communication in person when required.

4.6 When CE contracted with Cascadia for gas supply in 2009, had CE investigated using another supplier such as FortisBC instead? If so, how was the choice of Cascadia made; if not, why not?

RESPONSE:

Creative Energy does not have a record of the evaluation that supported a decision to contract with Cascadia in 2009. Creative Energy renewed its contract with Cascadia in August 2016 for a three-year term, expiring on November 1, 2019. To support that decision Creative Energy issued a request for proposals and reviewed the proposals of four gas marketer/suppliers. Cascadia was selected as the preferred contractor on the merits of its proposal with respect to evaluation criteria that included qualification, services, procurement strategy, market insight and pricing.

4.7 Would it make sense, for physical supply security, to employ a variety of suppliers, receipt points, storage services, backstop supply, etc.?

RESPONSE:

Cascadia provides Creative Energy a secure, firm supply of gas. There has been no issue with physical supply from Cascadia. Creative Energy has had a low risk of curtailment of transportation service from FEI under Rate 22.

The current contracting strategy has allowed Creative Energy to maintain secure and reliable service for its customers, under a low risk of curtailment by FEI with the ability to rely on the backup fuel oil system if and when needed. The contracting strategy has not recently included any hedging and as a result Creative Energy has been subject to short-term market price fluctuations including the market turmoil this winter. Please refer to the responses to BCUC IRs 4.2.1 and 4.2.2.

4.8 How would the consequences of the October explosion be different had CE been procuring its supply from FortisBC rather than Cascadia at the time of the explosion?

RESPONSE:

Had Creative Energy been procuring its gas supply from FEI rather than through Cascadia the consequences of the Enbridge pipeline explosion would have been no different in terms of our ability to provide our customers with uninterrupted service. That is, Creative Energy would still have been able to rely on its backup system as required.

Please refer to the chart in the response to CEC IR 4.1, which provides a high-level estimate of the fuel consumption costs of bundled service from FEI. Please note that the estimate provided in that response presents an illustrative counterfactual result and does not reflect an option that was available to Creative Energy this past winter. Also, as noted in the response to CEC IR 4.1, the estimate is provided without any visibility to FEI's rates going forward and how the level of those rates might be affected by the impact of the events of this winter, and for how long.