

November 16, 2012

National Energy Board  
Secretary of the Board  
444 Seventh Avenue S.W.  
Calgary, Alberta  
T2P 0X8

Attention: Ms. Sheri Young, Secretary of the Board

Dear Ms. Young:

**Re: National Energy Board Act Part IV (Oil & Gas) Regulations Consultation  
NEB file: Ad-GA-ActsLeg-Fed-NEBA-Amend 0101**

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The FortisBC Energy Utilities' (comprised of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc., collectively "FortisBC" or the "Company") apologizes for its late submission in this matter and requests the National Energy Board (the "Board") accept this late filing in the absence of a formal request for late filing permission.

Due to internal resource capacity challenges arising from participation in a number of concurrent Board proceedings, FortisBC has been unable to meet the deadline of October 26, 2012, set for a response to the questions posed by the Board in relation to changes to the NEB Act Part IV. FortisBC believes that the comments contained in this filing will be helpful to the Board when it considers issues raised by the changes to the NEB Act.

FortisBC regrets any inconvenience this delayed filing may cause the Board.

The interest by FortisBC in this review concerns the natural gas industry, particularly as the development of natural gas infrastructure in North East British Columbia ("NEBC"), and numerous regional infrastructure projects aimed at exporting this supply, may impact the cost of natural gas for the BC market. A primary responsibility for the Company is to ensure secure and cost effective natural gas supply to its residential, commercial, and industrial customers.

### **Background**

FortisBC is part of the largest investor-owned distribution utility in Canada, delivering natural gas and electricity to over 1.1 million customers in 135 communities in British Columbia. The Company delivers about 95% of the natural gas consumed by end users in BC. As a result of the historical development of FortisBC's system, and the location of the load centres, FortisBC is dependent on Westcoast Energy Inc.'s pipeline transmission system in BC for the delivery of the majority of its natural gas supply requirements. FortisBC accesses about 85% of its natural gas supply requirements using this transmission system. FortisBC also has some access to the Alberta market via the Nova Gas Transmission Limited system, the

Southern Crossing Pipeline, and the Westcoast system. It is also connected to Williams Northwest Pipeline Corporation, which transports peaking storage supply to Sumas/Huntingdon at the BC-Washington border. However, increasing access to supply basins outside of NEBC, like those in Alberta and the Rockies, is currently limited by available pipeline capacity. Increasing this pipeline capacity would require the construction of significantly expanded facilities, which would likely increase transportation costs for our customers.

BC has significant natural gas resources that FortisBC expects could be developed over the next decade, including the Montney, Horn River, Cordova Embayment and Liard Basins. To realize the full supply potential that these basins promise, FortisBC recognizes that producers will require greater access to existing and new markets. FortisBC acknowledges that the establishment of LNG export facilities on BC's north coast would support the long term development of these significant reserves and has the potential to also increase the supply available to customers reliant on natural gas in BC. As such, FortisBC generally supports the orderly and prudent development of LNG export facilities and related pipeline infrastructure in BC.

North American natural gas markets are interconnected and the customers of FortisBC will ultimately pay a cost based on North American prices, with the benchmark being the Henry Hub market price. FortisBC is interested in understanding how pipeline infrastructure requirements in NEBC will develop in response to the establishment of LNG exports, and how natural gas flows through this infrastructure will impact prices from this source of supply. As pointed out earlier, these changes will ultimately affect the cost of natural gas for consumers in BC. Additionally, FortisBC is also interested in understanding requirements for pipeline expansions and impact on regional pipeline flows:

- What new regional infrastructure will be needed to meet LNG exporter requirements and how will the cost of additional infrastructure be treated?
- How will the utilization of and cost of existing infrastructure be impacted?
- How will the supply required to meet lng export requirements be sourced?
- How it is projected to flow?
  - Will the supply move via a bullet line directly connected to a production area, or will the pipeline(s) be linked to a trading hub like Station 2?

FortisBC will be monitoring future facility applications associated with LNG export projects and, where appropriate, actively participating in any review process to ensure its customers' interests are protected. The Company's primary objective is to ensure that its customers will continue to have access to reliable, cost effective supply over the long term.

The Company provides the following comments to address the questions posed by the Board. The Company's comments will be limited to matters concerning natural gas.

## **1. Surplus Test For Oil and Gas Exports**

Questions posed by the Board:

1. a) **What form should the test take for both oil and gas so that the Board can satisfy itself that there is a surplus of hydrocarbon products to be exported?**
  - i) **If the Board were to retain a form of the MBP, what modifications should be made?**
  - ii) **If the Board were not to retain a form of the MBP, what should replace it?**
  - iii) **What complaint procedure, if any, should be retained by the Board?**
1. b) **What role should market monitoring play under the new NEB Act?**

**FortisBC Response:**

FortisBC supports the continued use of the MBP test for natural gas. FortisBC is supportive of the NEB continuing to assess and ensure reasonable foreseeable Canadian requirements of natural gas will be available for domestic customers. FortisBC believes that the Board, through its staff, has a unique ability to provide forecasts of domestic natural gas supply and demand of natural gas under a variety of scenarios to better allow the domestic market to determine any potential risk associated with long term forecast export levels. Such forecasts of supply should take into account the increasing connectivity of US supply, particularly the emerging Marcellus and Utica shale plays, in meeting domestic demand. These forecasts should be updated at least every three years, or as significant changes in supply and demand occur.

FortisBC believes that the current complaint procedure be retained.

**2. Information to be furnished by Export Licence Applicants**

Question posed by the Board:

2. **What modifications, if any, are required to the information that applicants must submit in requesting an export licence?**

**FortisBC Response:**

The magnitude of some of the proposed exports of gas in the form of liquefied natural gas, and in particular in relation to the current infrastructure in BC, and the potential need for incremental pipeline infrastructure in the province, requires that the export proponent sets out how it plans to source and transport gas to its proposed export facility. If LNG exports trigger the need for additional expansions of existing transmission systems, the Board must make a determination of the specific incremental infrastructure that will be needed to ensure that domestic requirements continue to be met.

FortisBC believes the LNG export license applications should develop a range of supply scenarios so that the potential impact on the domestic market, and especially the BC market, is better understood. LNG export applications should also include an assessment of how their LNG exports could impact regional pricing and regional pipeline flows. The degree to which these projects result in an effective physical or economic by-pass and reduce supply availability at the current BC market hubs could impact the operation of the marketplace in BC and restrict FortisBC's ability to meet the requirements of its customers for natural gas at

fair market prices. This information will help shippers, such as FortisBC, to identify the potential affects on regional gas flows, infrastructure costs, and possibly to identify opportunities for mitigating costs for our customers.

### **3. Authorizations for Natural Gas Imports**

Questions posed by the Board:

- 3. a) Would it be appropriate to modify the Part IV Oil and Gas Regulations to exempt natural gas imports from Board authorizations?**
- 3. b) What are the implications, if any, of removing a gas import authorization requirement?**

#### **FortisBC Response:**

FortisBC supports exempting natural gas imports from requiring Board authorization but for determining the potential supply demand balance the Board must continue to track and report these flows on a timely basis.

In order to determine the surplus Canadian supply the Board must take into account imports into Canada. It is important that the Board be aware of the level of import flows and to the degree they are tied to longer term import arrangements. For example, if the Ontario and Quebec market is relying on US Marcellus and Utica gas supply to meet domestic needs, this should be considered when determining the potential surplus.

### **4. Reporting Requirements**

Questions posed by the Board:

- 4. a) Are there changes to the reporting requirements that should be considered?**
- 4. b) What changes are required to accommodate exports or imports of gas in the form of liquefied natural gas?**

#### **FortisBC Response:**

FortisBC has no comment.

### **5. Short-term Hydrocarbon Export Authorizations**

Questions posed by the Board:

- 5. a) Is there a value in applying a two year term to all short term hydrocarbon export authorizations.**

**5. b) What are the issues that should be considered, market or other, in applying a similar term to all-short term authorizations?**

**FortisBC Response:**

FortisBC has no comment.

Communications related to this filing should be directed to the following three individuals:

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Yours very truly,

**FORTISBC ENERGY INC.**

***Original signed:***

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