

Trudeau, Stéphan

De: Craig Donohue [cdonohue@wei.org]
Envoyé: 12 mars, 2002 10:07
À: 'strudeau@gazmet.com'
Objet: PNG Gas Supply Price Risk Management Plan
Further to our telephone conversation, I confirm that PNG files its annual Gas Supply Price Risk Management Plan with the B.C. Utilities Commission on a confidential basis. The Plan is kept confidential in accordance with a policy letter we sent to the Commission several years ago concerning the need to keep gas supply price information confidential due to its commercial sensitivity.

I can confirm that the objective of PNG's Gas Supply Price Risk Management Plan is to manage price volatility by hedging prices over the winter and summer months for a portion of our firm gas supply requirements. In other words, once the hedging is in place, we do not try to beat the market by going in and out of the market in response to changes in future prices.

I trust the above will assist you. Please contact me if you have any further questions.

Craig P. Donohue
Director, Regulatory Affairs & Gas Supply,
Pacific Northern Gas Ltd.
Tel: (604) 691-5882 Fax: (604) 691-5863
Cell: (604) 868-7955 E-mail: cdonohue@wei.org

Trudeau, Stéphan

De: Barb Condon [BCondon@bcgas.com]
Envoyé: 13 mars, 2002 11:21
À: 'strudeau@gazmet.com'
Objet: FW: BC Gas Supply Risk Management Plan
Mr. Trudeau,

Our risk management plan is not a public document as such can not provide the information you request.

Barb Condon
Risk Manager
BC Gas Utility
ph 604 592 7896

> -----Original Message-----

> From: Kirby Morrow
> Sent: Wednesday, March 13, 2002 8:07 AM
> To: Barb Condon
> Subject: FW: BC Gas Supply Risk Management Plan
>
> Can you follow up

>

> -----Original Message-----

> From: "Trudeau, Stéphan" [SMTP:STrudeau@gazmet.com]
> Sent: Wednesday, March 13, 2002 5:54 AM
> To: 'kmorrow@bcgas.com'
> Subject: BC Gas Supply Risk Management Plan

>

> Mr. Morrow,

>

> Last week I came into contact with Anna Fung and Steve Richards with a
> query
> concerning BC Gas' Commodity Risk Management practices, and Steve thought
> you would be the person most capable of providing me with an answer. I
> will
> paste the message originally sent to Anna and thereafter to Steve, and if
> you have any additional questions please feel free to call or email me at
> the coordinates below. Thanks for your help!

>

> Ms.Fung,

>

> I am regulatory Counsel for Gaz Métropolitain, a Montreal-based LDC. My
> provincial regulator has asked me to file a detailed study of risk
> management manuals, policies, programs or procedures used by other
> canadian
> gas utilities at our upcoming rate case. I therefore hope you can help me
> answer this request.

>

> My questions are the following:

>

> * Is your risk management policy a public document or has it been
> filed as an exhibit in a past rate case?

> * If your risk management policy is of a public nature, would it be
> possible to forward us an up-to-date copy?

> * Again, if your policy is public, would it also be possible to send
> us a copy of your "exposure books" or any other amalgamated overview of
> positions taken during the years 2000 and 2001?

> * If, however, your policy is of a confidential nature or has been
> provided to your regulator on a confidential basis, could you please
> provide
> us with a letter confirming that fact or explaining what measures are
> taken
> to limit divulgation of the document.

>
> I thank you for the time spent on my request and please know that if there
> is any similar request with which I can be of assistance, I will be glad
> to
> return the favour.

>
> Stéphan Scott Trudeau
>
> Legal Counsel
> Business Development and
> Out of Québec Regulatory Affairs
> Gaz Métropolitain
> T: 514.598.3898
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>
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21 MAR. 2002



ROBERT J. PELLATT
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March 13, 2002

Mr. S. Trudeau
Counsel
Gas Metropolitan & Company, Limited Partnership
1717 Duhavre Street
Montreal, Quebec H2K 2X3

Dear Mr. Trudeau:

Re: Gas Supply and Price Risk Management Plans
Confidentiality of Plans filed with the British Columbia Utilities Commission

Section 71 of the Utilities Commission Act requires energy supply contracts to be filed with the B.C. Utilities Commission ("BCUC") and requires the information to be made available to the public unless the BCUC considers that disclosure is not in the public interest. A copy of Section 71 and the Rules for Energy Supply Contracts are enclosed.

Natural gas utilities submit gas supply plans and price risk management plans in support of the gas purchase contracts that they file. They generally request such filings to be held confidential by the Commission on the basis that core market (utility sales) customers could be disadvantaged and may experience additional costs if utility gas supply strategies and contracts are treated differently from those of other gas purchasers. Utilities believe that, within the competitive gas market environment, there is no necessity for public disclosure that may prejudice future contract negotiations. In addition, the B.C. Freedom of Information and Protection of Privacy Act requires the Commission to withhold public disclosure of information about third party commercial contracts, unless it is clearly in the public interest to disclose the information.

In this circumstance, the Commission normally holds energy supply contracts and related gas supply and price risk management plans confidential. Nevertheless, the Commission encourages utilities to include with such filings an Executive Summary that is not confidential that can be made available to the public without disadvantaging utility sales customers. We are enclosing a copy of BC Gas' Executive Summary for its 2001/02 Gas Supply Annual Contracting Plan that was approved by the Commission by Letter No. L-15-01.

Yours truly,

A handwritten signature in black ink, appearing to read "R. Pellatt".

Robert J. Pellatt

JBW/cms
Enclosures

Energy supply contracts (see attached Minister's Order M-297)

71 (1) A person who, after this section comes into force, enters into an energy supply contract must

- (a) file a copy of the contract with the commission under rules and within the time it specifies, and
- (b) provide to the commission any information it considers necessary to determine whether the contract is in the public interest.

(2) The commission may make an order under subsection (3) if the commission, after a hearing, finds that a contract to which subsection (1) applies is not in the public interest by reason of

- (a) the quantity of the energy to be supplied under the contract,
- (b) the availability of supplies of the energy referred to in paragraph (a),
- (c) the price and availability of any other form of energy, including but not limited to petroleum products, coal or biomass, that could be used instead of the energy referred to in paragraph (a),
- (d) in the case only of an energy supply contract that is entered into by a public utility, the price of the energy referred to in paragraph (a), or
- (e) any other factor that the commission considers relevant to the public interest.

(3) If subsection (2) applies, the commission may

- (a) by order, declare the contract unenforceable, either wholly or to the extent the commission considers proper, and the contract is then unenforceable to the extent specified, or
- (b) make any other order it considers advisable in the circumstances.

(4) If an energy supply contract is, under subsection (3) (a), declared unenforceable either wholly or in part, the commission may order that rights accrued before the date of the order under that subsection be preserved, and those rights may then be enforced as fully as if no proceedings had been taken under this section.

(5) An energy supply contract or other information filed with the commission under this section must be made available to the public unless the commission considers that disclosure is not in the public interest.

PART 6—COMMISSION JURISDICTION

Jurisdiction of commission to deal with applications

72 (1) The commission has jurisdiction to inquire into, hear and determine an application by or on behalf of any party interested, complaining that a person constructing, maintaining, operating or controlling a public utility service or charged with a duty or power relating to that service, has done, is doing or has failed to do anything required by this Act or another general or special Act, or by a regulation, order, bylaw or direction made under any of them.

(2) The commission has jurisdiction to inquire into, hear and determine an application by or on behalf of any party interested, requesting the commission to

- (a) give a direction or approval which by law it may give, or
- (b) approve, prohibit or require anything to which by any general or special Act, the commission's jurisdiction extends.

Mandatory and restraining orders

73 (1) The commission may order and require a person to do immediately or by a specified time and in the way ordered, so far as is not inconsistent with this Act, the regulations or another Act, anything that the person is or may be required or authorized to do under this Act or any other general or special Act and to which the commission's jurisdiction extends.

(2) The commission may forbid and restrain the doing or continuing of anything contrary to or which may be forbidden or restrained under any Act, general or special, to which the commission's jurisdiction extends.



IN THE MATTER OF

ENERGY SUPPLY

CONTRACTS

- RULES

September 25, 1997

BRITISH COLUMBIA UTILITIES COMMISSION
RULES FOR ENERGY SUPPLY CONTRACTS

The following rules have been developed to facilitate the review by the Commission of energy supply contracts pursuant to Section 71 of the Utilities Commission Act. The review is to ensure that the terms of the contract are in the public interest having regard to the following:

- the quantity of the energy to be supplied under the contract;
- the availability of supplies of the energy;
- the price and availability of any other form of energy, including but not limited to petroleum products, coal or biomass, that could be used instead of the energy,
- in the case only of an energy supply contract that is entered into by a public utility, the price of the energy; or
- any other factor that the Commission considers relevant to the public interest.

NATURAL GAS SUPPLY CONTRACTS

In the case of natural gas supply contracts, the rules have been updated as a result of the continuing development of an efficient gas market in British Columbia.

1.0 GENERAL RULES for All Natural Gas Contract Categories

- 1.1 Under Section 71(1)(a), all natural gas purchasers in British Columbia, other than those purchasing exclusively from a gas utility, must file their supply contracts and all subsequent amendments with the Commission. Any approvals required by these rules should be obtained before delivery of natural gas occurs.
- 1.2 In the case of a buy-sell arrangement involving a gas supply contract between an agent/broker/marketer ("ABM"), on behalf of consumers, and a utility, the utility shall file the contract as part of its baseload portfolio. The Commission's approval of such a contract is subject to the ABM meeting the requirements of Section 3.0 of these rules.
- 1.3 Parties filing gas supply contracts with the Commission under Section 71, either directly or through an LDC, and wishing confidentiality, shall provide written justification as to why, in their view, it is in the public interest that the filed contract be kept confidential. Regardless of the Commission's ruling on confidentiality, price information is only required for utility gas supply contracts.
- 1.4 The reserves, deliverability and delivery arrangements supporting all gas supply contracts requiring approval shall be confirmed by independent third party expert review, or be backed by a corporate warranty from an appropriately qualified supplier which provides indemnification for substitute supply. The initial pre-approval review will be followed up with reviews at intervals as required by the Commission.

- 1.5 Where approval is required, the Commission will issue Orders approving all gas supply contracts which meet the requirements of these rules. Notwithstanding Commission approval, core market purchasers who contract for direct purchase of their natural gas supplies do so at their own risk of availability and price.
- 1.6 Purchasers who wish to displace direct purchases with utility purchases will be accommodated providing they give proper notice. Proper notice will require the customer to be on direct purchase for at least one year, and to give at least 60 days notice to be effective at the beginning of a calendar month. Where the purchaser has not given proper notice, the customer will be accommodated providing that the utility can contract sufficient gas and transportation to meet the additional load and, providing the purchaser assumes responsibility for any resulting incremental LDC costs that are approved by the Commission.
- 1.7 Notwithstanding 1.1 above, purchasers who have satisfied Commission requirements for long-term supply security as per Section 2.0 below and who wish to operate in the "spot" market will be permitted to make special arrangements with the Commission to facilitate timely approvals. Where feasible, this will consist of a verbal request for approval in advance of gas flow followed by filing of an executed contract as soon as possible thereafter. Daily and other short-term spot purchases may require filing of the purchaser's buying procedures and criteria, to be followed by timely filings of purchase contracts and reports of actual purchases.
- 1.8 It is the intention of the Commission to review and approve contracts expeditiously, normally without the requirement for a hearing. It is also the Commission's intention to avoid retroactive Orders. The hearing process, pursuant to Section 71(2) of the Act, will become necessary where the Commission initially determines that the contract may not be in the public interest. A hearing could also be required as a result of a third-party complaint.
- 1.9 The Commission may reconsider the duration of energy supply commitments required by Section 2.0 as gas supply market conditions change. Any change would be prospective and it is the Commission's intent that parties honour existing contracts.

2.0 SPECIFIC CONTRACT RULES by Category of Purchaser

2.1 Purchasers not Subject to Full Review

The Commission will require purchasers in this category to provide the Commission with a statutory declaration which confirms their alternative fuel capability, their use of natural gas mainly for manufacturing purposes rather than space heating, or their normal use of 2000 GJ of gas or more per year. If these purchasers have been buying gas on a non-core basis, or were previously sales customers of the LDC under rate schedules that confirm compliance with the criteria for this category, no statutory declaration will be required.

Purchasers in this category need only file a copy of their gas supply contracts and all subsequent amendments with the Commission. No approval will be required or issued.

2.2 Utility and Core Market Direct Purchasers

Utilities, and all core market direct purchasers that normally use less than 2000 GJ per year must submit gas supply contracts to the Commission for approval, together with all other related contracts which support the gas supply and any information required by 1.4 above. Each gas supply contract shall provide for:

- 2.2.1 in the case of baseload gas supply contracts, a minimum one year term and supply commitment and a minimum 60-day notice period for the supplier to terminate or extend the contract (and, in the case of new seasonal and peaking contracts, equivalent term and termination notice provisions); and
- 2.2.2 in the case of each portfolio, sufficient supply to meet the purchasers' total firm requirements at the level of the current year and a mix of one year and longer term contracts that is appropriate for the security needs of its customers, considering current market conditions; and
- 2.2.3 diversity of supply including where possible a range of suppliers positioned behind alternative processing facilities, or backstopping arrangements; and
- 2.2.4 in the case of utilities only, a prudent combination of terms, conditions, and price.

3.0 RULES PERTAINING to ABM's

3.1 Code of Conduct

All ABM's will be required to comply with the Code of Conduct for Agents/Brokers/Marketers that is approved by the Commission.

3.2 Licencing

Any person intending to act in the capacity of an ABM in order to provide advice to, or act on behalf of, core market consumers that normally use less than 2000 GJ per year and who are purchasing gas directly either under T-Service or a buy-sell arrangement will be required to apply to the Commission for a license. Licenses will be issued subject to receipt of a \$100 fee and compliance with the following requirements.

Persons acting as ABM's on their own behalf and purchasing gas solely for their own use and who are not selling to third-party core market consumers, will not be required to comply with Rules 3.3, 3.5, 3.6, and 3.9.

3.3 Bonding

In order to receive a license, the ABM will be required to post a gas delivery performance bond of \$250,000. The Commission may waive the requirement to post a bond if the ABM is delivering gas exclusively using non-bundled transportation service.

3.4 Code of Conduct and Licensing of ABM's

Failure to comply with the approved Code of Conduct will result in the license being revoked.

3.5 Standard Form of Gas Supply Contract

Licensees will be required to incorporate, in their contracts with gas suppliers, all clauses relating to security of supply from the buy/sell gas supply contract between the ABM and the utility approved by the Commission.

3.6 Disclosure Statement and Appointment of Agent Form

It is expected that the arrangements between end-use consumers and ABM's will require the use of some form of "agency agreement". Licensees will be required to receive Commission approval of their form of agreement. The Commission's review of such agreements will not require all agreements to be identical, but will focus on certain key requirements which shall include a minimum term of one year, and confirmation that the consumer understands the risks associated with direct gas purchases. Different forms of agreement may be appropriate for different categories of customers.

3.7 Standard Information Booklet

The Commission requires each gas distribution utility, in co-operation with ABM's, to develop a standard information booklet for their service area which outlines the procedures for direct purchase, and which discloses potential benefits and costs of direct purchase.

The Commission will require Licensees to distribute these booklets to all prospective clients and to include reference to the Booklet in their Disclosure Statement and Appointment of Agent Form.

3.8 Administration Fees and Minimum Contract Volumes

The commission will require utilities to collect fees to cover the cost of buy-sell administration. Initially the fee shall be \$150/gas supply contract per month plus \$6/customer account per year. Fees will be subject to periodic review by the Commission. The Commission may require minimum contract volumes if such action becomes necessary in future.

3.9 Requirements for Assignment of Westcoast Transmission Capacity

An LDC will provide Westcoast Zone 4 transportation capacity to an ABM when it is able to do so. Where Zone 4 capacity is available from the LDC, it shall be used. Where an ABM holds Zone 4 and has been using it to serve core market customers, but no longer needs it to serve these customers, and it would otherwise be returned to the Westcoast service queue, the ABM shall offer such capacity to the LDC on a right of first refusal basis.

3.10 Limitation on Direct Sales

Aside from buy-sell arrangements, no utility shall engage in the direct sale of natural gas other than through a non-regulated subsidiary which will be considered to be an ABM subject to these rules. The utility will be required to demonstrate a complete operational separation from any such subsidiary.

Executive Summary

BC Gas Utility Ltd.'s ("BC Gas" or "Company") Annual Contracting Plan ("ACP") is a key short term planning document filed with the British Columbia Utilities Commission ("BCUC") in the spring of each year. The ACP sets out the Core customers' anticipated demand for gas, and outlines the Company's strategy to contract for gas commodity, storage facilities, and pipeline transportation resources to meet the needs for the coming winter. The strategies, outlined in the ACP, provide the transition to the objectives of the long range Integrated Resource Plan (IRP).

The proposed ACP for the upcoming year remains consistent with these IRP objectives. The ACP is set out as follows:

- An overview of the ACP that outlines the major issues and recommendations that comprise the report.
- A review of the Core customers' requirements to meet peak day demand.
- A review of the marketplace developments which impact BC Gas' strategy and final recommendations.
- The detailed recommendations set out in the key contracting decisions.
- An outline of the contracting decisions that BC Gas must make over the next three years.

Demand

Firm customer additions are estimated at 5,000 this year, which would represent a 16 TJ/d demand increase consistent with BC Gas' trending analysis. BC Gas will not fully determine overall demand expectations until it has completed an analysis of customer demand response precipitated by recent rate increases effective July 2000 and January 2001. Therefore for the time being, BC Gas

Gas Supply Annual Contracting Plan

estimates the peak day volume requirements to remain the same as those approved for the 2000/01 ACP plan. BC Gas will finalize peak volume requirements later in the second quarter of 2001 based on completed analysis of customer demand response and forecast migration of Transportation Service customers back to firm sales. ^{ok}

Market Overview

North American energy markets have seen unprecedented price increases and volatility in the last year. The surplus gas and electric supply balance of the previous few years became shortfalls in 2000 moving commodity rates to levels that confirmed the inelasticity of most of the market. Demand growth was significant in 2000 due to a strong economy and increased gas use for electric generation, while supply growth was negligible.

It is too early to tell if the significant drilling activity in 2000 and winter 2000/01 will result in production increases later this year. What has been alarming is the continuing increase in existing production draw down levels that requires accelerated new production to just keep up. There has been an estimated 5-10% market demand reduction with the higher price levels, but this may be offset over the next year by the addition of new gas fired generation facilities particularly in the western region.

Therefore, North American market prices over the next year should remain historically high until the market is satisfied that the supply demand balance has been rectified. Western North America should remain particularly volatile over the next year due to:

- **Regional infrastructure constraints (pipeline and transmission) that currently limit access to supply sources.**
- **Expected low levels of Hydro electric generation availability based on current low snowpack conditions in critical basins.**

Gas Supply Annual Contracting Plan

- **Continued high demand for electricity especially in California, where residential price discovery and conservation is just beginning to occur.**
- **An increased number of temporary and long term natural gas power generation facilities coming on line to meet the electricity load not being met by hydro generation.**

These conditions set the stage for higher demand for natural gas fired generation, as existing and new power generation facilities come on line. For winter 2001/02, BC Gas estimates over 1000 MW, or over 200 TJ/D, of incremental natural gas generation load that is scheduled to come on line in the PNW. This increased natural gas demand will put pressure on the existing regional pipeline and storage resources as gas users and power generators in the western region compete for finite gas supply. This should have a significant impact on regional prices and availability of storage and transportation capacity. Currently, price signals confirm that insufficient pipeline capacity exists to satisfy growing regional demand requirements.

BC Gas Supply Portfolio

BC Gas has anticipated the market shortfalls in the West and has pro-actively responded. BC Gas has developed a comprehensive portfolio of pipeline, storage, and commodity contracts that provide supply security at minimum cost for Firm customers. These assets proved to be invaluable this past winter and have been further enhanced for the coming year.

BC Gas will maintain existing supply portfolio flexibility and optionality by continuing to minimize contract terms when possible, while maintaining the ability to secure longer term integrated planning options. This provides for the ability to meet market transitions that occur if circumstances change.

The table below compares the changes in the peak day supply portfolio from 2000/01 to 2001/02.

Gas Supply Annual Contracting Plan

Table 1: Comparative Peak Day Supply Portfolios 2000/01 and 2001/02, TJ/d

	2000/01 Filed ACP	2001/02 Range
Ft Nelson Division	4	4
Baseload	415	380-420
Buy/Sell	0	0
Storage	388	388-404
Synthetic Storage	-	21-42
Seasonal	95	53-120 ⁽¹⁾
Peaking	113	113
Spot	104	120-180 ⁽¹⁾
LNG	164	164
Ind. Curtailment	26	26
Total	1309	1309

(1) The wide range of seasonal and spot contracts results from the uncertainty of the mix of seasonal and spot purchases, due to possible shaping of Sumas, Kingsgate and Stanfield for the coming year.

The principal recommended actions to take place over the next three years are:

- Continue to target term supply contracts with B.C. producers that have significant BC reserves and long-term commitments to B.C. markets.
- Work closely with producers, end users, pipelines and gas fired electrical generators to ascertain fuel switching capabilities for options to enhance overall portfolio economics for Core customers.
- Encourage and foster the development of cost effective transport infrastructure to Huntingdon.
- Maintain existing supply portfolio flexibility and optionality by continuing to minimize contract terms when possible, while maintaining the ability to secure longer term integrated planning options.
- Anticipated business review of tolls in the upcoming Westcoast Settlement, unbundling of commodity from transportation, and discussion of Westcoast T-North Pool issues that have yet to be resolved and may impact longer-term portfolio decisions made on behalf of Core customers.

Gas Supply Annual Contracting Plan

- Contract for incremental downstream storage to replace expiring contracts if economical.
- Develop and implement a strategy to incorporate cost-effective spot purchases into the supply portfolio while incurring no increase in physical supply risk to the Core market.

This 2001/02 ACP is being filed for BCUC approval. BC Gas requests that the document, except for the Executive Summary, remain confidential, given its commercially sensitive information.