January 29, 2020

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

Re: FortisBC Energy Inc. ("FEI") - Administration of Rate Schedules 22, 23, 25 and 27 – Complaint Filed by BC Gas Marketers Coalition ("Complaint")

BCGMC Reply Comments to FEI Information Responses Dated January 15, 2020

This letter sets out the reply comments of Cascadia Energy Ltd., Direct Energy Marketing Limited, and Access Gas Services Inc. (collectively referred to as the BC Gas Marketers Coalition, or the "**BCGMC**") in accordance with BCUC Order G-340-19 and the Information Request Responses ("**Responses**") filed by FEI on January 15, 2020.

The reply comments are organized as follows:

1. General comments on the Complaint;
2. Process amendment to focus on original scope; and
3. Specific comments on the FEI Responses.

This document replies to the main points raised by FEI in the Responses. The fact that the BCGMC has not replied to every point in the Responses does not mean that the BCGMC agrees with the other aspects of the FEI Responses.

1. GENERAL COMMENTS ON THE COMPLAINT

<u>BCUC IR#1 Narrows the Scope of the Complaint</u>

In general, the BCUC IR#1 focused only on the accuracy and timeliness of usage data provided by FEI to Shipper Agents and the effect on their ability to nominate accurately. The Complaint mentioned this issue as one of the issues that affects the levels of service and the administrative approach of FEI that over time has diminished the value of service that transportation customers receive from FEI.

Further, several FEI responses focused on the service disruptions related to the Enbridge pipeline failure. The Enbridge rupture highlights some of the underlying issues but was not the focus of the Complaint. The

Complaint focuses on the inadequacy of the information that FEI provides to customers trying to manage their gas supply and the diminishing service over time.

Potential of Conflict

Commissioner Loski, who is currently assigned to this proceeding, has previously worked at the senior management level at FEI and cannot reasonably be considered a neutral party to hear the Complaint.

The BCGMC asserts that the fairness of the process would be enhanced if the Complaint was adjudicated by Commissioners that do not have the appearance of a potential conflict of interest with, or bias against, any of the parties to the Complaint.

2. PROCESS AMENDMENT TO FOCUS ON ORIGINAL SCOPE

The BCGMC requests that the Commission broaden the scope of the review to include the issues raised in the BCGMC's original September 4, 2019 submission.

The BCGMC is not privy to any of the system level operational data from FEI. Accordingly, the BCGMC relies on the Commission's assistance to gather sufficient information to test the fairness of the Transportation Model, its administration, and operation.

The BCGMC reiterates its original request for an opportunity to ask FEI, at a minimum, one round of Information Requests, as stated in its original submission dated September 4, 2019 at page 1:

> "The proposed procedure and scope of the review would be as follows:
>
> - Evidence, information requests (1 round), and final submissions should be in writing.
> - The process should allow the opportunity for the BC GMC to question FortisBC. The BC GMC suggests that the Commission's Streamlined Review Process for this component of the inquiry, since the issues are few and focus on transportation service only.
> - The inquiry should be open to all FortisBC customers affected by FortisBC transportation service."

The BCGMC suggests that such Information Requests from BCGMC to FEI would be scheduled for submission two weeks subsequent to the BCUC amending the process as such, with a response from FEI due two week thereafter.

Unaddressed Issues

The following issues from the original Complaint have not yet been addressed.

- **FEI application of the rules and accepted informal practices**

  There are numerous "interpretive" policies that are used by FEI to operate the transportation service tariff. These are not recorded anywhere and have changed over time, often becoming more restrictive

to transportation customers. There is no transparent standard for which policies are applied, who sets them, and how they are applied.

- **Further tightening of the balancing tolerances**

Over the course of the last two decades, the balancing rules and curtailment processes have become increasingly strict. The past practice of working cooperatively with the transportation customer gas managers has diminished to the detriment of the utility, transportation customers and other customers. For example, curtailments of inventory return gas were initially placed on a priority equal to curtailment of utility interruptible customers. Today, that practice has been abandoned in favour of "any time, any reason" curtailments. The informal "give and take" that was common in the past has disappeared.

- **Still 'flying blind' – the flow of necessary information is inadequate**

Despite reducing the balancing tolerance to 10% in the 2016 RDA and the curtailment rules, FEI has not improved the quality and timeliness of customer consumption measurement data (the burn report) to align with the changes. For example:

  - The consumption data is still effectively 3 days old by the time it can be used to guide next day nominations.
  - Real time data, available for some clients, is still not integrated into the burn report information.

Despite this inadequate information, transportation customers must nominate supply more accurately, or face even greater penalties. Transportation customers are still "flying blind" when trying to manage their gas supply.

In the recent 2016 RDA proceeding, the record showed that FEI had difficulty complying with the balancing rules, even before they were tightened. At page 79 of the FEI 2016 RDA Decision, the Commission noted FEI's poor record when acting as a shipper agent.

In its role as Shipper Agent, FEI has incurred significant balancing gas penalties in recent years. Over the past five years FEI's share of overall monthly balancing gas volumes has ranged from 3.9 to 21.5 percent. The revised version of Table 10-8 of the Application provided in response to BCUC IR 60.9.1 shows FEI ranked as the Shipper Agent with the second worst balancing issues.

- **Curtailments of balancing gas not explicitly related to weather**

In recent years, FEI has often restricted inventory returns (curtailed) for reasons other than weather-driven supply issues. The criteria that FEI is applying to its decisions on limiting gas returns is not clear, but it is clear that the practice has changed recently. Inventory gas is gas already delivered to FEI and should not be "held hostage" without some explicit understanding of priority of supply.

- **Curtailments transfer value from transport to core customers**

Curtailment related under-deliveries attract punitive penalties. Since the FEI burn report data is at least three days out of date, gas supply managers will tend to over-deliver to the FEI system – i.e. deliver well in excess of worst-case flow volumes – to avoid under-delivering.

Generally, the over-deliveries coincide with higher market prices and the gas may only be returned (by under-delivery) after the lifting of curtailments, which coincides with the abatement of market prices. The result is that FEI receives extra gas when prices are high and returns the gas when prices are low.

- **Marketer over-deliveries are additive**

Even though prudent gas supply managers will tend to over-deliver (as explained above), sometimes customer volatility causes an under-delivery when curtailed. FEI rules do not allow for balancing between marketer groups automatically, so the under-deliveries are additive and incur penalty charges. The cumulative penalties exceed what is necessary to protect the core market and promote the desired supply-management behaviour. The penalties become primarily a revenue transfer from transportation customers to core customers.

- **Extended curtailments create unworkable imbalances**

During the past winter, FEI curtailed its system for almost one month with only a two-day reprieve. Substantial volumes were banked in customer inventories at very high prices (day prices topped $200/GJ and averaged $20/GJ-$40/GJ) and were only returned in the subsequent period when prices averaged $3/GJ-$4/GJ. The net transfer in value from the gas marketers to FEI was in the millions of dollars, a penalty unfairly levied against transport customers to the benefit of core market customers who enjoyed low commodity prices throughout the winter.

- **FEI marketing its own service in competition with gas marketers**

During the past winter, when gas prices were in the $20/GJ-$30/GJ range FEI decided, contrary to the tariff, to limit customers returning to bundled service (commodity and delivery) to a deadline of June 1, 2019. FEI sent a marketing letter dated February 15, 2019 to transport customers just when they were receiving very high bills from their gas marketers.

In the interim, FEI contacted customers offering bundled service, providing potential customers with historical rate comparisons.

On May 24, 2019 – days before the June 1, 2019 deadline – FEI sent an additional letter to all transportation customers, informing them that the "offer" to return to utility service had been extended to July 1, 2019, with the caveat that even later switches may be considered.

This marketing effort by FEI raises serious concerns about how FEI competes in this market space. FEI must not be permitted to use its access to customer information and market power to compete unfairly.

The Commission has established rules of conduct in other situations such as for services downstream of the residential meter and for alternate energy services. The Commission should establish similar code of conduct rules for this activity.

The BCGMC believes the only way to address these issues is through the BCGMC being granted an opportunity to submit an Information Request to FEI.

3. REPLY COMMENTS ON THE INFORMATION RESPONSES PROVIDED BY FEI

a. BCUC IR 1.1.1

- In its response, FEI fails to note that the same day gas market in BC is illiquid. To illustrate this lack of liquidity, the same day market at Sumas traded an average of 3,700 GJ per day in 2019 whereas the next day market traded an average of 143,000 GJ per day. The same day market is illiquid due to the fact that NGX does not clear the Sumas same day product directly. Instead, a Shipper Agent must be bilaterally enabled with the counterparty on the NGX screen in order for the trade to be executed. The means that the next day market on NGX provides the liquidity that allows shippers to plan for upcoming gas flows. Using the example put forward by FEI in the third paragraph of its responses, the reality is that on Wednesday, Shipper Agents are making nominations for Thursday gas flow, not Wednesday gas flow, which means that the best available actual burn data is for Monday, which is data that is <u>three days old</u>.

- Contrary to the assertion by FEI that previous day customer volumes are not an appropriate basis for upcoming nominations, the BCGMC asserts that recent consumption information, combined with weather forecasts and information supplied directly from customers are the best indicators of upcoming consumption.

- There has been an increase in the amount of fuel switching that is occurring with sophisticated customers due to the high natural gas prices that were encountered over the course of last winter. This has led to an increased amount of volatility in the daily flows that Shipper Agents are managing to, all with the same consumption information that has been provided since 2006.

- Meter reading malfunctions also cause difficulties, as amounts are corrected well after the flow date and Shipper Agents are penalized if missing information. Once corrected, this shifts the Shipper Agent out of the imbalance tolerance zone. Once again, the Shipper Agents are managing a narrow imbalance window without reliable and accurate information.

- As the Commission observed in the recent 2016 RDA Decision, FEI itself had difficulty complying with the balancing rules – even before the rules were tightened. FEI "ranked as the Shipper Agent with the second worst balancing issues".[1]

b. BCUC IR 1.1.2, 1.1.3, 1.1.4 and 1.1.5

- When imbalance parameters are tightened, better information should be provided to Shipper Agents. There have been no improvements to the data provided since 2006. As in all relationships, there is give and take required to allow for a fair and reasonable marketplace. There have been no improvements from FEI to provide Shipper Agents with better information with which to operate in the tight imbalance tolerances that have been established.

c. BCUC IR 1.2

- FEI asserts that the Shipper Agent B served only lower mainland transport customers. In this case, Shipper Agent B chose to under-nominate its daily volumes or the cumulative inventory would have stayed flat or increased, as there was no imbalance return allowed and it was a hold to authorized period for the entire month of November 2018.[2] This means that Shipper Agent B paid penalties to FEI for the three days that it dropped its cumulative balance in November 2018 at a rate that was the greater of $20/GJ or 1.5 times the Sumas Gas Daily Midpoint price. The BCGMC would like the opportunity to enquire as to the amount of penalties that were borne by Shipper Agent B over the course of the period illustrated in Figure 3.

d. BCUC IR 3.0

- FEI has stated that it has not received formal complaints from other gas marketers or T-Service customers – but that does not mean that other stakeholders are 'happy' with FEI. Further, BCGMC represents 48% of the gas marketer volume in British Columbia, and therefore itself represents a significant portion of the market which is dissatisfied with FEI's level of service.

[1] 2016 RDA Decision page 79.

[2] FEI Response to BC GMC Complaint, Appendix A.

The BC GMC would be pleased to elaborate on any point in this reply submission.

Respectfully,

Cascadia Energy Nick Caumanns	Direct Energy Nicole Black	Access Gas James Bartlett

cc. FortisBC Energy Inc.