



LETTER L-20-16

VIA EMAIL

gas.regulatory.affairs@fortisbc.com

August 4, 2016

Ms. Diane Roy
Director, Regulatory Services
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc.
2016/17 Annual Contracting Plan (November 2016-October 2017)

On May 2, 2016, FortisBC Energy Inc. (FEI) filed on a confidential basis its 2016/17 Annual Contracting Plan (2016/17 ACP). On June 23, 2016 FEI filed an update to the 2016/17 ACP. The British Columbia Utilities Commission (Commission) accepts the FEI 2016/17 ACP and the recommendations as summarized on pages 8 to 10 as well as the June 23, 2016 update.

The major portfolio changes affecting the FEI 2015/16 ACP are as follows:

1. Forecast Design Peak Day Demand: FEI recommends a peak day value for 2016/17 of 1,316 TJ/day, a decrease of 4 TJ/d from the amounts approved in the 2015/16 ACP. The reduction in the design peak day is mainly attributable to a continued decline in the forecast use per customer.
2. Annual Normal Demand: annual normal demand for 2016/17 is projected at approximately 121 PJ resulting in an average daily normal load of 331 TJ/d. In 2015/16, the total annual normal demand was forecast to be 123 PJ resulting in a daily normal load of 335 TJ/d. The decrease of 4 TJ/d in 2015/16 in the annual normal load is mainly attributable to the continued decline in forecast use per customer.
3. Commodity Portfolio: Station 2 baseload supply decreases by 3 TJ/d and AECO/NIT baseload supply decreases by 1 TJ/d, which is due to the forecast reduction in peak day and normal demand supply requirements.
4. Commodity Portfolio: Commodity Providers' fuel requirements for gas delivery on November 1, 2016 will be evaluated and communicated before October 2016. For the period November 1, 2015 to October 31, 2016 the fuel percentages are 4% at Station 2 and 1% at AECO.
5. Commodity Portfolio: FEI recommends continuing with a balanced mix of daily and monthly priced supply to provide operating flexibility and to mitigate adverse price movements.
6. Commodity Portfolio: FEI recommends consideration of longer term supply contracts with BC gas producers, up to ten years in length, in the interest of supply security at the Station 2 market hub.
7. Commodity and Midstream Portfolio: FEI recommends releasing a portion of its Spectra T-South pipeline capacity to customers currently under the transportation service model for the 2016/17 gas year.

8. Commodity and Midstream Portfolio: FEI recommends term purchases at Station 2 out to the 2019/20 gas year in the interest of pricing diversity and supply security at Station 2.
9. Midstream Portfolio: Maintain existing physical resources for the 2016/17 gas year, which includes storage, and transportation capacity on Spectra's T-South and T-North, TransCanada's NGTL and FoothillsBC system, and Northwest Pipeline's system.

On June 23, 2016, FEI filed an update to the 2016/17 ACP with further details on its plans to release a portion of its Spectra T-South pipeline capacity to transportation service customers for the 2016/17 gas year and provided a revised copy of the non-confidential Executive Summary.

The Commission requests FEI to file its 2017/18 ACP by May 1, 2017. In addition, the Commission requests FEI to include the following information in the 2017/18 ACP:

- An update to the Northeastern BC market study with the scope and detail of the update to be determined by FEI.
- An update on the efforts to establish key relationships with producers who plan to develop supply in the Horn River, Montney and other producing regions of British Columbia over the long term.
- A review and analysis of the operational experience with Mt. Hayes and Tilbury liquefied natural gas (LNG) peaking resources for the 2016/17 contract year, including an analysis of the potential impact of LNG service under Rate Schedule 46 service on the availability of these peaking resources for the core natural gas customers for the 2017/18 and future years.
- A load forecast for Rate Schedule 46 customers, the supply arrangements for meeting these customer's load requirements and FEI's plan for integrating this demand into the overall supply portfolio.
- A review of the storage and transportation requirements and alternatives for the 2017/18 and future contract years and an analysis to optimize the amounts of transportation and storage to be contracted in future years taking into account the regional infrastructure and market developments currently in place and anticipated to be in place in the future.

FEI is requested to file, for information purposes, a report summarizing the process and the outcome of its plans to release a portion of its Spectra T-South pipeline capacity to transportation service customers for the 2016/17 gas year within 30 days of completing the release.

Exclusive of the non-confidential Executive Summary, the Commission agrees to hold the 2016/17 Annual Contracting Plan including the June 23, 2106 update confidential as it contains commercially sensitive information. A copy of FEI's non-confidential Executive Summary for the FEI 2016/17 Annual Contracting Plan, as revised in FEI's June 23, 2016 update, is attached and is available for public review.

Yours truly,

Original signed by:

Laurel Ross

CM/cms
Enclosure



EXECUTIVE SUMMARY

1 INTRODUCTION

The Annual Contracting Plan (ACP) is a gas supply planning document filed with the British Columbia Utilities Commission (the Commission) in the spring of each year. The ACP sets out the forecast requirements for all FEI natural gas service areas¹ and the proposed contracting of resources that are planned to meet these requirements for the upcoming gas contract year. The ACP also includes a review of regional marketplace developments that provides context for the overall portfolio strategy. This review is essential because it helps to plan the ACP beyond just the immediate gas year to look out over a three to five year time frame. Longer-term planning is important because the resources available for inclusion in the ACP are limited and may require long lead times to adjust into the portfolio, and are subject to changing market dynamics.

This ACP includes content that is consistent with previous years' filings, including topics of special interest as directed by the Commission in the acceptance letter of the 2015/16 ACP.² This ACP applies to the next gas year that commences on November 1, 2016 and ends on October 31, 2017.

1.1 Objectives of the FEI 2016/17 ACP

The objectives for the 2016/17 ACP remain consistent with past recent Annual Contracting Plans that were accepted by the Commission and are as follows:

1. To contract for resources that ensure a balance of security, diversity and reliability of gas supply in order to meet the core customer design peak day and annual requirements, while minimizing the overall cost of the portfolio.
2. To develop a mix of resources in the portfolio that provides flexibility in the contracting of resources based on short term and long term planning considerations, and evolving market dynamics.

2 THE 2016/17 ACP

This section provides an overview of significant topics that are discussed in detail in the 2016/17 ACP, including the forecast design peak day and annual normal loads, changes in contracting for resources from the previous year, operational, and long term planning considerations. The portfolio of resources included in the ACP is grouped into two components. The first is the baseload supply that is required for the full gas year, and which is included in the Commodity portfolio. The second component includes seasonal supply, storage, and LNG that is required during the winter period and transportation capacity that is required year-round, and is included

¹ Service areas include Lower Mainland, Inland, Columbia, Fort Nelson, Whistler, and Vancouver Island.

² Commission Letter L-28-15 dated July 9, 2015.

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1 in the Midstream portfolio. FEI gas supply manages these two components on an integrated
2 basis, however for the purpose of this ACP the two are identified separately as FEI Commodity
3 and FEI Midstream.

4 **Forecast Design Peak Day Demand for 2016/17**

- 5 • Forecast of 1,316 terajoules (TJ)³ for 2016/17 Core Market peak day, which represents a
6 decrease of 4 TJ from the 2015/16 forecast design peak day demand.

7 **Forecast Annual Normal Demand for 2016/17**

- 8 • Forecast of 121 petajoules (PJ)⁴ for 2016/17, resulting in an average daily normal load of
9 331 TJ/day. In 2015/16 the total annual normal demand was forecast to be 123 PJ,
10 which had resulted in a daily normal load of 335 TJ/day. The decrease of 4 TJ/day in
11 the annual normal load for 2016/17 is mainly attributable to a further decline in average
12 use by residential customers.

13 **Forecast Annual Normal Demand for RS 46 (2016/17)**

- 14 • Forecast of 2.8 PJ for Rate Schedule 46 (RS 46) operational demand.⁵

15 **Gas Procurement and Pricing Strategy**

- 16 • FEI recommends continuing with a balanced mix of daily and monthly priced commodity
17 supply in the portfolio to provide operating flexibility and to help mitigate adverse price
18 movements.
- 19 • FEI will continue to assess possibilities of pursuing long term supply contracts, up to ten
20 years in length, with BC gas producers and other counterparties to support supply
21 security at the Station 2 market hub. However, at this time FEI believes the long term
22 agreements that are in place are at a reasonable level.
- 23 • FEI will continue to pursue contracting term purchases based on securing the basis
24 when favorable between Station 2 and AECO/NIT monthly index beyond the current gas
25 year of 2016/17 (not exceeding three years).

26 **Commodity Portfolio**

- 27 • Baseload supply receipt point allocation to remain at the same levels as last year which
28 is 75% at Station 2 and 25% at AECO/NIT.

29 **Midstream Portfolio**

- 30 • FEI will retain the current level of transportation and storage capacity without significant
31 changes.
- 32 • Allocate a portion of FEI's T-South pipeline capacity to customers under the
33 transportation service model starting November 1, 2016 until October 31, 2018.

³ One TJ is equivalent to 1,000 gigajoules (GJ).

⁴ One PJ is equivalent to 1,000 TJ.

⁵ Operational demand refers to the Tilbury 1A required liquefaction rate of 30-35 TJ/d.



1 **2.1 Resource Contracting in the 2016/17 ACP**

2 FEI must be prepared to meet a peak day as well as winter design and normal load forecasts for
3 the year commencing November 1, 2016 and ending October 31, 2017. Moreover, FEI
4 contracts for diverse and flexible resources in order to manage load swings during spells of
5 colder or warmer than normal weather and to mitigate interruptions in delivery capacity related
6 to both transportation and storage in the winter months. FEI strives to procure and deliver
7 natural gas in the most reliable manner possible. This responsibility includes the need to
8 identify, monitor, and mitigate potential operational and market-related risks. In addition, the
9 minimization of costs related to the annual portfolio, while ensuring the delivery of gas each day,
10 is an important key objective. Balancing the need for cost minimization while meeting reliability,
11 diversity, and flexibility objectives will not necessarily always result in the selection of the least
12 cost alternative for inclusion in the portfolio.

13 FEI competes with other parties in the region in order to continue to hold resources that form
14 part of the portfolio. Given that FEI is now operating in a resource constrained environment, and
15 that no major new resource will be in service for the next few years, existing resources have
16 become even more valuable. This constrained environment has the potential to become more
17 critical given the prospect of incremental demand arriving over the next few years. Therefore, it
18 is prudent for FEI to maintain access to its existing resources for its customers and future load
19 growth.

20 The recommended portfolio is based on a balance of resources that meets the objectives of the
21 ACP. In planning the recommended portfolio, FEI takes into account market information
22 available at that time. However, it must be recognised that due to the many factors influencing
23 natural gas supply and demand, the market for natural gas is always changing. Not only are
24 there absolute price changes, but also changes in market factors (premiums or discounts) for
25 securing physical supply. These changes are driven by the relationship between pricing points
26 and the availability of resources that impact the different market hubs where FEI secures gas
27 supply.

28 The contracting strategy for FEI's Commodity and Midstream portfolios includes a combination
29 of monthly and daily priced supply for price diversification, in addition to contracting at multiple
30 storage facilities and associated transportation resources. Daily priced supply can be resold in
31 the market at the same price as it is bought, therefore removing any price exposure of surplus
32 resources when compared to monthly priced supply. This strategy helps FEI to remain cost
33 neutral when reselling gas on the day. Monthly priced supply helps reduce exposure to market
34 price volatility during the winter months.

35 FEI takes a longer term outlook when contracting for some resources, like transportation and
36 storage assets, and may be restricted to some degree in changing these resources in the
37 portfolio in a particular year. However, customers realize any benefit associated with these
38 resources because they provide security of supply and increased portfolio diversity. Gas from
39 various storage facilities in the winter provides the portfolio with diversity and intraday flexibility,
40 as well as lower cost summer-priced supply.

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2.2 Demand Forecast (Design Peak Day and Normal Load)

Table ES-1 sets out the forecast Core Market design peak day and normal loads during the winter and summer season projected for the next five years.

Table ES-1: Forecast Design Peak Day and Normal Volumes by Service Region

Contract Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	(TJ/d)	(TJ/d)	(TJ/d)	(TJ/d)	(TJ/d)	(TJ/d)
Columbia	27	26	27	27	27	28
Lower Mainland	884	881	886	892	897	902
Ft. Nelson	5	5	5	5	6	6
Inland	292	294	296	298	300	302
Whistler	7	7	7	7	7	7
Vancouver Island	104	103	105	106	108	109
Total Peak Day Load	1,320	1,316	1,326	1,335	1,345	1,354
Yr/Yr Change	n/a	-4	10	9	10	9
Yr/Yr % Change	n/a	-0.3%	0.8%	0.7%	0.7%	0.7%
Winter Normal Load	530	534	534	533	532	526
Summer Normal Load	196	188	188	187	187	186
Average Daily Normal Load	335	331	330	330	331	328
Yr/Yr Change	n/a	-4	-1	0	1	-3
Yr/Yr % Change	n/a	-1.2%	-0.2%	-0.1%	0.3%	-0.8%
	(PJ/yr)	(PJ/yr)	(PJ/yr)	(PJ/yr)	(PJ/yr)	(PJ/yr)
Annual Normal Load	123	121	121	120	121	120

Notes:

All numbers in terajoules per day except Annual Normal Load, which is in petajoules per year.
Normal load excludes Ft. Nelson

- The forecast of design peak day demand for the 2016/17 contract year is 1,316 TJ/d, which represents a slight 4 TJ decline from the 2015/16 contract year. For the same contract year, the annual normal load is forecast to decrease to 121 PJ from 123 PJ in 2015/16, resulting in an average daily normal load of 331 TJ/d in 2016/17 compared to 335 TJ/d in 2015/16. The 331 TJ/d will be the new daily baseload supply that will be received by FEI Midstream on behalf of the Commodity Providers in accordance with the requirements of the Essential Services Model (ESM). The decrease in normal loads in 2016/17 over 2015/16 is primarily attributable to the continued decrease in use by residential customers.
- For the four year period after 2016/17, the peak day is forecast to grow slightly, while the normal load is forecast to remain largely unchanged. Although the change forecast peak day is not material, it does help to confirm the need to continue to hold existing resources for the longer term in the portfolio.
- Table ES-1 does not include a forecast of future additional demand from customers seeking LNG for transportation (RS 46) or Biomethane purposes. At this time RS 46 customer demand and Biomethane demand is not material enough to warrant FEI purchasing baseload supply for the 2016/17 contract year. This is mainly because the expected RS 46 customer demand is a small volume relative to the total liquefaction capacity and buffer storage available for the

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1 2016/17 gas year, which gives FEI the flexibility to suspend liquefaction on a peak day to meet
2 requirements on the rest of the system. As such, for planning purposes for the 2016/17 gas
3 year, FEI has not included a requirement to meet RS 46 load on a design day. As RS 46, and
4 Biomethane demand grows in the future, it will be reflected in the forecast and FEI's portfolio will
5 be adjusted to accommodate it.

6 **2.1 The 2016/17 Portfolio**

7 Table ES-2 sets out a summary of the portfolio planned for the 2016/17 gas year. FEI
8 performed a review of the supply options available for the upcoming winter period, taking into
9 account key market developments that have affected regional pricing and supply sourcing
10 dynamics in the US Pacific Northwest (PNW). After evaluation of the new peak and normal day
11 load forecasts, current portfolio mix, and market developments, FEI recommends the following
12 resource portfolio for 2016/17:

13 **Table ES-2: Planned Peak Day Portfolio for 2016/17 vs. 2015/16 Portfolio**

Peak Day Portfolio (TJ/d)	2016/17 Portfolio- Planned	2015/16 Portfolio
Fort Nelson Division	5	5
Alberta Baseload Supply (CCRA gas & Mktrs)	83	84
Station 2 Baseload Supply (CCRA gas & Mktrs)	248	251
Total Commodity Supply	331	335
Seasonal Supply	175	195
Seasonal Storage	196	197
Market Area Storage	210	210
Peaking Supply	-	-
Spot Supply	46	24
Mt. Hayes LNG	163	163
Tilbury LNG	163	163
Industrial Curtailment	28	28
Total Midstream Supply	981	980
Total Resources (TJ/d)	1,317	1,320
Peak Day Demand (TJ/d)	1,317	1,320

14



2.1.1 COMMODITY PORTFOLIO OVERVIEW: 2016/17

Under the ESM, Commodity Providers supply the daily baseload volume that is equivalent to the normalized annual demand, which is derived from the Core Market normal load forecast. Commodity Providers must provide the daily normalized load requirement of 331 TJ, plus fuel, effective November 1, 2016. Baseload supply for the 2016/17 gas year is based on the current receipt point allocation percentages that are in effect, specifically 75% at Station 2 and 25% at AECO/NIT.

Natural gas marketers participating in the Customer Choice Program (Gas Marketers) are responsible for ensuring a portion of the baseload supply is delivered to FEI at each of the receipt points. For 2016/17 the average daily volume that needs to be provided by Gas Marketers will be approximately 12 TJ/day while 319 TJ/d will be provided by FEI Commodity. The daily volume provided by Gas Marketers decreased by 1 TJ/d compared to the 2015/16 gas year. Table S3-3 shows the estimated future Customer Choice marketer volumes and enrolments for 2016/17 compared to the estimates provided for the 2015/16 ACP.

Table ES-3: Year over Year Change in the Estimated Customer Choice Marketer Volume and Enrolments⁶

Contract Year	2015/16	2016/17	Yr/Yr Change
	(TJ/d)	(TJ/d)	% Change
Rate 1	6.7	6.4	-5%
Rate 2	3.3	3.1	-6%
Rate 3	2.6	2.2	-20%
Average Daily Volume	12.6	11.7	-8%
Customer Enrolments	35,000	32,000	-9%

FEI will be required to provide the following amounts at the receipt delivery points starting November 1, 2016:

Station 2: (331 TJ/day – 12 TJ/day) x 75% plus 4% fuel = 250 TJ/day
Alberta: (331 TJ/day – 12 TJ/day) x 25% plus 1% fuel = 81 TJ/day

The methodology used to calculate the fuel gas percentages that are used above is consistent with the previous year's approach and is described in FEI's letter to the Commission dated February 7, 2008. On September 1, 2015, the Commission approved FEI's application to increase the fuel gas percentage at Station 2 from 3.1% to 4%, and to maintain the fuel gas percentage of 1% for deliveries at AECO/NIT. FEI will continue to monitor the Fuel Gas account and will report the results of its review of the Fuel Gas Percentages to the Commission by the end of the 2016 summer, including a request to modify the fuel rates if necessary.

⁶ The estimate are based on actual and forecasted enrollments in the Customer Choice Program taken in March 2015 (for the 2015/16 forecast) and March 2016 (for the 2016/17 forecast).



2.1.2 FEI MIDSTREAM PORTFOLIO OVERVIEW: 2016/17

FEI is responsible for managing gas supply so that it meets the variability in daily customer demand, including requirements on a peak day. It does this by using seasonal and peaking commodity, storage services, and third party pipeline transportation capacity to meet swings in demand. To determine the appropriate portfolio for 2016/17, including the replacement of any expiring resources and/or meet future growth requirements, FEI assessed several alternatives for 2016/17 including:

- Station 2 supply and associated T-South transportation capacity;
- Seasonal storage (Aitken Creek Storage, Alberta Storage);
- Market area storage (Jackson Prairie Storage (JPS) and Mist);
- Huntingdon and Kingsgate seasonal, spot, and peaking supply; and
- Alberta and Stanfield supply with associated firm transportation capacity.

FEI also has on-system gas supply from resources such as the Tilbury and Mt. Hayes LNG storage facilities. These facilities can provide high volume supply on short demand during periods of cold and extreme winter weather or during emergency situations.

3 REGIONAL DEVELOPMENTS

Significant changes are occurring in the natural gas marketplace in western Canada, driven by two main developments that will impact traditional supply and demand dynamics, regional gas flows, and regional market price relationships. The first development relates to the prospect for incremental demand in the Lower Mainland and the Pacific Northwest (PNW) that is expected to arrive as soon as 2020. This includes gas demand for PNW methanol projects, LNG export projects such as Woodfibre, and further expansion of liquefaction capacity at the Tilbury site to serve small export markets such as Hawaii Electric. It has driven shippers to contract for firm transportation capacity on Spectra Energy's T-South system.⁷ Historically, Spectra has offered up to 1700 MMcf/d of contractible T-South firm year-round transportation service based on the winter design capacity of its system. In October 2014, Spectra reduced contractible firm service to 1450 MMcf/d based on its expected system capacity in the summer months and as of November 2015 this firm capacity has been fully contracted. Spectra has discussed the option of offering up to 160 MMcf/d of firm winter only capacity. FEI understands at this time that Spectra is expected to be filing an application to the National Energy Board (NEB) in the second quarter of 2016, asking for approval to offer this winter only service starting as early November 2016. As Spectra's T-South service is fully utilized during periods of peak demand, FEI cannot not rely on the availability of interruptible service to meet its requirements. Therefore, the winter only service is of interest to FEI, however, the terms of Spectra's potential winter-only service offering are still being determined.

⁷ Spectra Energy operates the T-South pipeline system that is the main transportation system for moving natural gas from northeast BC to markets in BC and the US PNW and on which FEI is heavily dependent.

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1 The prospect of the arrival of incremental demand should help to drive a capacity expansion of
2 the pipeline network into the Pacific Northwest, but that is not likely to be completed before
3 2020. For FEI's customers taking service as transportation customers, the lack of capacity on
4 the T-South system combined with the timing of any T-South capacity expansion creates a
5 potential problem. As incremental demand arrives within the next few years, existing load from
6 transportation customers that currently relies on non-firm T-South transportation capacity may
7 not be able to access adequate transportation capacity or risk paying a significantly higher price
8 at the Sumas marketplace.

9 On September 24, 2014, FEI filed a request to amend the 2014/15 ACP that was accepted by
10 the Commission in Letter L-53-14, dated October 2, 2014. The amendment involved the need
11 to contract for an additional 75 TJ/d in Spectra T-South transportation capacity for Rate
12 Schedule 46 and potential industrial transportation customers seeking to return to bundled
13 service. This capacity was secured earlier than it would normally be contracted for because the
14 prospect of new incremental industrial load in the region could result in capacity being
15 unavailable for FEI's RS 46 and industrial transportation customers. A portion of this additional
16 pipeline capacity that FEI contracted for will be allocated on a temporary basis to transportation
17 customers currently under the transportation service model for the 2016/17 gas year. FEI is
18 working with the Marketers to have contracts in place by November 1, 2016 if the Marketers are
19 interested in an allocation of the T-South pipeline capacity that FEI will be mitigating during the
20 2016/17 gas year, and likely for the 2017/18 gas year, until the upcoming comprehensive rate
21 design process is concluded and FEI determines changes to its transportation service model
22 and tariffs that may be implemented during 2018.

23 Another regional development relates to the significant supply potential of northeast BC. It has
24 prompted the development of infrastructure initiatives to provide greater access to existing and
25 new markets. With increasing demand from industrial, power generation and oil sands demand
26 in Alberta, TransCanada is expanding into northeast BC to access the significant new
27 production basins that are being developed there. Numerous LNG export projects have also
28 been announced for the west coast of BC. FEI is actively involved in the National Energy Board
29 (NEB) proceedings that have the potential to affect FEI's access to supply, and is also actively
30 involved in developing solutions with regional stakeholders to help ensure issues related to third
31 party pipeline infrastructure are favourably resolved. These activities are important because
32 they help to ensure that customers in BC will continue to have access to gas supply at fair
33 market prices.

34 The proposed LNG export projects in BC and Oregon could significantly impact regional gas
35 flows by the start of the next decade. 19 LNG export projects have been proposed for locations
36 on the west coast of BC. Of these, 14 are located in the Kitimat, Prince Rupert, Stewart and
37 Kitsault region, on the northern coast of BC, and five are located outside of this area near
38 Squamish, Delta Campbell River, and Vancouver Island. The projects considered for the north
39 coast of BC will all require substantial new pipeline infrastructure. Five of these projects have
40 announced plans to construct new large diameter pipelines to bring supply from the new
41 production basins in northeast BC. Despite the significant number of LNG projects being



1 proposed in BC, it is expected that only two or three terminals will actually move forward and get
2 constructed. Environmental and regulatory hurdles have hampered the development of many of
3 the proposed projects in BC and Oregon. Moreover, the substantial fall in oil prices and the glut
4 of LNG supply currently on the market have led to even more delays for many of the LNG
5 projects and outright cancellations from Oregon LNG and Douglas Channel LNG.

6 BC is also at the forefront of various developments surrounding pipeline, infrastructure and
7 potentially significant volumes of LNG to be exported to Asian markets over the next few years.
8 However, the growth of natural gas production in BC is also subject to various influences such
9 as pricing of the commodity, influence of changing demand dynamics, and cost of production.
10 Continued expansion of gas production should benefit consumers in BC as this provides
11 opportunities for increased supplies to be available to BC markets well into the future.
12 Therefore, FEI will continue to proactively monitor developments and foster relationships with
13 key producers and other counterparties in order to help ensure that accessible supply and
14 competitive pricing are available at Station 2 over the long term. By continuing to monitor and
15 actively participate in issues and developments affecting the BC and regional gas marketplace,
16 FEI should be in a position to identify if and when it needs to adjust its gas portfolio strategy.
17 This would include for instance, adjusting the use and mix of counterparties or fundamentally
18 altering FEI's physical resources. These activities are critical to helping ensure that FEI remains
19 effective in providing gas supply to customers and so that it is able to continue to meet the
20 security of supply, resource diversity, and cost minimization objectives of the gas portfolio.
21 However, at this time the options to adjust FEI's physical resources are limited given the
22 region's resource constrained environment.

23 4 CONCLUSION

24 The key objectives of the ACP are for FEI to contract for resources that provide supply security,
25 resource diversity and flexibility within the portfolio, while minimizing overall portfolio costs over
26 the short and long term. To achieve these objectives, FEI undertakes an ongoing evaluation of
27 developments in the regional marketplace, such as infrastructure expansions, regional pricing
28 proposals, the cost and availability of resources, and growth opportunities.

29 FEI will continue to meet normal and peak day load requirements using a diverse, flexible, and
30 cost effective portfolio of resources. While the forecast normal and peak day load requirements
31 have changed slightly from the previous year, other market factors are potentially driving more
32 significant future changes in the portfolio. The most significant of these developments involves
33 the regions resource constrained environment and the need to construct additional pipeline
34 capacity especially if new incremental demand arrives in the region. The challenge these
35 requirements create is the need to match the timing of when the new demand materializes with
36 the construction of new pipeline capacity. A potential mismatch of these developments causes
37 existing resources to be in much greater demand. In response FEI has been re-contracting and
38 extending the terms of its existing resources to help ensure that these resources remain in the
39 portfolio. FEI will continue to make appropriate changes to its portfolio as market conditions
40 evolve in order to continue to be able to meet the objectives of the ACP.

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1 FEI will also continue to monitor and actively participate in issues and developments affecting
2 the BC and regional gas marketplace. This activity includes monitoring the development of
3 major regional infrastructure and pipeline systems, the emergence of new markets and sources
4 of gas supply, and the emergence of new regional regulatory issues. FEI will also explore
5 infrastructure opportunities and improvements within its own service regions to promote liquidity
6 and supply availability over the long term. Involvement in these activities is important for FEI as
7 it attempts to ensure that it continues to be able to access secure and reliable gas supply in a
8 cost effective manner for core customers.