seaspan FERRIES

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May 23, 2019

BY E-FILING

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

Attention: Patrick Wruck, Commission Secretary

Re: FortisBC Energy Inc. (FEI) Application for Approval of Tariff Changes to Rate Schedule (RS) 46 – Seaspan Ferries Corporation (Seaspan) Letter of Comment

Dear Sir:

Seaspan is FEI's second largest LNG customer under RS 46, with a long-term firm service commitment of 240,000 GJ/yr. FEI supplies LNG to the Seaspan Swift and the Seaspan Reliant. These two ferries provide a commercial heavy-duty trailer transport service between the Lower Mainland and Vancouver Island and are an essential freight transport link. Seaspan will be directly affected by FEI's Application, and therefore has a strong interest in just and reasonable revised RS 46 tariff terms, and the process the Commission applies to achieve that end.

Seaspan supports FEI's April 11 Application to provide RS 46 customers access to FEI's commodity services, subject to: (i) remedying the self-supply threshold issue identified in the Commission's Information Requests (IRs) by lowering the opt-out threshold; (ii) retaining Sumas index based pricing as an *option*; and (iii) a direction for FEI to report back to the Commission 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 expands on these points below and provides more detailed comments concerning the associated IR responses in the attached Appendix.

1. <u>Commodity Self-Supply Option for Larger Customers</u>

The purpose of the April 11 Application is to protect RS 46 customers from commodity price volatility, recognizing the Enbridge physical constraints that arose earlier this year. Those events had significant financial impacts on RS 46 customers, including Seaspan, and Seaspan therefore appreciates FEI's efforts. The Application proposes RS 5 type commodity price treatment for RS 46 customers. Currently, customers above a very high 1,825,000 GJ/yr contracting threshold (there are none) can opt out of exposure to the Sumas index price, to engage with gas marketers. As proposed, customers above that same threshold will be able to opt out of FEI's commodity management to do so on their own.

At the current threshold, no customer can, or is ever likely to be able to, take advantage of the opt-out option. Seaspan therefore submits that the Commission should lower FEI's opt-out threshold to align with how RS 25 and RS 5 interact. Sophisticated FEI customers like

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Seaspan should be permitted to elect whether, and if so how, to manage commodity price risk instead of FEI. To its credit, FEI has not suggested any reason why that ought not to be the case, and has shown flexibility on the issue, noting in its response to Commission IR 3.6 that it is willing to lower the opt-out threshold.

For the same reasons, Seaspan also supports customers having the option to retain commodity pricing based on the Sumas index. As FEI notes in its response to Commission IR 2.2, the Sumas index was selected in part because it facilitated financial hedging. Some customers may prefer, for that reason or others, to keep the status quo. Assuming they are above a standard volume threshold (e.g., RS 25 uses a threshold of 6,000 GJ/yr), the Commission should require FEI to provide Sumas index-based commodity pricing as an option.

2. RS 46 Storage Cost Allocation

FEI proposes to charge the same storage costs embedded in RS 5 to RS 46. RS 5 demand has different characteristics than RS 46 does, however, and FEI relies on storage to manage RS 5 customer demand in a way that it does not for RS 46. Absent cost causation, RS 46 customers should not pay the same level of storage costs. Seaspan therefore submits that FEI should report within 24 months concerning whether the costs of underground storage facilities should be allocated to RS 46 customers to the same extent as RS 5 customers.

3. Conclusion

In summary, Seaspan requests the Commission to approve FEI's requested commodity supply changes, i.e., similar terms to RS 5, subject to the following steps:

a) Adjust the volume requirement for customers to arrange supply of their own gas to 6,000 GJ/yr, rather than the present 1,825,000 GJ/yr, to better align with RS 5 and allow those customers the option of working with a gas marketer.

b) Retain current Sumas index-based pricing as an option for customers, above a standard volume threshold, if the customer so chooses.

c) Direct further study of the appropriate amount of storage charges that RS 46 customers should be allocated.

If these suggestions are adopted, then a RS 46 customer would have the following options for its commodity supply:

a) Supply arranged through FEI using the RS 5 model;

b) Supply under the status quo approach using the Sumas monthly index pricing; or

c) Supply arranged through a gas marketer for delivery of gas to the Sumas gateway, which complements the balance of RS 46 to provide an end-to-end service.

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We thank you for the opportunity to comment on the proposed changes to our contracted supply arrangements and are available at your convenience for further discussions.

Very truly yours,

Seaspan Ferries Corporation

Per: Ian McIver, Senior Vice President

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Appendix – Individual IR Comments

IR 1.2 – Seaspan notes from FEI's response that the level established within RS 46 for a customer to work with a gas marketer for supply of commodity is 5,000 GJ per day or 1,825,000 GJ/yr. As the volume limit is well above the demand of any of FEI's RS 46 customers, none qualify. Seaspan also notes that the current volume limit for other FEI customers to work with gas marketers is far less. For example, RS 25 is the transport tariff alternative for RS 5 customers who wish to work with a gas marketer, and has a volume requirement of only 6,000 GJ/yr. Because FEI is proposing to use the commodity supply provisions of RS 5 for RS 46 customers, it follows that RS 46 customers should be able to access marketer gas under similar conditions to RS 25. We also note that in its response to Commission IR 3.6, FEI has indicated that it is not averse to reducing the volume requirement.

IR 2.1 – Seaspan notes that the use of the Sumas monthly index commodity price has worked reasonably well for most of the period it has been in place for RS 46. The new option suggested by FEI to use the RS 5 commodity provisions may be advantageous in the future, but Seaspan questions why it is necessary to <u>remove</u> the previous approach as an option, i.e., where customers choose their supply option on an annual basis.

IR 3.2 – In comparing the demand profile for RS 46 and RS 5 accounts, FEI argues that the variability is similar. Seaspan contends that RS 5 has a much greater degree of seasonal variation (5,000 to 15,000 GJ/day per FEI's response). RS 46 demand is flat throughout the year and the large majority of demand is firm. FEI's argument that *daily* variation in RS46 demand makes it similar to the *seasonal* variability in RS 5 demand is not relevant because FEI produces LNG at a relatively constant rate, using LNG tank storage to smooth out any daily variations in demand.

Given that RS 46 demand is generally firm and constant throughout the year, and RS 5 has substantial seasonal elements managed with storage, Seaspan questions whether RS 46 customers should be required to pay the full "storage and transport" component of the RS 5 commodity supply tariff. We understand that approximately half of the storage and transport fee relates to transport to Sumas and that approximately half relates to FEI's costs related to managing peaks in demand through the use of midstream gas storage options (e.g., underground storage). Seaspan would like to better understand the benefits that a firm and constant load customer like Seaspan gets from FEI's arrangements to put gas in storage in off peak periods and withdrawal to meet peak periods as this does not seem relevant to our service needs.

IR 4.1 – Seaspan would like to highlight that the RS 46 "Facility Charge" already contains a charge for the transport of gas from Sumas to Tilbury. It therefore dovetails nicely with introducing a (practically available) customer option of arranging gas supply to Sumas. In effecting the other RS 5-type changes proposed by FEI, the Commission should be careful to ensure that it does not layer on charges from RS 5 for the use of the delivery system, which does not apply to the LNG customer context.