



FortisBC Energy Inc.
16705 Fraser Hwy
Surrey, BC V3S 9B3
Tel: 604-592-7859
Fax: 604-592-7893
www.fortisbc.com

DELIVERED VIA ELECTRONIC MAIL

March 19, 2014

British Columbia Securities Commission
701 West Georgia Street
Vancouver, BC
V7Y 1L2

Attention: Mr. Michael Brady, Senior Legal Counsel

Dear Mr. Brady:

Re: FortisBC Energy Inc. (“FEI”) and FortisBC Inc. (“FBC”), (together, “FortisBC”) Comments re CSA Staff Consultation Paper 91-303: Mandatory Central Counterparty Clearing of Derivatives

1. Introduction

FortisBC Energy Inc. and its affiliate FortisBC Inc. (collectively “FortisBC”) hereby respectfully submit comments on the Canadian Securities Administrators (“CSA”) Staff Consultation Paper 91-303 Model Provisional Rule on Mandatory Central Counterparty Clearing of Derivatives on December 18, 2013. FortisBC appreciates the opportunity to submit these comments on Counterparty Clearing and looks forward to further working with the Committee as it moves forward to implementing Canada’s G-20 commitments that relate to the regulation of the trading of derivatives in Canada through the British Columbia Securities Commission.

2. FortisBC Use of Derivatives

In order to mitigate the risk of market price movements on its natural gas rates for customers, FEI has actively engaged in OTC natural gas commodity hedging in the past. FEI has undertaken hedging to protect customers and not for speculative purposes.

FortisBC has also engaged in physical commodity (gas and electricity) trading for the purposes of managing costs for customers. FortisBC believes that these types of transactions should not be classified as derivatives per the Model Rules definitions and therefore not subject to the pending derivatives legislation.

FortisBC's financial hedging and physical commodity purchases and trading strategies and plans have been subject to approval by the British Columbia Utilities Commission on a regular basis before their implementation.

3. Comments Regarding Part 3 Exemptions from the Mandatory Central Counterparty Clearing ("Model Clearing Rule")

FortisBC performs financial hedging and physical trading to mitigate risks and reduce costs for customers and considers itself to be a non-financial entity as defined in Section 1 of the Model Clearing Rule. Section 7 exempts a transaction from the clearing requirement under Section 4 (duty to submit for clearing) provided that: at least one of the counterparties is not a financial entity; and such transaction is intended to hedge commercial risk, directly or indirectly, related to the operation of the business of one of the counterparties that is not a financial entity. Further guidance is required regarding the exemption filing rules for an entity that qualifies for the End-User Exemption: is it required to file on an annual basis or on a transaction by transaction basis? The final rule should give entities the option of reporting such information annually in anticipation of electing the end-user exemption for one or more transactions.

FortisBC requests that the Committee ensures the proposed rules are clear, concise and consistent with other previously published model rules. For example, it should be noted that Consultation Paper 91-405 Derivatives End-User Exemption proposed a more demanding end-user exemption which included requirements such as: 1) obtaining approval from board of directors of the hedging strategy or program; 2) reporting board of directors approval to a trade repository; 3) providing notice to the regulator regarding intention to rely on the End-User Exemption and maintaining appropriate records of eligibility; 4) reporting trading activities to trade repository. The End-User Exemption found in the Model Clearing Rule does not contemplate all the above mentioned requirements; there are only two requirements: 1) if one of the counterparties is not a financial entity and 2) that counterparty is entering into the transaction to hedge or mitigate commercial risk related to the operation of its business. Also, under Record Keeping of the Model Clearing Rule Section 10(1) "Each counterparty that is relying on an exemption must maintain, for a period of 7 years following the date on which the transaction expires or terminates, records of all documentation demonstrating that such counterparty is eligible to benefit from the exemption under section 7, the approval by the board of directors or a group that acts in a capacity similar to a board directors." It does not state or make any reference regarding the End-Users exemption reporting obligations of trading activities to a trade repository or reporting board of directors' approval to a trade repository. As we previously commented on CSA Staff Consultation Paper 91-407 Derivatives: Registration "FortisBC notes with interest the suggested exemption set out in Section 8.1 for exemption from Registration Requirements for derivative dealers where the dealer is already subject to regulation by other entities with regulatory responsibility. We suggest a similar exemption should be available to end-users with respect to the reporting of trading activities to a trade repository. In the case of FortisBC, our financial hedging and physical commodity purchases and trading strategies and plans are reviewed and approved by the British Columbia Utilities

Commission on a regular basis before their implementation. As a result, if FortisBC is also required to report its trades to a trade repository, it will be undertaking duplicative reporting.”

FortisBC hopes that the Committee will provide a schedule outlining the key roles and responsibilities for various market participants. This will assist in navigating through the various compliance rules and regulations and effectively meeting key deadlines.

4. Conclusion

FortisBC appreciates the Committee’s consideration of comments in developing the derivatives regulation. FortisBC has submitted its concerns and comments in the interests of managing its gas and power supply and costs for its customers. FortisBC welcomes further discussion of these comments and concerns if it is required and would like to have the opportunity to review and comment on future papers and provincial rules.

Please direct any further questions to Nina Virdee at (604) 592-7859.

Yours very truly,

Roger Dall’Antonia

Vice President, Strategic Planning, Corporate Development & Regulatory Affairs

FortisBC Energy Inc.