

1 Q. With respect to CA 75 NLH (Parts e, f, and g), Hydro's answer was non-
2 responsive. Reference to the Fuel Oil Practices Review and Policy does not
3 constitute an answer to the RFI. To restate CA 75 NLH:

4

5 For fuel purchases made for Holyrood covering the period of fiscal year 2000
6 to 30 June 2006, please provide the following information:

7

8 (a) Type of fuel purchased;

9 (b) Volume purchased;

10 (c) Price paid;

11 (d) Spot price on the date of purchase;

12 (e) 6-month future price on the date of the purchase (i.e., that is the price
13 quoted 6 months earlier for delivery on the date of the purchase);

14 (f) 12-month future price on the date of the purchase (i.e., that is the
15 price quoted 12 months earlier for delivery on the date of the
16 purchase);

17 (g) For parts e and f, please identify the source of the future pricing data.
18 (Emphasis added)

19

20 Provide the information in Parts e, f, and g.

21

22

23 A. (e) – (g)

24 Subsequent to the previous response to CA 75 NLH, Hydro has consulted
25 with the PIRA Energy Group, Hydro's oil market advisors, to seek their
26 opinion on the practicality of providing the requested data. PIRA advised that
27 a meaningful conclusion cannot be drawn from the requested data set for the
28 following reasons:

- 1 1. There is no historical database for fuel oil futures. Fuel oil hedges are
2 over-the-counter financial instruments between particular buyers,
3 sellers, and intermediaries. It is not a formal futures exchange with
4 formal records as with the New York Mercantile Exchange (NYMEX)
5 for West Texas Intermediate (WTI) crude oil.
6
- 7 2. While a reliable historical crude oil futures database can be built using
8 historical NYMEX data, the basis risk between WTI crude oil futures
9 and fuel oil is high and therefore WTI would not be recommended as
10 an analytical vehicle for evaluating the past performance of fuel oil
11 hedges. (Basis risk means that the relationship between fuel oil and
12 crude oil is quite variable, reflecting either the changing supply/
13 demand circumstances of fuel oil markets or circumstances pertaining
14 to world crude oil supply/demand, as well as U.S. Midwest crude
15 supply/demand since WTI is an inland domestic U.S. crude oil.)
16
- 17 3. PIRA cautions that the selection of a 6-month and 12-month prior
18 future price to a given actual purchase date is arbitrary and the
19 analytical results inferred from this data on hedging performance could
20 well be spurious. CA 217 NLH is asking for just two prior futures
21 quotes from the previous year when in fact there are hundreds of
22 futures that could have been applicable for the actual purchase date
23 (i.e. maybe the 62nd and 300th day earlier than the purchase date
24 could have provided opposite results to the 6-month and 12-month
25 dates).