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November 22, 2018

British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, BC  
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Mr. Wruck:

**Re: FortisBC Inc. (FBC)**  
**Project No. 1598939**  
**2017 Cost of Service Analysis and Rate Design Application (the Application)**  
**FBC Reply Submission**

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In accordance with British Columbia Utilities Commission Order G-180-18 establishing the remainder of the Regulatory Timetable for the review of the Application, please find attached the FBC's Reply Submission.

If further information is required, please contact Corey Sinclair at (250) 469-8038.

Sincerely,

**FORTISBC INC.**

***Original signed:***

Diane Roy

Attachments

cc (email only): Registered Parties

**BRITISH COLUMBIA UTILITIES COMMISSION**  
**IN THE MATTER OF THE UTILITIES COMMISSION ACT,**  
**R.S.B.C. 1996, CHAPTER 473**

**and**

**FORTISBC INC.**  
**2017 Cost of Service Analysis and Rate Design Application**

**REPLY SUBMISSION OF**  
**FORTISBC INC.**

**November 22, 2018**

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## **PART ONE: INTRODUCTION**

1. FBC submits that the ten final submissions filed by interveners in this proceeding overall demonstrate varying levels of support for some rate design proposals and consistent support others. These comments from interveners, as is the case with the residential proposals, provide differing positions even within members of the same customer class. FBC believes that in these cases, it is especially important to consider the first principles of rate design, cost-causation and a balancing of the attributes of sound rate structures as typically exemplified by the Bonbright Principles.

2. FBC notes that its residential rate design proposals have received considerable attention throughout the regulatory process without a consensus among interveners as to the preferred outcome. FBC's proposed commercial rate design, housekeeping amendments, the vast majority of proposed changes to the General Terms and Conditions (GT&Cs), and FBC proposals regarding Transmission Services, received a high level of support among the interveners that provided comment on FBC's proposals.

3. This reply submission is organized by topic area, with responses to each of the Intervener's submissions incorporated within each section.

4. Where they occur, capitalized terms used in this Reply Submission have the same meanings as defined in the FBC Final Submission.

5. To the extent that FBC has not specifically addressed any points made by Interveners in their submissions in this Reply Submission, they should not be taken as agreed to by FBC.

## PART TWO: RESIDENTIAL PROPOSALS

### A. Introduction

6. FBC has made proposals in the Application that, if accepted by the BCUC, would result in the default residential rate:

- (a) having a “flat rate” structure as opposed to the current “residential inclining block (RIB)” rate;
- (b) recovering a higher proportion of the residential revenue requirement from the Customer Charge than is currently the case (i.e. the Customer Charge would increase).

7. In the interest of managing the adverse bill impacts to a majority of customers that may result from the changes, FBC has proposed to implement its proposals using a phased in approach. The Company’s proposal would phase in the changes through a series of five annual steps.

8. It is not unexpected that Interveners have differing or opposing views on the appropriateness of the FBC proposals. These differences may arise from the perspectives of customers in different rate classes, the distinct circumstances of customers within the same rate class, or a particular interest or desired outcome that comports with a certain philosophical stance on energy issues. These varying positions are evident in the Final Submissions of the interveners to which this Reply Submission is directed.

9. In the Application, FBC has tried to balance the interests of its various groups of customers, and the existing regulatory and legislative requirements, in applying sound ratemaking concepts and experience.

10. In this regard, FBC believes that an inclining block rate is appropriate in certain circumstances, that there are a variety of available approaches to conducting a COSA and that there can be an alternate distribution to the recovery of the revenue requirement between the

Customer Charge, Demand, and Energy components of a rate. FBC has not, as alluded to by the BCSEA-SCBC,<sup>1</sup> stated that continuation of the RCR would provide no conservation in the future. There is a question however, as to whether the mandatory application of a rate, such as the RCR, is the most appropriate means of realizing a conservation benefit. The ongoing extent to which customers will continue to respond, and the impact that such a response would impose on other individual customers is uncertain.

11. FBC understands that its residential proposals would provide a significant reduction in the annual bills of a relatively small number of customers with relatively high consumption, while causing bill increases of a smaller average amount to a majority of lower consuming customers.

12. FBC has taken all of the above considerations into account when examining the options for residential rates, as well as customer understanding and acceptance and cost causation, and has provided what it considers to be the best balance given its existing resource planning and demand-side management options.

13. The balance of Part II of this submission will first provide comment on two issues that have emerged as key considerations underlying intervener positions, long-run marginal costs (LRMC) and residential conservation potential, followed by a discussion of the intervener submissions in support of the FBC proposals, and addressing the objections or reservations identified in other intervener submissions.

**B. Long Run Marginal Cost (LRMC)**

14. Since the FBC recommendation for the default residential rate contained in the Application is for a flat rate structure, the Company did not address the manner in which the

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<sup>1</sup> BCSEA-SCBC Submission, paragraph 32(b)



Tier 2 rate would be set in the future, other than its systematic reduction over the course of the phase-in period.

15. Some interveners, most notably BCSEA-SCBC, BCOAPO, and AMCS-RDOS, in discussing whether or not some form of RCR should persist, have raised the relevance of some measure of the Company's LRMC as a referent for the Tier 2 rate.

16. FBC will discuss the appropriateness and limitations of utilizing LRMC for rate setting purposes in more detail below. We note however, that while BCSEA-SCBC and BCOAPO both accept the economic theory that supports the use of LRMC as a referent for rates that lead to economically efficient consumption decisions on the part of customers, the conclusions of BCSEA-SCBC lead it to suggest a modified form of the RCR<sup>2</sup>, while the BCOAPO, citing a much lower LRMC, conclude that the flat-rate proposal of FBC ought to be accepted<sup>3</sup>.

17. As the LRMC has arisen as a topic of discussion in this process, FBC considers that it would be helpful to provide context on the subject covering historical filings and determinations regarding the LRMC, as well as additional commentary on the various measures of LRMC, their derivation, and potential uses. This discussion follows.

**(a) Historical LRMC Filings**

18. As an introductory note in this area, the BCUC issued Exhibit A-19 on November 16, 2018 requesting submissions on issues raised in an email by KSCA regarding FBC's compliance with LRMC-related requirements of BCUC Order G-3-12 and possible revisions to the COSA as filed in this proceeding. (Both issues had been raised initially by BCOAPO in their Final Argument.) In order to give interveners the opportunity to consider FBC's planned response to Exhibit A-19, FBC filed its response on November 20, 2018, two days prior to the filing date set for intervener submissions in Exhibit A-19. The material in the following

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<sup>2</sup> Exhibit C2-6, Section 2.1.3

<sup>3</sup> BCOAPO Final Submission, page 50

paragraphs with respect to FBC's historical LRMC filings is, with a few exceptions, the same as that filed on November 20, 2018.

19. In its Final Submission at page 38, the BCOAPO claims that the requirement contained in the original RIB Decision that FBC, "...provide an update of the full long-run marginal cost of acquiring energy from new resources, including the cost to transport and distribute that energy to the customer as part of the reporting to be submitted in 2014", "...has not been provided to-date". This is not the case.

20. The original RIB Order and Decision (G-3-12) contained the requirement in Directive 5 to file an evaluation report (the G-3-12 Report) for the period from the implementation date to December 31, 2013 by a due date of April 30, 2014. As noted above, the G-3-12 Report, per the Order, "...should also include an in-depth analysis of the full long-run marginal cost of acquiring energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer, and how that cost compares to the Block 2 rate..."

21. On August 22, 2013, in response to a large number of customer complaints, the BCUC issued Order G-127-13, requiring FBC to file a Preliminary Report covering the period from implementation to July 31, 2013. This Preliminary Report was to include, "where reasonable, a summary analysis of the full long-run marginal cost to acquire energy from new resources..."<sup>4</sup> (Emphasis Added)

22. Order G-153-13, dated September 18, 2013, in response to a request made by FBC, changed the reporting period for the Preliminary Report required by Order G-127-13 to, "...the date of implementation to June 30, 2013". This change was solely to make the period covered by the Preliminary Report equal to 12 months.

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<sup>4</sup> Order G-127-13, Directive 2

23. In September of 2013, the Commission initiated a process to amend the reporting requirements of G-3-12. This resulted in Order G-182-13A. The net result of this Order was that:

- The original due-date for the G-3-12 Report (April 30, 2014) was changed to November 30, 2014;
- The G-3-12 Report was to cover the period from the date of implementation (July 1, 2012) to June 30, 2014.
- The G-3-12 directive regarding in-depth analysis of the full long-run marginal cost to acquire energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customers remained in place.

24. On October 31, 2013, FBC filed the Preliminary Report, including the summary discussion of LRMC at page 29. (The “in-depth analysis” was not a requirement of the Preliminary Report.)

25. On May 26, 2014, *prior to the due date of the G-3-12 Report*, the Commission issued Order G-67-14 in the FBC Stepped and Stand-By Rates for Transmission Customers Application. The Panel noted at page 18 of the Decision:<sup>5</sup>

The Commission Panel determines that the next appropriate time to review the potential effectiveness of a stepped rate and the appropriate basis for determining FortisBC’s LRMC should be in conjunction with FortisBC’s next Resource Plan expected to be filed in 2016.

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<sup>5</sup> The chronology of LRMC submissions discussed by BCOAPO at pages 37-38 of its Final Submission notes Order G-3-12 as well as the 2014 RCR Report and 2016 LTERP filing, it omits the Commission direction contained in the G-67-14 decision.

26. As a result of the Decision and Order G-67-14, FBC considered that the LRMC discussion was to be included in the 2016 LTERP rather than in the G-3-12 Report as previously required.

27. FBC filed the G-3-12 Report on November 28, 2014 in accordance with the revisions contained in G-182-13A. The G-3-12 Report discussed LRMC at page 23 and provided LRMC-related information current at the time. Consistent with the BCUC directive in G-67-14, FBC also noted,

- FBC intends to provide an in-depth analysis of LRMC in its next Long-Term Resource Plan and Long Term DSM plan expected to be filed in 2016, for which consultation is currently underway.
- Without the benefit of the detailed work being undertaken as part of that process, it would be premature to file anything substantive that differs from the LRMC discussed in recent regulatory submissions.
- Until the evidence that will be in the LTERP can inform an update to the LRMC, FBC considers the value discussed below (\$111.96/MWh)<sup>6</sup> to be the appropriate comparator for the Tier 2 rate for information purposes.

By Letter L-4-15 the BCUC allowed interveners in the original RCR proceeding to comment on the G-3-12 Report. Of note in the intervener comments was the fact that none of the four (which included BCOAPO) who made comments on the Report made any claim that FBC had failed to comply with the reporting requirements of Orders G-3-12, G-127-13, or G-182-13A.

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<sup>6</sup> As discussed later in this submission, this value no longer represents FBC's view of an appropriate comparator for the Tier 2 rate of the RCR.

28. FBC filed the 2016 LTERP and Long-Term DSM Plan on November 30, 2016. Section 9 of the 2016 LTERP contains the summary of potential values for the LRMC, while Appendix K is a 10 page detailed analysis and discussion of the derivation of the values. The regulatory process associated with the LTERP explored the LRMC through numerous information requests and submissions.

29. The 2016 LTERP and Long-Term DSM Plan also incorporated the information contained in the Company's 2017 Demand Side Management (DSM) Expenditures Application<sup>7</sup> which included an updated DCE study, filed as Appendix C in that process. As noted in that Application, "...the DCE study reviewed the methodologies and best practices to determine a utility specific DCE value and determined a new value based on the present value of the anticipated growth related transmission and distribution capital upgrades over the planning horizon." The study determined a DCE value of \$79.85 per kW-yr.

30. The LRMC associated with FBC's preferred portfolio A4, can be expressed from a customer perspective assuming a loss rate and this has been provided in the response to BCSEA IR 1.42.1.

31. These filings, inclusive of the 2016 LTERP and Long-Term DSM Plan and the related 2017 Demand Side Management (DSM) Expenditures Application fulfil the Company's obligation from the G-67-14 Decision that the basis for determining FBC's LRMC should be explored in conjunction with FBC's next Resource Plan, including the requirements of the G-3-12 Decision that FBC must include the long-run marginal cost to transport and distribute energy to the customers.

32. Ultimately, since the BCOAPO conclusions regarding the FBC LRMC lead it to recommend that the Company's proposal to implement a flat rate and to do so through a phased-in process, its assertion regarding the failure of FBC to comply with the requirement of

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<sup>7</sup> [https://www.bcuc.com/Documents/Proceedings/2016/DOC\\_47076\\_B-1\\_FBC\\_2017-DSM-Application.pdf](https://www.bcuc.com/Documents/Proceedings/2016/DOC_47076_B-1_FBC_2017-DSM-Application.pdf)

G-3-12 has no impact. However, based on the preceding discussion FBC believes that the BCUC should find that the BCOAPO conclusion regarding lack of compliance with the G-3-12 Report is also not correct.

33. For the reasons expressed in the FBC Final Submission in this process, beginning at paragraph 95, the Company maintains that it is not appropriate to combine the energy LRMC and the DCE value as suggested by BCSEA-SCBC. In its Final Submission, BCSEA-SCBC has not rebutted the Company's criticisms of the BCSEA-SCBC calculations, choosing instead only to reiterate that it believes its methodology is well founded.<sup>8</sup>

34. Contrary to the assertion made by BCSEA-SCBC in paragraph 67 of its Final Submission, FBC is not simply relying on the fact that the LRMC was not initially used to set the Tier 2 rate as justification that it should not be used now. Rather, FBC views the use of a measure of LRMC as having limitations and challenges as will be discussed later in this Reply, and, as noted by both BCSEA-SCBC<sup>9</sup> and BCOAPO<sup>10</sup>, use of LRMC in this manner is problematic given that the FBC LTERP was approved only for the period through 2024.

35. At paragraph 50 of its submissions, BCSEA-SCBC appears to diminish the importance of the uncertainty cast upon the LRMC by the Commission's decision on FBC's 2016 LTERP and its impact on the value of conservation. BCSEA-SCBC states there (internal footnote omitted) that, "[w]hile the LRMC itself may be somewhat uncertain, in BCSEA-SCBC-SCBC's view there is no uncertainty that achieving incremental conservation and efficiency savings is valuable to FBC and its customers". BCSEA-SCBC later asserts in paragraph 65 its view that "economic efficiency principles indicate that the avoided cost of new supply is the appropriate referent for the Tier 2 energy price in a conservation-oriented inclining block rate design". To the extent that the LRMC uncertainty translates to a lower LRMC value going forward, which

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<sup>8</sup> BCSEA-SCBC Final Submission paragraph 66.

<sup>9</sup> Ibid, paragraph 65

<sup>10</sup> BCOAPO Final Submission page 48.

FBC believes to be a likely outcome, achieving conservation through an inclining block rate structure with a Tier 2 rate above the LRMC would not be an economically efficient result.

36. FBC provides further discussion on its views regarding the potential uses and limitations of the LRMC and inclusion of the DCE value in the following section.

**(b) LRMC and Conservation Rates**

37. FBC acknowledges that in the original 2011 RIB process, the BCUC considered that the long-run marginal cost of new supply was the appropriate referent for the Block-2 energy rate. This conclusion was based fundamentally on the BCUC's determination that no new evidence had been provided in the proceeding to cause it to depart from the same conclusion reached in the 2008 BC Hydro Residential Inclining Block (RIB) Decision.<sup>11</sup>

38. FBC does not claim, as suggested by BCOAPO, "...that FBC's LRMC was not a consideration in the BCUC's 2012 RIB Decision." FBC only states, as a factual matter, that the Tier 2 rate was not set based on the LRMC. Both the Tier 1 and Tier 2 rate were derived mathematically in consideration of the Customer Charge, the Tier 2 consumption threshold and a limitation on customer bill impact.

39. With regard to the reference in BCUC G-3-12 to the 2008 BC Hydro RIB Decision, FBC notes a number of other relevant excerpts from that decision concerning the LRMC made at the time (all at pages 107-108 of Order and Decision G-124-08):

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<sup>11</sup> In section 4.6.3 of the G-3-12 Decision, the panel stated, "In the 2008 BC Hydro Residential Inclining Block (RIB) Decision, the Commission determined that the long-run cost of new supply is the appropriate referent for the Step-2 energy rate (BC Hydro 2008 RIB Decision, p. 107, Order G-124-08). The Panel finds that no new evidence has been provided in this proceeding to cause it to depart from those conclusions. Accordingly, the Commission Panel Determines that the long-run marginal cost of new supply continues to be the appropriate referent for the Block-2 Energy rate."

- ...there are a number of issues to be addressed before the principle<sup>12</sup> can be applied. The first is that the RIB rate structure is a conservation rate intended to show existing customers the cost of new supply and to offer an incentive to reduce consumption. In these circumstances, it is incorrect to show the existing customer the incremental cost of transmission and distribution.
- The second issue is that those incremental costs, by their nature, vary by region and do not lend themselves to BC Hydro's current policy of postage-stamp rate making.
- The third issue is that the Commission recently approved BC Hydro's SET [System Extension Test] guidelines whereby transmission system improvements would only be considered for new customers "attaching with a load of 500 kVa or more" (2007 RDA Decision, p. 30), and it would appear unreasonable to ask an existing customer to pay something that is not being asked of a prospective customer.
- Finally, concerning the marginal cost of distribution improvements, the SET itself ensures that any cost of attaching to the system in the excess of the embedded average cost of distribution is borne by the developer, and the Commission Panel is of the view that this largely eliminates the incremental cost of distribution from consideration.
- For all the reasons stated in the previous paragraph, the Commission Panel is of the view that a suitable cap for the Step-2 rate is BC Hydro's current estimate of the cost of new supply at the plant gate which is currently 7.35 cents/kWh grossed up for line losses of 0.92 cents/kWh to yield 8.27 cents/kWh at the residential meter.

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<sup>12</sup> The principle referred to is described by the Panel as the "...economic principle that marginal costs at a residential customer's meter should include the marginal cost of transmission and distribution improvements", however the balance of the discussion addresses the difficulties with its application.



40. On January 20, 2017, the BCUC issued an Order (G-5-17) and Decision regarding the BC Hydro 2015 Rate Design Application. This decision again examined the issue of a LRMC measure as a referent for the Tier 2 rate of a RIB rate.

41. In that process, BC Hydro's estimate of its energy LRMC did not include any generation or network capacity costs, consistent with previous BCUC decisions regarding the appropriate LRMC referent for Step 2 of the RIB rate, including the decision on BC Hydro's 2011 RIB Rate Re-pricing Application where the LRMC was confirmed to be based on the levelized weighted average plant gate price of the 2009 Clean Power Call and did not include a generation capacity value.<sup>13</sup> (emphasis added)

42. The Panel agreed with BC Hydro, "...that inclusion of generation capacity value in the energy LRMC would not necessarily result in a more economically efficient price than the use of the energy-only LRMC and believes there is merit in maintaining a consistent mechanism rather than changing the method for calculating the LRMC or adjusting the rate to match the latest estimate of the LRMC."<sup>14</sup>

43. These referenced BCUC Decisions with respect to BC Hydro and the relationship between LRMC and Tier 2 of a RIB rate all support the use of an energy-only LRMC, if it is to be accepted that the LRMC is an appropriate measure upon which to base the price signal in a conservation rate.

44. Notwithstanding the BCUC's conclusions noted above with regard to the use of LRMC as a rate referent for BC Hydro's RIB rate<sup>15</sup>, further consideration should be given as to whether these findings are directly relevant to FBC in its distinct circumstances. The following discussion provides the Company's perspective on the challenges of utilizing a LRMC measure

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<sup>13</sup> BC Hydro 2015 RDA. Exhibit B-5. Response to BCUC IR 1.41.1.

<sup>14</sup> BC Hydro 2015 RDA. Decision and Order G-5-17. January 20, 2017. Section 2.1

<sup>15</sup> In the BC Hydro 2015 RDA Decision at page 8, the Commission also noted BC Hydro's observation that changing circumstances, "...raises issues of the degree to which BC Hydro's conservation rates ought to be maintained, and the degree to which BC Hydro's marginal conservation rates (RIB Step 2, MGS and LGS Part 2 and TSR stepped rate Tier 2) should strictly adhere to BC Hydro's current estimate of LRMC."

in rate setting, and an indication of the level at which such a measure could conceivably be established.

45. FBC recognizes that by making a number of assumptions concerning load and resources, it is possible to develop a single number that represents the Company's estimated future cost to source, transport and deliver energy and capacity to increasing loads. Such an exercise was undertaken by BCSEA-SCBC in its prepared evidence filed as Exhibit C2-6. FBC continues to rely on the discussion provided in its Final Submission at paragraph 95 regarding the critique of BCSEA-SCBC's methodology and conclusions.

46. However, even if a measure of LRMC inclusive of all costs involved in delivering energy and capacity to the customer meter, "a delivered LRMC", were to be developed by the BCSEA-SCBC methodology or otherwise, as with any such number the key issue (as stated in the 2016 LTERP Section 9.2) is that a particular resource option may not fit the energy or capacity requirements of FBC's customers in the future.

47. For this reason, FBC believes the LRMC should be viewed as a directional signal of the cost of incremental resources, rather than a threshold target. As previously explained by FBC in its Final Submissions, at paragraph 95, the difficulties are further compounded if a DCE value, which is a capacity-based number, is converted into an energy number. Any result will be quite uncertain and would only translate into an appropriate customer response if all the assumptions that were made to determine the number were correct.

48. For example, a resource option could have very low cost on a \$/MWh basis but if the energy produced occurs mainly during time periods when supply is abundant and loads are low, then using a single system level number to determine if such resource is cost-effective or not will in all likelihood lead to an incorrect resourcing decision. Likewise, if a resource option were to be accepted based on including potential DCE savings, but it is located on a part of the system that does not require reinforcement in the foreseeable future, it is doubtful that the assumed DCE benefits will be achieved.

49. This locational element is exemplified by cases where, with increased consumption from a particular existing customer, there may be a marginal cost to provide power onto FBC's system, but not necessarily a marginal infrastructure cost to deliver power from the point of interconnection to the customer. Conversely, there may be a cases were a new customer is added to the system resulting in additional infrastructure requirements, but not necessarily the need for additional power supply resources. Furthermore, transmission and distribution costs can only be reduced or avoided if load reduction occurs in a locational area where the utility expansion plans can be altered.

50. When used correctly, signals of incremental resource costs such as the LRMC can be effective in helping the utility to determine a course of action. However, at the present time, FBC has difficulty stating what its current LRMC of supply is as the 2016 LTERP's preferred long term portfolio was not accepted by the BCUC as a result of the BCUC finding that a plan to achieve electricity self-sufficiency in FBC's service area is not in the public interest. In the context of stakeholder expressed preference for lower cost outcomes, the LTERP Decision notes that a portfolio with a high percentage of incremental resources from market purchases had an LRMC that was \$21/MWh lower than FBC's preferred portfolio<sup>16</sup>. The BCUC also notes in the LTERP Decision that it is not persuaded of the benefit of including DSM in the estimate of FBC's LRMC<sup>17</sup>. FBC views these BCUC findings as a signal that portfolio cost will be a key consideration in future resource planning processes and this will put downward pressure on LRMC values that will be accepted in the future.

51. While FBC does not currently have a delivered LRMC number to put forward as part of this proceeding, certain general principles based on the 2016 LTERP Decision must apply:

- Self-sufficiency is not required;

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<sup>16</sup> 2016 LTERP Decision, p 19

<sup>17</sup> 2016 LTERP Decision, p 21

- Market energy access should be assumed to continue through the long term planning horizon;
- DSM should most likely be excluded from the LRMC calculation.

52. Application of these principles would tend to lower any LRMC value and FBC believes that it is most likely that any such value (even if, departing from past practice by the BCUC, an allowance is made in the LRMC value for avoided T&D costs) will be below the Company's current flat rate of \$0.11749/kWh. As such, FBC believes the BCUC should conclude that the phased-in implementation of a flat rate as proposed in the Application is in the public interest. FBC believes the appropriate time to re-examine this matter is after any process around the Company's expected 2021 LTERP is concluded and an updated LRMC number is expected to be available.

53. Of the three interveners with an expressed preference to maintain the RCR, (BCSEA-SCBC, Resolution, and KSCA81), only the BCSEA-SCBC bases a portion of its argument on the relationship between the LRMC and the retail residential rate. Given the limitations provided above related to the use of the LRMC in rate setting, and the fact that the LRMC (even the delivered LRMC) is below retail rates, FBC does not believe that the BCUC should place much emphasis on the LRMC when setting rates for the Company. In fact the logical outcome in the case where marginal costs are below rates would be to have a declining block rate structure

54. In summary, FBC agrees with the theoretical use of an LRMC measure as a rate referent, as do most interveners. However, the exact LRMC measure to use is a matter of some debate. FBC does not have an approved LRMC number to put forward and arriving at one is complicated by the recent BCUC decision in the 2016 LTERP process. Most importantly, the discussion surrounding LRMC has little practical application in the context of setting conservation rates for FBC since it is likely that any measure of LRMC will be below the existing flat rate. With the exception of BCSEA-SCBC, interveners generally accept that the LRMC discussion supports the use of a flat rate, not the RCR.

**C. Implementation of a Flat Rate**

55. As a summary of the intervener positions with regard to the proposal to implement a flat rate, FBC provides the following table.

Intervener Position Regarding Flat Rate	
<b>AMCS-RDOS</b>	Supports
<b>BC Hydro</b>	No position expressed
<b>BCMEU</b>	Supports
<b>BCOAPO</b>	Supports
<b>BCSEA-SCBC</b>	Does not support
<b>CEC</b>	Neither supports or opposes
<b>Gabana</b>	Supports
<b>ICG</b>	No position expressed
<b>KSCA81</b>	Does not support
<b>Resolution</b>	Does not support

**A. Reply to Submissions of Interveners Opposed to the Flat Rate Proposal**

56. For those interveners that have stated an opposition to the implementation of a flat rate (Resolution, BCSEA-SCBC, and KSCA81), FBC provides its reply below.

**a) Submissions of Resolution**

57. With regard to Resolution, FBC understands that its argument in favour of maintaining the RCR can be summarized as follows:

1. The RCR continues to provide a financial incentive for customers to pursue conservation opportunities.
2. Bill impact to low energy users.
3. The RCR provides a fair mechanism for recovering seasonal capacity costs.
4. The RCR provides an incentive to install disruptive technology such as Solar PV
5. The BCUC has already determined that the RCR does not result in a cross-subsidy.
6. The lower initial cost for a non-natural gas home is low by comparison and this fact should be considered.

58. FBC considers that Resolution’s arguments for the maintenance of the RCR can be further summarized as related to the provision of a financial incentive to reduce consumption and that the RCR is a better reflection of cost-causation inclusive of customer-incurred costs.

59. FBC notes that Resolution concedes that technologies beyond the simple changing of light bulbs require a, “significant upfront investment from the homeowner”. In order to exploit these opportunities, “Financial assistance in the form of low interest loans or grants...” or, “...easier access to financial mechanisms...” may be required. This may be the case, however such financial mechanisms are not under consideration in this process, and these comments underscore the lack of ability for some customers to conserve in a manner that would have a meaningful impact on bills. Certainly, the installation of a solar array remains beyond the reach of many FBC customers. As noted by the CEC, “...there is always a conservation incentive when there is a variable charge, even under a flat rate structure.”<sup>18</sup>

60. With regard to the “quasi-seasonal” aspect of the RCR, while Resolution is correct to note that the FBC system peak occurs in the winter, FBC does not agree that imposing a premium on seasonal high-energy use represents a billing structure that more fairly represents the underlying cost structure of the utility. FBC is a dual peaking utility, and consideration of the class load profile is already incorporated into the COSA. As noted in the Company’s 2016 RIB Report to the BCUC, customers without access to natural gas have a higher average use per customer but are less likely than residential customers in general to have peak usage at the time of the overall FBC system peak.<sup>19</sup> And, as BCOAPO has pointed out at page 42 of its Final Submission, load data indicates that load factor for residential customers tends to rise with consumption, suggesting the average cost to serve would typically be lower for high use customers. As stated throughout the Application materials, the existing RCR rate levels and threshold are not reflective of costs. While seasonal variation in power purchase costs is not a

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<sup>18</sup> CEC final submission. Paragraph 150

<sup>19</sup> FBC RIB Report to the BCUC, page 5

significant factor for FBC, the proposed TOU rates would better reflect the seasonal cost differences that do exist.

61. FBC does not dispute that when considered in isolation, a high Tier 2 rate will provide an incentive to take conservation actions. The issue is whether the impact of taking additional conservation measures, and the financial impact of being unable to take such measures, is reasonable in light of the underlying FBC costs and the potential rate impacts for all customers. FBC does not believe that when all factors are considered that the case for reasonableness has been made by Resolution or other interveners.

62. Finally, while a high Tier 2 rate may drive additional conservation action on the part of customers, FBC understands that, generally speaking, interveners do not dispute that conservation should be pursued when it is economically efficient to do so, and not for conservations' sake at any cost.

**B. Submissions of BCSEA-SCBC**

63. With regard to the BCSEA-SCBC position on FBC's default residential rate proposals, we understand that BCSEA-SCBC opposes the implementation of a flat rate, and the alignment of the RS01 Customer Charge with the Customer Charge of RS03 in the manner applied for by FBC. (BCSEA-SCBC supports lowering the RS03 Customer Charge to be equal with the RS01 Customer Charge).

64. However, in the case where the BCUC approves the implementation of a flat rate as proposed by FBC, BCSEA-SCBC supports the phased-in approach.<sup>20</sup>

65. At paragraph 32 of its Final Argument, BCSEA-SCBC attempts to paraphrase FBC's rationale for favouring a flat rate over the existing RCR. BCSEA-SCBC frames the FBC reasons as

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<sup>20</sup> BCSEA-SCBC Final Submission, paragraph 79

follows and then structures the related portions of its submission in order to refute these assumed foundational concepts:

- (a) FBC says elimination of the RCR is consistent with legislated energy policies.
- (b) FBC says continuation of the RCR will provide no conservation benefits in the future.
- (c) FBC says continuation of the RCR is not supported by the COSA results.
- (d) FBC says continuation of the RCR would be inequitable to high consumers who have already adopted all reasonable conservation and efficiency measures.

66. FBC does not agree that BCSEA-SCBC has accurately described the drivers of the residential rate proposals in the RDA. The reasons cited by FBC for implementing a flat rate are clearly identified in Section 6.5.1 of the Application and include:

- (a) That the primary driver behind the Company's proposal to return the default residential rate to a flat structure is the lack of a cost basis for the existing RCR;<sup>21</sup>
- (b) Additional conservation is likely subject to diminishing returns and continuing with the RCR into the future not only lacks a cost basis, but may create inequity amongst customers with regard to the ability to take steps to reduce consumption<sup>22</sup>; and
- (c) With respect to other rate design principles and objectives, when considered alongside the current inclining rates, FBC's proposal is likely to lead to greater customer acceptance and understanding of the default rate that the utility has in place, and less reliance on alternate fuel sources with higher environmental impacts.<sup>23</sup>

67. Only items (c) and (d) from the BCSEA-SCBC list at paragraph 32 of its submissions comport roughly to the drivers mentioned by FBC. Items (a) and (b) do not.

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<sup>21</sup> Application, page 72, line 1

<sup>22</sup> Ibid, line 10

<sup>23</sup> Ibid, line 16



68. FBC has not indicated that there will be “no” conservation benefits from a continuation of the RCR, and the inference that FBC has contended that the elimination of the RCR is somehow driven by legislated energy policies is a mischaracterization. FBC has indicated through its IR responses and Final Submissions that it has considered provincial energy policy and does not view its proposal to better align rates with underlying costs, as is the case with the RCR phase-out proposal, to be in conflict with them.

69. FBC continues to view provincial energy policy as an important and valid consideration in rate design, and has demonstrably supported initiatives that further the Province’s energy objectives. The issue to be considered is the extent to which the RCR continues to further those objectives and whether any resulting conservation can be reasonably achieved while balancing the other rate setting principles.

70. FBC agrees with the BCSEA-SCBC in paragraph 36 of its submissions that the conservation and efficiency objectives of the CEA themselves remain as valid today as they were when the RCR was approved in 2012. FBC does not agree that the RCR remains an appropriate mechanism to further those objectives.

71. At paragraphs 56 and 57 of its submissions BCSEA-SCBC objects to FBC’s characterization of an IR response of its expert witness as assuming the “that the Marginal Price methodology is most reflective of consumer behavior” and then goes on to state its fundamental disagreement with FBC’s contention that there may not be a large concern about conservation losses in transitioning from the RCR to a flat rate. In making the latter submission, BCSEA-SCBC has not provided reasons for its disagreement or attempted to invalidate the claims made in FBC’s submissions at paragraphs 26 to 28 of its Final Argument. FBC maintains that, in simple terms, as the phase in to a flat rate occurs, 65% of residential electricity consumption (i.e. the Tier 1 consumption) will see a progressively stronger conservation price signal while 35% (the Tier 2 consumption) will see a reducing conservation price signal<sup>24</sup>. If, as

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<sup>24</sup> The Tier 1 / Tier 2 energy split, as noted in Exhibit C2-10, BCSEA-SCBC response to BCUC IR 1.10, is found in the COSA study (Exhibit B-2), Revenues tab, cells AD255 and AE255

noted in paragraph 26 of FBC's Final Argument, the California Public Utilities Commission finding that, in their assessment, most customers would be likely to respond to price signals on an average price basis is correct, then increased conservation by customer facing higher bills under flat rates could offset much or all, and possibly more than, any conservation reductions from customers seeing bill decreases.

72. With regard to whatever conservation opportunities remain for residential customers (which, FBC has acknowledged exist), the weight given to forecasts of conservation persistence provided in 2011, such as those provided in the original RIB process and which are now almost 8 years old, should be balanced with the current state of electricity markets where additional conservation may place upward pressure on rates.<sup>25</sup> BCSEA-SCBC draws from the FBC 2019-2022 DSM Plan and Conservation Potential Review in support of its view that, "...substantial amounts of cost-effective conservation and efficiency savings (are) available in the residential customer class."<sup>26</sup> However, there is no test for cost-effectiveness for the RCR itself, and unlike the RCR, participation in DSM programs is voluntary and allows customers to decide whether or not potential cost savings are sufficiently attractive to participate. The RCR applies to all residential customers on a mandatory basis regardless of individual circumstances related to reasonable conservation opportunities.

73. No party is in favour of wasteful consumption. However, it is an oversimplification to suggest that all conservation, (i.e. conservation for conservation sake) is desirable, or that a reduced level of consumption is necessarily preferable without some consideration of cost and other trade-offs such as comfort, safety or environmental impact. The evidence in this process regarding cost presented by FBC, and accepted by most interveners, is that the RCR lacks a basis in cost, either directly through the COSA or in relation

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<sup>25</sup> BCSEA-SCBC again raises this issue in paragraph 48 of its Final Argument. FBC stands by the submission made in paragraph 21 and 22 of its Final Argument.

<sup>26</sup> BCSEA-SCBC Final Submission, paragraph 50

to some measure of LRMC. Accordingly, FBC discusses the opposing view held by BCSEA-SCBC below.

74. FBC will not repeat the fulsome discussion of LRMC provided earlier in this submission. To the extent that it is appropriate to use a LRMC metric, which as noted previously is uncertain, as a referent for the Tier 2 Rate, FBC submits that an energy-only LRMC (inclusive of losses) is more appropriate than an LRMC that includes an adder for transmission and distribution, and would be more consistent with previous BCUC determinations. FBC continues to rely on the views it has expressed in its Final Argument and the above LRMC section of this reply submission as its response to the submissions of BCSEA-SCBC in this regard.

75. BCSEA-SCBC's conclusions regarding the RCR beginning at paragraph 78 of its final submission do not follow from its submissions and are questionable. It is unclear what BCSEA-SCBC means when it states that the RCR achieves, "...conservation and energy savings". It is true that the RCR has led to a reduction in overall energy use by the residential class. However, it is less clear that energy savings, when considered in terms of the aggregate annual revenues of the residential customer class, have resulted from the RCR given the revenue neutral nature of the rate. Further, it is unlikely that the reduction in overall energy use has resulted in a positive rate impact given the relative levels of the cost of resources and retail rates, where a reduction in load leads to a reduction in revenue without much reduction in cost. As a result of this situation, a reduction in load would place upward pressure on rates, and this is likely to be the case for the foreseeable future.<sup>27</sup>

76. Finally, it is BCSEA-SCBC's reliance on its determination of a high value for FBC's LRMC that underpins its conclusion that the RCR would continue to produce additional

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<sup>27</sup> This situation was discussed in the G-3-12 Report where FBC noted at page 32, "While an inclining block rate may be well suited to other jurisdictions, experience has shown that in FortisBC's service area, which is largely rural and has a relatively low penetration of alternative heating options such as natural gas, it is not without issues. Given the Company's current load and resource mix there is little to suggest that the RCR in its current form provides an economic benefit to FortisBC's customers through a reduction in overall costs, and to the extent that it results in a decrease in load spread while reducing power purchases a relatively small amount (due to low power purchase costs), the existing customer base may place further upward pressure on rates."

conservation that is economically efficient. FBC has provided compelling evidence in this process that the BCSEA-SCBC LRMC value is not supportable. Based on this, the BCSEA-SCBC argument in support of the RCR is also without foundation and should not be accepted by the Panel.

**A. Submissions of KSCA81**

77. KSCA81's submissions contain a significant number of requests and observations that are not within the scope of a COSA and RDA Application process or that have not been the subject of previous submissions. FBC will address a number of these matters in the course of its reply; however, to the extent that it does not do so, this should not be taken as FBC's agreement with statements made by KSCA81 in its Final Argument. In the interest of procedural efficiency, the Company will focus its submissions below on those issues that are relevant to the proposals being considered by the BCUC in this process.

78. The KSCA81 submission with respect to the fundamental FBC default residential rate proposal as contained in the Application is, "... that the Commission direct FBC to retain the two tier residential billing system..."<sup>28</sup>

79. In this regard, KSCA81 also requests that to the extent that adjustments are to be made to the Tier 1 and Tier 2 rates, that they be made, "...in accordance with Table 1: RIB Rate Evaluation Criteria, as found in Order G-3-12, and in accordance with the Long Run Marginal Cost (LRMC) evaluation criteria determined in G-3-12, 4.6.3, p 41." With respect to these references in KSCA81's submissions, FBC notes that:

- (a) Table 1 from the G-3-12 Decision is a listing of RIB Rate Evaluation Criteria used in the original 2011 Application along with descriptions of what the individual criteria are intended to mean. They are, in fact, akin to definitions and have no specific

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<sup>28</sup> KSCA Final Submission, page 1

parameters associated with them. FBC does not believe they can have any practical application as suggested by KSCA81.

- (b) Similarly, while Section 4.6.3 of the G-3-12 Decision contains a discussion of LRMC matters, it does not contain any “criteria” per se, other than perhaps the determination by the Panel that the LRMC should function as a cap on the Tier 2 rate. FBC relies on its previous submissions on LRMC in this document on this issue.

80. Section 2 of the KSCA81 Executive Summary also contains four additional requests to the BCUC within the section on retaining Tier 2 rates. These are:

- (a) Reinstatement of \$2.38 million in residential DSM spending by creating a no interest DSM residential loan program;
- (b) Creation of a Net Metering (NM) installation loan program;
- (c) Creation of summer- and winter-tiered pricing; and
- (d) Considering creation of a residential customer pilot project that allows those using above 19,200 kWh per annum to switch from Tier 2 pricing to a flat rate, or some other equally appropriate variant.

81. With regard to items (a) and (b), FBC submits that the creation of DSM and NM programs are not within the scope of the current process and are properly addressed in processes that directly consider these matters.

82. With regard to items (c ) and (d), FBC submits that final submissions is not the appropriate time or place to introduce new concepts to which no participant can provide input, and where there is no evidence on the record that would provide a basis for a BCUC decision. These requests should be disregarded.

83. With regard to the FBC proposal to phase in the flat rate over a period of time should the flat rate proposal be approved, KSCA81 provides no submission.

84. FBC assumes that the KSCA81 submissions that are intended to support its request concerning the maintenance of an RCR in some form are those made in the section titled, Two Tier Versus Flat Rate beginning on page 4 of KSCA81's Final Argument, and to a lesser degree the section titled Rising Electricity Costs as a Component of Tier 1 and Tier 2 Pricing at beginning of page 7.

85. Much of the content of these portions of the KSCA81 submission consists of rebuttals to assertions made by AMCS-RDOS in its IR responses, and various excerpts from the BCUC's original RIB decision attached to Order G-3-12. FBC does not agree with many of the arguments that AMCS-RDOS has put forward in support of its position despite having some common ground with respect to the implementation of a flat rate, and is not inclined to take a position on matters of disagreement between KSCA81 and AMCS-RDOS. To FBC, this seems to be primarily a situation of two groups of residential customers taking opposing sides to an issue based on their respective situations.

86. With respect to the G-3-12 Decision, KSCA81 has provided little in the way of conclusions that the various citations would support. FBC has not taken the position that the BCUC lacked the statutory authority to set rates in the manner that it did in 2012. Nor has FBC asserted that the BCUC made an error in fact or law at the time. This is not a requirement for the BCUC to issue a new decision regarding FBC rates pursuant to the current Application.

87. At page 6, KSCA81 provides a summation of the case it puts forward on the preceding pages,

Therefore FBC's Application to return to a single tier rate should be dismissed in its entirety, unless this Commisison (sic) panel finds that there are facts or reasons at law why the two tier rate as established under G-156-10 and G-3-12 should be changed. To be absolutely blunt, KSCA#81 believes that it has found no merits in the case that FBC has put forward in this Application that would require the Commission panel to order FBC to return to a single tier rate.

88. This is not the case. There is no requirement, legal or otherwise, that the Commission be bound to a previous decision if the facts and circumstances surrounding a different Application at a different time warrant rates of a different structure. Indeed, section 75 of the *UCA* specifically states that, “The commission must make its decision on the merits and justice of the case, and is not bound to follow its own decisions”. KSCA81 itself acknowledges this principle when, with respect to the ongoing use of the minimum system study as part of the COSA, it says, “...what the Commission allows or directs a utility to do in one era is not necessarily the right approach in another...”<sup>29</sup>

89. FBC appreciates the conservation-minded approach that KSCA81 brings to its evaluation of rate-related issues. However, if one accepts, as most parties to this process indicate they do, that economically efficient conservation occurs when rates closely follow the marginal costs of new supply for the utility, then rate-driven conservation that results from incorrect price signals will not meet the test. Given that the FBC LRMC, even including delivery costs, is low relative to rates, it is more appropriate to pursue conservation from a DSM perspective that has an associated cost-effectiveness criterion to consider. Rate design is better left as the vehicle for recovering the cost of service.

**(a) Summary of the Interveners Supporting the Flat Rate Proposal**

90. In addition to the AMCS-RDOS, whose submissions are addressed separately in a section further below, the following interveners have expressed support for the proposal to implement a flat rate as the default rate for residential customers: the BCMEU, BCOAPO, and Mr. Gabana.<sup>30</sup>

91. The BCMEU has submitted that, “...FBC has made a reasonable proposal to deal with some of the pressures that have been applied to residential customers as a result of implementation of the Residential Conservation Rate (the "RCR"). The BCMEU submits that the

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<sup>29</sup> KSCA Final Submission, page 12

<sup>30</sup> In addition, BC Hydro, CEC, and ICG neither support nor oppose, or were silent on the matter.

Commission should give significant weight to the efforts of FBC to deal with this issue, and to the evidence supporting its proposal to move away from the RCR back to a flat Residential Rate.” (Emphasis Added)<sup>31</sup>

92. In its Final Submissions, the BCOAPO provide a lengthy discussion of the historical context within which the BCUC directed FBC to implement a RIB rate, and of the purpose for which the rate was approved. In this regard, BCOAPO agrees with FBC that the primary intent behind the BCUC’s directive to the Company to file a residential inclining rate block proposal was to incent customers to use less electricity.<sup>32</sup>

93. Much of the contextual material provided by BCOAPO (such as that generally pertaining to LRMC) is addressed by FBC in other portions of this Reply Submission and is not therefore addressed here.

94. While BCOAPO does not agree with the entirety of the supporting arguments made by FBC in support of the flat rate proposal, it has reached the following conclusions:

- BCOAPO submits that FBC’s proposal to return to a flat rate is consistent with the Bonbright Principles and current Government policy.<sup>33</sup>
- Overall, BCOAPO agrees with FBC’s assessment that there is no “cost basis” for the current RCR and therefore the RCR does not align with Bonbright Principle #2.<sup>34</sup>
- Since a higher load factor is generally correlated with a lower cost per kWh, this suggests that there is no cost basis for an inclining block rate and, indeed if

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<sup>31</sup> BCMEU Final Submission, page 2.

<sup>32</sup> BCOAPO Final Submission, page 34.

<sup>33</sup> Ibid, page 50

<sup>34</sup> Ibid, page 42



anything, the cost per kWh for the second tier should be lower than the cost per kWh for the first tier.<sup>35</sup>

- BCOAPO does agree with FBC's contention that much of the "low hanging fruit" (in terms of conservation) has been picked over the last five years, as the easiest opportunities are likely the ones customers will pursue first. BCOAPO also agrees that some of the savings is a result of changes in appliances/fixtures that will not be removed as FBC phases in to a flat rate.<sup>36</sup>

95. FBC notes that with respect to the BCOAPO views on LRMC, BCOAPO finds that, "The adjusted LRMC value continues to support FBC's position."<sup>37</sup>

96. In addition, regarding the proposals related to the flat rate implementation,

- BCOAPO supports the principles of inter and intra-class equity and in this regard supports FBC's proposals regarding the customer charge,<sup>38</sup> and
- BCOAPO submits that FBC's plan for a five year phase should be accepted by the BCUC.<sup>39</sup>

97. FBC believes that the views expressed by BCOAPO on the residential proposals should carry significant weight with the BCUC given that the BCOAPO represents a broad base of residential customers that is not confined to any particular geographic location, and includes those customers that may be most impacted by the potential for bill increases.

98. The submission of Mr. Gabana contains confirmation that he continues to be under the mistaken understanding that the RCR provides revenue that is additional to that which would be collected under a flat rate. This error has been previously addressed, most

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<sup>35</sup> Ibid

<sup>36</sup> Ibid, page 44

<sup>37</sup> Ibid, page 47

<sup>38</sup> Ibid, page 40

<sup>39</sup> Ibid, page 50

recently at the March 6, 2018 procedural conference.<sup>40</sup> Given this foundation, the submission of Mr. Gabana should not carry much weight with the BCUC, but FBC notes in any case that Mr. Gabana opines that, “The very first step must be to eliminate the present TOP rate.” FBC is not familiar with the reference to a “TOP” rate but assumes that it refers to the RCR.

**(b) Submissions of AMCS - RDOS**

99. The Final Submission of the AMCS-RDOS is restricted to certain of the Residential proposals included in the Application, namely:

- The proposal to implement a flat rate structure for residential customers over the course of four years; and
- The proposal to introduce Time-of-Use (TOU) rates.

100. AMCS-RDOS believes that the flat rate structure is more appropriate than the existing RIB rate structure.

101. AMCS-RDOS supports FBC’s proposal to re-open its TOU system to customers on a voluntary basis.

102. FBC addresses both of these aspects of the AMCS-RDOS submission below.

103. While the AMCS-RDOS and FBC agree that a flat rate is more appropriate for residential customers than a RIB rate, AMCS-RDOS and FBC do not agree on the manner in which the flat rate should be implemented. FBC proposes to introduce the flat rate gradually in five steps over the course of four years, while AMCS-RDOS favours an immediate implementation.

104. AMCS-RDOS bases its case for immediate implementation on two primary considerations. First, that the existing RCR rate is unjust, unreasonable, unduly discriminatory

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<sup>40</sup> Transcript, page 83

or unduly preferential and that any continuation of a RIB rate would prolong this circumstance, and secondly, based on billing comparisons the AMCS-RDOS presents, the RCR results in an unjustified cross-subsidization of one segment of the residential customer base by another.

105. Other assertions made by AMCS-RDOS in its submission are that the RCR violates at least four of the Bonbright Principles and that the BC Energy Objectives and policy goals which AMCS-RDOS says underpin the RCR are not being met. FBC does not agree with these assertions. However, even if the assertions were supported by the evidence, they are at best arguments in support of implementing a flat rate and nothing more.

106. Neither of the assertions made by AMCS-RDOS that the RCR is discriminatory or results in unjustified cross-subsidization is supported by the record in this process for the reasons that follow.

107. AMCS-RDOS provides an erroneous foundation for its view of the decision to be made by the BCUC in the current process when it states that,

Continuing the RCR – a rate which FBC agrees must end – can only be justified by extraordinary and compelling reasons based on sound ratemaking principles.<sup>41</sup>

108. The Application before the BCUC is to implement a flat rate, not to continue with the RCR, and this is the change that FBC seeks to justify. While the distinction may seem subtle, it is important. In order to effect a change in the default rate to a flat rate, FBC must provide adequate justification for doing so. If, in the opinion of the BCUC, FBC has failed to do so, no change to the current situation, the RCR, would result. The RCR has already been approved by the BCUC as a rate that is not unjust, unreasonable, unduly discriminatory or unduly preferential, and, upon review has been found by the BCUC not to constitute a cross-subsidization between customers.

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<sup>41</sup> AMCS-RDOS Final Submission, paragraph 8

109. With respect to the alleged nature of the RIB as unjust, unreasonable, unduly discriminatory or unduly, AMCS-RDOS has failed to provide support for this assertion.

110. FBC has made the case, based on the evidence provided in this proceeding, that a flat rate is more appropriate for its residential customers than a RIB rate. FBC has not made the case, nor does it seek to make the case, that the existing RCR is unduly discriminatory. While FBC considers a flat rate to be a better reflection of the cost of service than the existing RCR and is therefore preferable to the RCR, so long as departures from cost-based rates have an evidentiary basis and are not based solely on a desire to implement a policy of subsidizing one class of customers at the expense of another, it cannot be said that those rates are unduly discriminatory.

111. The BCUC has already made several determinations regarding the RCR as included in its 2017 Residential Inclining Block Rate Report to the Government of British Columbia (the BCUC Report). The BCUC Report found the following:

FortisBC's analysis for R/C ratios calculated on a future cost basis produces results that are similar to those for BC Hydro customers. Examining this ratio on its own, the Commission does not find it to be evidence of a cross subsidy.<sup>42</sup>

Thus, the Commission finds this difference to be within the range of reasonableness for other FortisBC regions, and does not consider the difference to be unjust, unreasonable, unduly discriminatory or unduly preferential in the meaning of section 59 of the UCA.<sup>43</sup>

...the Commission does not find that the RIB rates cause a cross subsidy between customers with and without access to natural gas for either of the Utilities.<sup>44</sup>

The Commission agrees with BCOAPO that there are inherent differences in R/C ratios in any customer classification when customers are grouped together. For example, postage stamp rates generally provide an advantage to rural communities, and so customers in regions without

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<sup>42</sup> 2017 Residential Inclining Block Rate Report to the Government of British Columbia, Page 5

<sup>43</sup> Ibid

<sup>44</sup> Ibid, page 6

access to natural gas may already benefit from a postage stamp cross-subsidy inherent in their rates.<sup>45</sup>

112. In its submission, the AMCS-RDOS claims that the previous determinations of the BCUC in this regard are based on a premise that has been “proven” to be incorrect.<sup>46</sup> In support of this claim, it provides as the premise, an excerpt from the BCUC Report:

The RIB rates are conservation rates; that is, their purpose is to conserve energy or promote energy efficiency by providing a higher incentive, in the form of a higher rate for electricity purchased in the second tier, for higher-use customers to reduce consumption. Since it is not the purpose of the RIB rates to benefit any customers at the expense of other customers, this supports the Commission’s view (that there is no undue discrimination in the RIB rate).

113. AMCS-RDOS apparently believes that the error in the excerpt is self-evident, as it provides no explanation of why this passage supports its conclusion. FBC does not see any portion of the referenced passage that does not continue to hold true in light of any evidence presented to date in this process, and, since the passage only speaks to the historical fact that the RCR was not designed with the intent to engender a cross-subsidy, the substance of the passage cannot be undermined by additional information regarding bill impacts. These have already been considered.

114. It cannot be the case that the RCR, which the BCUC approved in 2011 and found in its 2017 report did not create discriminatory cross-subsidization, can somehow become discriminatory through its continued use during the proposed flat rate phase-in period (and during which the Tier 1 and Tier 2 rates are getting successively closer together over time). . If the BCUC remains of the opinions reflected in the BCUC Report, which are separate from whether a flat rate or a RIB rate is more appropriate, it cannot properly base a decision around the proper timing for the implementation of a flat rate on an assessment of undue discrimination or cross-subsidization in the existing RCR.

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<sup>45</sup> Ibid, page 8

<sup>46</sup> AMCS-RDOS Final Submission, paragraph 13 (o)

115. FBC has proposed to implement a flat rate structure by incrementally reducing the gap in price between the Tier 1 and Tier 2 rates of the RCR. This phase-in proposal has been made in the interest of mitigating bill impacts for those customers that stand to be negatively impacted by the change. Rate design changes involve allocating the utility's cost of service among customer classes, while still ensuring that the utility recovers its costs including a fair return. In the rate design context, the BCUC can consider a variety of factors which it considers relevant. One such factor could be a policy of limiting bill impacts in the process of changing rates to those that will better reflect the cost of service.

116. AMCS-RDOS has provided submissions on the application of the Bonbright principles as they relate to both a flat rate and a RIB rate. FBC has, in its Application and information request responses, also provided commentary on these factors, in large part explaining how the implementation of a flat rate is supported. The submissions of AMCS-RDOS regarding Bonbright Principle 2: Fair apportionment of costs among customers and Bonbright Principle 8: Avoidance of undue discrimination, are discussed above. With regard to Bonbright Principle 3: Price signals that encourage efficient use and discourage inefficient use, no party has disputed that the RCR has resulted in conservation efforts that have reduced the Company's overall load.

117. In light of the LRMC discussion contained in Part II, Section B of this Reply Submission, FBC notes that AMCS-RDOS agree that, "If the marginal cost of supply is greater than the flat rate, then, in theory, a correctly designed RIB Rate (with the correct Tier 1 rate, correct Tier 2 rate and correct Thresholds) could result in better price signals than a flat rate."<sup>47</sup>

118. AMCS-RDOS also states that, "...even if the BCUC were to determine that FBC's marginal cost of supply is, in fact, higher than its flat rate, AMCS-RDOS does not support continuing with a RIB Rate, in any form."<sup>48</sup>

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<sup>47</sup> AMCS-RDOS Final Submission, paragraph 37

<sup>48</sup> Ibid, Paragraph 36

119. Taken together, these statements would indicate that although AMCS-RDOS is of the opinion that there can be a theoretical justification for linking energy rates to marginal costs, if the resulting rate has negative bill impacts for its constituency it still does not like it. In the view of FBC, this stance should give the BCUC pause when it considers the economic-based arguments of AMCS-RDOS.

120. In summary, both FBC and AMCS-RDOS agree that a flat rate is more appropriate for FBC residential customers.

121. However, given that the BCUC has repeatedly and recently found that the existing RCR is not discriminatory and does not result in unfair intra-class cross-subsidization, and if left in place would presumably continue to be considered as such, an argument that relies on conclusions that run counter to these findings to justify an immediate end to the RCR must fail.

122. Positive bill impacts experienced by those who will benefit from a rate change is not a consideration when evaluating rate shock, but the negative bill impacts to be experienced by other customers surely must be. All other interveners, in consideration of a BCUC decision to implement a flat rate, support the Company's proposal to phase the change in over a period of time.

#### **B. Harmonization of the Residential Customer Charges**

123. FBC has proposed that the Customer Charges contained in RS01 and RS03 be made the same. This request is based primarily on the fact that the basic service provided to customers on these rates is the same, and there is no justification for the Customer Charges to differ. No intervener has disputed this point.

124. FBC has proposed that in order to effect this change, the Customer Charge in RS01 (currently \$16.05 per month) should be raised to equal that of RS03 (currently \$18.70 per month) rather than lowering the RS03 charge to equal that of RS01. The reason for this is that

the RS03 charge is closer to, though still substantially below, the unit cost of customer charges as determined by the COSA filed with the Application (\$35.60 per month).

125. No intervener, other than KSCA81, has suggested that the residential Customer Charge should be set at a value other than one of the two existing levels.

126. The following interveners have taken an express position with regard to the Customer Charge harmonization:

- (a) KSCA81 does not support the Company's proposal and further requests from the BCUC a determination that the residential Customer Charge be set at a rate, "...no more than 100% of those delineated costs as espoused by the rate design-making principles of Garfield and Lovejoy in "The Essentials of Rate Regulation", Pricing Policies, Public Utility Economics, 1964, p 154..."<sup>49</sup>
- (b) BCSEA-SCBC support harmonizing the Customer Charges but suggest that both the RS01 and RS03 charge be set at the current RS03 level.
- (c) AMCS-RDOS has not provided an opinion of which of the current customer charge rates would be appropriate if harmonization were to be pursued. It does state that, "...neither FBC nor any intervener has proposed increasing the Customer Charge by that amount in Year 1 and some interveners have expressed concerns about it being increased at all."<sup>50</sup>, which is factual. AMCS-RDOS also suggests that refraining from raising the Customer Charge of RS01 would ameliorate the rate impacts associated with a transition to a flat rate.<sup>51</sup>

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<sup>49</sup> KSCA81 Final Submission, Executive Summary. The referenced material has not been submitted into evidence in this process. However, FBC assumes that these costs are limited to those mentioned at page 12 of the KSCA81 submission as, "...customer related costs to those directly related to the amortized capital cost of a smart meter, the cost of reading a meter, computing the information and billing the customer, and any additional capital, fixed and variable costs associated with servicing that customer's account."

<sup>50</sup> AMCS-RDOS Final Submission, paragraph 40.

<sup>51</sup> Ibid paragraph 43.



- (d) BCOAPO states that it supports the principles of inter and intra-class equity and in this regard supports FBC's proposals regarding the residential Customer Charge.<sup>52</sup>
- (e) The CEC recommends that the BCUC approve the increase in the residential Customer Charge as proposed by FBC.<sup>53</sup>

127. With regard to KSCA81, based upon the conclusions put forward in the section beginning at page 18 of its Final Argument titled, Restructuring a BCC that Works for FBC Residential Customers, concerns with the current Customer Charge seem to stem largely from an objection to the use of the minimum system study for allocating costs within the COSA, comparisons to the Customer Charges in neighbouring jurisdictions and the general impact of the current Customer Charge on low-use, low income and rural customers.

128. As noted by KSCA81, the minimum system study has been approved by the BCUC for use by FBC in its last three COSAs. It was also approved for use by FEI as recently as 2018. It is a valid and accepted standard in multiple jurisdictions and used by NARUC generally. Contrary to the assertion of KSCA81, the minimum system study is not an "outdated methodology"<sup>54</sup>.

129. As noted in the response to BCSEA-SCBC IR 2.1.5, if FBC did not use the minimum system approach in the COSA, the residential customer-related costs would be \$8.8 million and the unit cost would be \$6.35 per customer per month. However, assuming that in the case where the minimum system approach was not used, and Customer Charges were reduced in response (which should not be an assumed outcome), there would be another \$53.2 million in demand-related costs, a large portion of which would be considered fixed costs, that would require recovery of a further \$38 per customer per month. Given the fixed nature of these costs, recovery of this amount through the residential energy charge would inappropriately shift the

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<sup>52</sup> BCOAPO Final Submission, page 40

<sup>53</sup> CEC Final Submission, paragraph 171.

<sup>54</sup> KSCA81 Final Submission, bottom of page 15.

residential cost recovery burden from lower volume consumers to higher volume consumers without any rationale based on the cost of service.

130. The amount of costs shifted from customer costs would vary by rate class and, for those classes with demand charges, would presumably be collected by the demand related rate components, which could be of considerable consequence.

131. KSCA81 also seems aware that the ability of the BCUC to set rates based on customer income is limited. It notes that, "... the Commission ruled in G-5-7 that it cannot create a rate that specifically addresses the needs of low income residential customers to access necessary amounts of electricity for their daily needs..."<sup>55</sup>

132. With regard to jurisdictional comparisons, the BCUC said the following in its Decision on FBC's 2012-13 Revenue Requirements application (at page 20):

FortisBC operates with a different set of supply resources and with a different customer base in terms of geography, population density and the residential/commercial/industrial mix it faces. The Commission panel has no mandate, nor does it find it appropriate, to require FortisBC to manage its utility business to produce rates or programs identical to those of BC Hydro. The Commission Panel believes that FortisBC's responsibility is to provide safe and reliable service in a cost-effective manner consistent with British Columbia's energy objectives. To do so, FortisBC must design and manage its system based on the resources available to it and the needs of its customers. This, at times, may result in rates that are greater than those of BC Hydro and potentially times when they are less.

133. Contrary to the impression that KSCA81 seems to have arrived at with respect to FBC's pointing out the fact that KSCA81 is alone in objecting to the minimum system methodology, FBC did not mean that KSCA81 is alone in the world in having expressed concerns, FBC only made the comments with respect to interveners in the current process – which is the situation of particular relevance.

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<sup>55</sup> KSCA81 Final Submission, top of page 19.

134. KSCA81 bases much of its justification for a low Customer Charge on a misunderstanding of the manner in which costs are allocated, including through the use of the minimum system study and confusion between capacity and energy related costs.

135. At page 14 of its Final Argument, KSCA81 states that the allocation methodology, "...is, in effect, a capacity charge apportioned as if each residential customer has the same capacity requirement, hence the decision to apportion costs as if each residential customer were using 1 kWh when in fact the range is from 0 kWh to over 35,000 kWh per annum...". This mixing of a reference to capacity requirements and annual consumption confuses peak demand/capacity with energy use. In designing and building the system, FBC will appropriately assume that most, if not all, residential customers have the same capacity requirement. The capacity requirement is based on a peak demand requirement, not energy use over the year, and installed facilities are likely the same for most customers.

136. FBC has previously addressed the distinction between capacity and energy with regard to cost allocation in a number of IR responses including its response to KSCA81 IR 2.1.14.i.

137. The FBC system is designed to ensure that the maximum use of each customer can be met, regardless of whether it occurs one hour per year or in all hours of the year. Customers do not commit to a particular level of usage, or to whether or not additional electric equipment will be added in the future. FBC must plan for the maximum peak demand for a typical residential customer. Further, there are minimum sizes for equipment that is installed and standard sizes are used for efficiency in purchasing and installation - leading to similar installations for most customers. The major differences in the need for poles, wires and transformers is based on terrain and density, and those factors have more influence on the number of poles and transformers, and the length of wire as opposed to customer size. If the cost of the distribution equipment is primarily recovered in the energy charge, rather than in a Customer Charge or Demand Charge, customers that use very little energy during the year will not pay a fair share of the cost.

138. As noted at page 15 of the KSCA81 Final Argument, there may well be a difference in the charges to a 1 bedroom apartment in downtown Kelowna compared to a 5,000 sq. ft. home with high use and there would be a difference in the facilities needed to serve those two dwellings. However, a large part of that difference would be based on the location. A home in downtown Kelowna where there is a high density of customers and a short geographical distance from substations and transmission lines would be much less costly to serve than a home in Kaslo, with a much lower density and a greater geographical distance from substations and transmission lines. The COSA and rate design is not done for every single home based on the particular circumstances of that home. Within the residential class, some customers will pay more than their cost to serve while others will pay less. This is true based on location as well as because of consumption. The goal of the COSA and rate design is not to make each customer pay their exact cost of service but to provide rates that are equitable among the broad array of residential customers.

139. All customers require a minimum amount of infrastructure in order to receive service, regardless of consumption. While KSCA81 would prefer a lower Customer Charge that would favour low consumption customers, these customers are already benefitting from the intraclass subsidization that occurs due to the under-recovery of fixed delivery costs as determined by the COSA, and collected through the energy rates of higher consuming customers. No other intervener favours exacerbating this situation by reducing Customer Charges from current levels.

140. At page 17 of its Final Argument, the KSCA81 asks the BCUC, "... to carefully consider whether allowing FBC to continue using both the MSS methodology and its variant PLCC creates an unduly discriminatory BCC rate, and as a question of fact, this form of COSA analysis should be discontinued in accordance with section 59(4) of the UCA."

141. There is no basis for considering either the minimum system study or PLCC adjustment to result in rates that are discriminatory or contrary to the UCA. The BCUC has consistently upheld their use and FBC submits that an examination of the methods will yield the

same conclusion in this proceeding. These submissions by KSCA81 have no merit and do not support the KSCA81 request for a lower Customer Charge.

**C. Closing the Exempt Rate (RS 03) for the RCR Control Group**

142. No intervener has indicated a disagreement with the proposal to close the RS 03 rate as it applies to the RCR Control Group and FBC believes that the BCUC should approve this request.

**D. Conclusion**

143. Based on the intervener Final Arguments, it is clear that there are conflicting views with respect to the default residential rate proposal contained in the Application, and that these are based to some degree on the particular perspectives of the interveners.

144. FBC believes however that its proposals are supported by the evidence on the record in this process, in particular, that related to cost causation and a balancing of rate design considerations. While most interveners recognize and support the concept of creating economic efficiency through rates linked to marginal costs, the evidence in this area strongly suggests that for FBC, any reasonable measure of LRMC does not support a RIB rate.

145. For these reasons, FBC believes that the BCUC should approve its residential rate proposals.

**PART THREE: COMMERCIAL PROPOSALS**

**A. Changes to Fixed Charges**

**(a) Summary of Proposals**

146. FBC has proposed to set the Fixed Charges applicable to the Commercial rate schedules at a minimum percentage of the related unit costs as determined by the COSA. These changes also drive adjustments to the energy rates applicable to consumption in order to

maintain revenue neutrality to existing rates. Where interveners have commented specifically on this aspect of the proposal, FBC has included discussion in this section. This fixed charge proposal results in changes to the Customer Charge and Demand Charge as follows:

Rate Schedule	Customer Charge (\$/mo)		Demand Charge (\$/kVA)		Wires Charge (\$/kVA)		Power Supply Charge (\$/kVA)	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Small Commercial (RS20)	19.40	23.00	n/a	n/a	n/a	n/a	n/a	n/a
Commercial (RS21)	16.48	54.00	7.72	10.22	n/a	n/a	n/a	n/a
Large Commercial - Primary (RS30)	945.04	945.04	9.19	9.19	n/a	n/a	n/a	n/a
Large Commercial - Transmission (RS31)	3116.03	3195.00	n/a	n/a	4.93	4.93	2.77	3.45

147. Only the CEC, BCOAPO and BCSEA-SCBC have addressed the proposals regarding Commercial Fixed Charges in final submissions. FBC submits that the BCUC should conclude that those interveners that chose to not address the topic do not object to the proposals, and given that the CEC is the intervener that best represents the impacted customers, its submission should be given particular weight.

148. The BCSEA-SCBC has only provided a single comment regarding the Commercial proposals, which is that it supports FBC’s proposal to flatten the Commercial RS 21 rate.<sup>56</sup>

**(b) Submissions of BCOAPO**

149. With regard to the RS20 proposals, BCOAPO discusses the topic beginning at page 55 of its submission and states:

- BCOAPO agrees that the proposals more closely align the RS 20 rates with FBC’s COSA results and in this regard are consistent with Bonbright Principle #2.
- BCOAPO also agrees with FBC that, with respect to Principle #3, “the objective should not be to reduce consumption at all costs, but to provide the correct price signal to customers based on the underlying cost of service”. However, in the context of Principle #3 it is important

<sup>56</sup> BCSEA-SCBC Final Submission, paragraph 122.

to note that the promotion of efficient use (from an economic perspective) focuses on the marginal cost of service as indicated by FBC's LRM and not its COSA.

- It is noted that the proposed energy rate (\$100/MWh) is greater than FBC's comparable LRM for power supply of \$95.15/MWh. While the lower value of \$100/MWh is likely to be below FBC's delivered LRM (i.e., includes of DCE), the proposed reduction in the energy rate is minor (less than 2%). As a result, BCOAPO agrees with FBC's assertion that the proposed change "does not create an issue in light of any competing principle that would suggest that the change should not be made" in regards to Bonbright Principle #3.
- In BCOAPO's view, the need for rate mitigation through a phasing-in of the proposed changes to RS 20 is marginal and BCOAPO defers to the views of the CEC and its submissions on this matter.

150. FBC views these comments as an indication that BCOAPO is supportive of all the RS20 proposals.

151. With regard to the RS21 proposals, BCOAPO discusses the topic beginning at page 58 of its submission. BCOAPO discusses each proposal in turn and concludes at the bottom of page 60, "Overall, BCOAPO supports FBC's proposed RS 21 rates and submit that they are consistent with the Bonbright Principles and Government policy."

152. With regard to the FBC proposal to eliminate the declining block energy rate structure for the RS21 energy rate, BCOAPO is supportive stating, "...continued use of a declining block rate structure would lead to a Block 2 rate that is less than the \$68.75/MWh proposed flat rate. This would further increase the discrepancy between the rate applicable to marginal use by RS 21 customers and LRM. As a result, in this Application, elimination of the declining block rate structure is consistent with Principle #3."<sup>57</sup>

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<sup>57</sup> BCOAPO Final Submission, page 60

153. The BCOAPO also expresses the view some form of phase-in may warrant consideration for those customers with material (bill) impacts (e.g. in excess of 15%). FBC will address this view in its reply to the CEC which has expressed a similar perspective.

154. With regard to the RS30 proposals, BCOAPO discusses the topic beginning at page 62 of its submission. FBC is not proposing changes to the RS30 rates, either in structure or by way of a redistribution of revenue recovery amongst the rate components. BCOAPO however, suggests that the Customer Charge should be lowered since it recovers 64% of the COSA unit cost, which is higher than the 55% recovery that is FBC general proposal. FBC has two concerns with this proposal.

155. First, FBC does not believe that it would be appropriate to make a change that results in moving further away from cost-causation principals. Although the percentage recovery of Customer related costs is above other classes, it is still well below the COSA unit costs. Second, were such a change to be directed by the BCUC in this process, it would occur without any consultation with RS30 customers and any opportunity for these customers to provide comment on the proposal such as has been provided to all other customers as part of the Application. FBC does not support changes made without any opportunity for customers to express their views.

156. With regard to the RS31 proposals, BCOAPO states at page 64,

...FBC's move to more closely align the customer and demand charges with the results of the COSA creates a conflict between Bonbright Principles #2 (fair cost recovery) and #3 (efficiency). However, the reduction in the energy rate is minor (less than 3%) such that the proposal is reasonable overall. (Emphasis added)

**(c) Submissions of CEC**

157. The CEC is supportive of the Commercial rate proposals put forward in the Application. CEC makes a number of qualifying statements regarding certain of the proposals and FBC will address these separately below.



158. With regard generally to the Company's proposals concerning fixed cost recovery (with accompanying references to the CEC's Final Submissions provided in parentheses):

- The CEC submits that establishing minimum contribution levels to fixed costs represents an improvement in fairness from a cost causation perspective, as larger customers otherwise subsidize smaller customers with larger energy bills. (paragraph 116)
- The CEC submits that FBC's proposals result in a more equitable distribution of costs, and could potentially go further in the future. (paragraph 117)
- FBC's rate proposals are presented in each rate class discussion, and the CEC is of the view that the changes are not overly burdensome. (paragraph 120)
- The CEC recommends that the Commission approve FBC's proposals to increase the recovery of fixed costs at the proposed levels in the application. (paragraph 121)

159. With regard to the RS20 proposals, CEC states the following conclusions (with accompanying references provided in parentheses):

- The CEC submits that the rate revisions are acceptable. (paragraph 186)
- The CEC recommends that the Commission approve the changes to RS 20 as proposed. (paragraph 187)

160. With regard to the RS21 proposals, CEC states the following conclusions (with accompanying references provided in parentheses):

- The CEC agrees that the existing declining block rate should be flattened. (paragraph 193)
- The CEC recommends that the Commission approve FBC's proposal for RS 21, conditional on FBC being able to mitigate the rate impacts to a greater extent than is being proposed at this time. (paragraph 201)
- The CEC recommends that the Commission request FBC to provide a proposal to mitigate the rates for customers expecting to experience rate impacts of more than 10%. (paragraph 202)

161. FBC will address the CEC request for a rate mitigation proposal for RS21 customers in a following section.

162. With regard to the RS30 and RS31 proposals, CEC recommends that the BCUC approve FBC's proposal as provided for in the Application. (paragraphs 206 and 212)

163. FBC submits that as the intervener that directly represents the customers to which the Commercial proposals would apply, the submissions of the CEC should carry considerable weight.

**(d) Submissions of CEC Regarding RS 21 Bill Impact Mitigation**

164. The CEC recommends that the BCUC approve FBC's proposal for RS 21, conditional on FBC being able to mitigate the rate impacts to a greater extent than is being proposed at this time.

165. The CEC recommends that the BCUC request FBC to provide a proposal to mitigate the rates for customers expecting to experience rate impacts of more than 10%.

166. As noted in the Application at Table 6-17 (as updated by Errata B-1-5), of the 1,370 RS21 customers, 66 or 4.8% face annual bill increases above 10%, averaging 15.82%.

167. FBC has not proposed to phase in the RS21 changes because the percentage of customers facing increases greater than 10% is lower than 5%. This is consistent with the standard used for recent residential rate structure changes and, as noted in the response to CEC IR 1.37.3, 16 customers representing 1.2% of RS21 customers are forecast to have increases over 20%. This figure is lower than the 1.3% of no-gas customers experiencing a greater than 20% increase as reported in the November 2014 RCR Report.

168. Therefore, while FBC continues to believe that the management of bill impact for RS21 customers would best be accomplished through the use of existing Key Account

Managers working with the individual businesses, should the BCUC agree with CEC that a phase-in was warranted, the Company would be able to suggest an approach via a compliance filing within 30 days of the Decision in this process.

**B. Conclusions**

169. All of the interveners that provided comment on the Commercial proposals, CEC, BCSEA-SCBC, and BCOAPO, (recognizing the conditional support of the CEC regarding the RS21 proposal) support the proposals in their entirety. Based on this universal support, FBC strongly believes that the BCUC should approve all of these rate changes.

**PART FOUR: WHOLESALE PROPOSALS**

**A. RS 40 and 41 – Wholesale Service Proposals**

**(a) Summary of Proposals**

170. With regard to Wholesale Service, the Company has proposed:

- Approval of the addition of a discount available to Wholesale Customers served on RS 40 that take delivery at Transmission voltage; and
- Approval of an increase in the Customer Charge for RS 40 from \$2,645.03 to \$4,522.46 and a decrease in the energy rates for RS 40 from \$0.05441 per kWh to \$0.05338 per kWh.

171. FBC has not proposed any changes to the RS 41 Rates.

172. The BCMEU, BCOAPO, and CEC provided final submissions regarding the Wholesale rate proposals.

173. BCMEU has stated:

- With respect to customer rates, the BCMEU does not object to the changes to FBC's fully bundled rates guided by the underlying cost of providing service

supported by the Cost of Service Analysis ("COSA") that has been filed with the Application.

- Dealing with the key specific change impacting the BCMEU members as Wholesale Customers, the BCMEU strongly endorses and supports FBC's proposals at page 26 of its Final Submissions dealing with transformation discounts proposed in the Application, and specifically paragraph 103 of the Final Submissions commenting on the transformation discount to RS40 (the "Wholesale Primary Rate")

174. BCOAPO states at page 68 of its Final Submission:

Similar to FBC's proposals regarding several of its other rate schedules, the existing and the (lower) proposed energy rates for RS 40 are both less than the relevant LRMC of power supply. As a result, the FBC proposal to more closely align the customer charges with the results of the COSA creates a conflict between Bonbright Principles #2 (fair cost recovery) and #3 (efficiency). However, again, the reduction in the energy charge is less than 1% such that BCOAPO considers the overall proposal to be reasonable. (Emphasis added)

175. CEC states in paragraphs 217, and 218 of its Final Submissions respectively:

- The CEC has no objection to FBC's proposal for its Wholesale rates.
- The CEC recommends that the Commission approve FBC's Wholesale rates as proposed in the application.

**(b) Conclusion**

176. FBC submits that since all of the interveners that have provided final submissions of the Company's Wholesale proposals are in support of the changes, the BCUC should approve the changes as requested by the Company.

177. In particular, FBC notes the strong support from the BCMEU, whose member utilities are directly affected by the proposals.

## PART FIVE: OPTIONAL TIME OF USE (TOU) PROPOSALS

### A. Introduction

178. FBC has proposed changes to its existing TOU rate as outlined in Section 8 of the Application (including Errata B-1-4) and supported by Part Seven of its Final Submission dated October 17, 2018.

179. FBC has proposed to make TOU rates that are structured in a manner consistent with the revised rates of the other classes, available to Residential customers.

180. FBC is not proposing to change the existing optional nature of its TOU rates.

181. In intervener final submissions:

- BCMEU states that it, "...supports Commission approval of the FBC proposals listed on pages 11 through 13 of Exhibit "B-1 ", as amended by the errata in Exhibit "B-1-4"." These proposals are inclusive of the TOU proposals;
- KSCA81, beginning at page 21, requests that the BCUC, "consider" or "carefully consider" a number of factors related to the implementation of TOU rates. Specific conclusions are difficult to discern, however KSCA81 does state that it, "...is open to TOU rates..."<sup>58</sup> and "...TOU needs to be first introduced as a pilot project that carefully monitors cost benefits for both the enrolled customers and the Company."<sup>59</sup>
- BCSEA-SCBC opposes FBC's proposed residential optional TOU rate and has reservations about FBC's proposed optional TOU rates for non-residential retail customer classes.<sup>60</sup>
- AMCS-RDOS supports FBC's proposal to re-open its TOU system to customers on a voluntary basis.<sup>61</sup> AMCS-RDOS is also of the view that FBC's proposed TOU system should not be implemented until there has been a complete return to a default flat rate.<sup>62</sup>

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<sup>58</sup> KSCA81 Final Submission, page 23, paragraph 4.

<sup>59</sup> Ibid, paragraph 5.

<sup>60</sup> BCSEA-SCBC Final Submission paragraph 3, (c) and (d).

<sup>61</sup> AMCS-RDOS Final Submission paragraph 98.

<sup>62</sup> Ibid paragraph 102.

BCOAPO's overall submission is that the BCUC not approve the revised TOU rates proposed by FBC.<sup>63</sup>

- The CEC recommends that the Commission approve FBCs proposal as provided for in the application.<sup>64</sup>
- ICG, Mr. Gabana, and Resolution, have made no submissions regarding the TOU proposals.

182. FBC addresses those submissions opposed to the TOU proposal; KSCA81, BCSEA-SCBC, and BCOAPO in more detail below.

**(a) TOU Submissions of BCSEA-SCBC**

183. With regard to the matter of potential cross-subsidization that may occur with TOU rates raised in paragraph 90 of BCSEA-SCBC's submissions, FBC does not agree with the conclusions of BCSEA-SCBC since the TOU rates are set to reflect costs. TOU rates are a tool to discourage on-peak usage but they also reflect different costs for different customers within the residential class. While customers with low on-peak usage may not reduce their on-peak use more under TOU rates, the TOU rate would better reflect the lower cost to serve them. Customers with low on-peak use are currently paying more than their cost to serve and are already subsidizing other customers within the class. The TOU rate would eliminate that cross-subsidy, not create a new cross-subsidy.

184. BCSEA-SCBC, in paragraph 96 of its submissions asserts that the optional TOU rate cannot be a conservation rate if it does not reduce peak use cost-effectively. However, since there is little cost associated with the implementation of the optional TOU rate, any reduction in peak use would prove to be cost-effective.

185. In paragraph 106 of its submissions, BCSEA-SCBC draws certain conclusions regarding free-ridership and the potential for lost revenues with which FBC does not agree. In

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<sup>63</sup> BCOAPO Final Submission, page 84, paragraph 2.

<sup>64</sup> CEC Final Submission paragraph 290.

the Company's view, a more accurate conclusion is that any shift in costs between customers would be from those with favorable load shapes to those with unfavorable load shapes, which could be regarded as appropriate. There would be no higher cost to the class overall. Because the TOU rates are cost-based they better reflect differences in costs to serve customers within the class, just as demand charges better reflect cost causation among customers with different load shapes in the large commercial class.

186. FBC submits that it has provided ample evidence regarding the cost-based and load-reflective nature of its proposed TOU rates, particularly in its responses to information requests that have largely been summarized in its October 17, 2018 Final Submission in Part Seven.

187. With regard to the non-residential TOU rates, the BCSEA-SCBC position is unclear. BCSEA-SCBC states in paragraph 120 that, "FBC has not adequately demonstrated that all of the rate classes – Small Commercial, Commercial, Large Commercial, Wholesale Primary, Wholesale Transmission, and Irrigation – should necessarily receive optional TOU rates at this time." However, all of these rate classes currently have optional TOU rates, and BCSEA-SCBC provides no submissions that these TOU rates should be closed, nor that FBC's proposed changes to the non-residential TOU rates do not better reflect cost causation.

188. BCSEA-SCBC FBC believes that the available evidence supports the proposals included in the Application, inclusive of the 3-year review.

**(b) TOU Submissions of BCOAPO**

189. In reply to the discussion regarding the TOU pricing differentials contained in pages 78-82 of BCOAPO's submissions, FBC submits that the BCOAPO has failed to recognize that the dispatch of resources is much more complex than simply dispatching resources in the same order all of the time. There is a balance of price, availability and contractual requirements that must be considered. In setting the TOU pricing differentials, it was not possible to account for the entire complexity of dispatch of resources. The TOU price differentials reflect a set of

assumptions about what resources could be avoided if loads were reduced in various TOU periods.

190. For the on-peak period, the costs for the resources identified as peak capacity costs were identified. These are the costs that FBC can potentially avoid if loads are reduced in the on-peak period. The intent was that the on-peak price signal should reflect the additional costs associated with the on-peak hours, not the entire cost for the on-peak hours. BCOAPO states, "As some of the peak demand is met by what FBC deems to be baseload resources (e.g. Brilliant), dividing by the total energy in the on-peak period does not provide an indication of what the unit cost is for the resources that would be impacted by a change in load."<sup>65</sup> It is important to understand that the calculation which divides by on-peak energy is not to determine the overall on-peak price but it is used to determine the on-peak price adder. The total on-peak price includes a price to cover all baseload resources, plus an adder for resources used to meet mid-peak loads, plus the adder for costs associated with meeting on-peak loads. Because of that approach, the net on-peak price does reflect that some of the peak demand is met by base load resources.

191. In paragraph 2 on page 80 of its Final Submission, BCOAPO questions the manner in which the various elements of FBC's resource stack are considered when establishing the pricing differentials for the various TOU periods. In particular, BCOAPO states with respect to FBC's approach to mid-peak pricing that, "The suggestion being that purchases from BC Hydro and the market are only used to meet load requirements in the on-peak and mid-peak periods." This statement suggests a lack of understanding that the actual dispatch and use of resources provided for in the TOU pricing calculations is not this simplistic. The intent of the mid-peak price differential is to recognize the next set of costs that could be avoided if customers reduce loads in the on-peak and mid-peak periods. The pricing is intended to reflect the fact that FBC cannot avoid the costs associated with what it has identified as the baseload resources but it can reduce costs associated with the BC Hydro and market purchases. The adder applied to the

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<sup>65</sup> BCOAPO Final Submission, page 79, paragraph 3.



mid-peak periods is intended to reflect the cost of those resources that can be avoided if load is reduced in both the on-peak and mid-peak periods. It is an adder to the baseload price to get to the mid-peak price, not the entirety of the mid-peak price.

192. FBC believes that the reservations expressed by BCOAPO regarding the identification of TOU pricing periods and rate determinations are based on an understandable lack of familiarity with the practical considerations regarding how FBC resources its load and the opportunities that exist for cost savings. Even given FBC's familiarity with its resource stack, there are uncertainties associated with the revisions to the existing TOU rates stemming from customer uptake and response. The goal of improving information underlies the FBC request for the three-year evaluation period.

193. Maintaining the existing rates is not, to FBC, an acceptable alternative.

**(c) TOU Submissions of KSCA81**

194. KSCA81 seems to be generally supportive of TOU rates and its reservations appear to lie more with the potential inability for some customers to take advantage of the rates in order to lower costs. In this regard, KSCA81 observes,

...the fact that large numbers of residential customers cannot avoid using electricity during On-Peak hours, and that therefore they should not be financially penalized for accessing electricity at times when they need to. And to also consider that some electricity use, because of the nature of how our society organizes itself, cannot be shifted, and therefore the ability of certain customers to shift their discretionary use of electricity might actually be quite minimal.<sup>66</sup>

195. FBC appreciates this situation but notes that the driver for a TOU rate should properly be cost causation, not customer bill savings. The TOU rate will work for some customers and will not work for others.

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<sup>66</sup> KSCA81 Final Submission, page 23, paragraph 6

196. KSCA81 makes a number of errors of the nature of incorrectly mixing COSA concepts with the TOU rate design. In this regard, KSCA81 states it believes that “...not the residential class that should be charged On-Peak costs but the classes that cause the On-Peak load to occur.”<sup>67</sup> This statement erroneously fails to distinguish between allocating costs in the COSA and setting of TOU rates.

197. The COSA does allocate many costs to the classes on the basis on their contribution at the time of the peak demand. The residential class is a big driver of peak demand because its load is more variable during the day than other classes and drives the overall system load shape. The FBC winter peak is typically at 6 pm, which is the time many residential customers come home from work and turn on lights, turn on electronics and cook meals, etc. Other classes also have load during the peak hours and the costs are shared among all of the classes.

198. In setting TOU pricing, the goal is to incentivize all TOU customers to reduce load during the on-peak hours to reduce the costs related to power supply in those hours. Any class that has load during the on-peak hours has the potential to reduce that load. Not charging residential customers a higher rate during on-peak hours would defeat the entire purpose of a TOU rate for the residential class.

199. KSCA81 also asks, “...why not set a consistent On-Peak price year round, unless of course FBC is trying to promote electricity consumption in the Off-Season?”<sup>68</sup> The response to this is that FBC is not trying to “promote electricity consumption in the off-season.” It is simply that FBC cannot reduce the costs of its peaking resources in the off-season and therefore has no financial reason to reduce the current on-peak use during the off-season.

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<sup>67</sup> KSCA81 Final Submission, page 22

<sup>68</sup> Ibid

**B. Conclusion Regarding Optional TOU Rates**

200. The implementation of an optional residential TOU rate has been proposed by FBC in response to customer interest, in order to offer a conservation alternative to a default flat rate, and in an effort to provide rate mitigation to the extent that participation in the TOU rate can provide overall savings in the power supply expenses.

201. Changes to the TOU rates of non-residential customers are required to better reflect cost causation principles.

202. In addition to the additional information provided in this submission, FBC relies on the information contained in Part Seven of its Final Submission, which together describe a rate that is in the public interest and should be approved by the BCUC.

**PART SIX: TRANSMISSION SERVICE RATE PROPOSALS**

**A. Short Term and Long Term Wheeling Rates (RS 101 and RS 102)**

203. In intervener final submissions, comments on the updated pricing to the point-to-point transmission services and associated ancillary services were provided by BCSEA-SCBC, CEC, BCOAPO, and ICG.

204. BCSEA-SCBC takes no position regarding FBC's proposed changes to the provision of Transmission services.<sup>69</sup>

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<sup>69</sup> BCSEA Final Submission, paragraph 130

205. The CEC recommends that the Commission approve the updated PTP Transmission rates as proposed by FBC.<sup>70</sup> The CEC also recommends that the Commission approve FBC's proposals related to changes in Transmission pricing for Ancillary Services.<sup>71</sup>

206. BCOAPO states that it has no issues with either FBC's proposed rates for RS 101 and RS102 or with FBC's proposed rates for Ancillary Services."<sup>72</sup>

207. ICG provides a definition of "Proposed Changes" from Exhibit C12-10 that is specific to, "...the changes to RS 101 and RS 102 described in Section 7.2: Transmission Rate Request 1 – Clarification to the Existing Point-to-Point (PTP) Rate Language."<sup>73</sup> ICG's submissions with respect to those "Proposed Changes" are addressed in Part Seven of this Reply Submission, below.

208. The Proposed Changes do not include the FBC proposals regarding the Transmission Services rate schedules. With the exception of RS109 (the Loss Compensation ancillary service), ICG has made no final submissions regarding the rates themselves.

209. With respect to RS 109, ICG does not object to the changes to the rate, but requests that the BCUC make the change retroactive to January 1, 2018. In response, FBC maintains that there is no justification for doing so. Retroactive rate-making is generally to be avoided and RS 109 has to date been applied consistent with prior BCUC approval. This request should be denied.

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<sup>70</sup> CEC Final Submission, paragraph 263

<sup>71</sup> Ibid, paragraph 269

<sup>72</sup> BCOAPO Final Submission, pages 69 and 70

<sup>73</sup> ICG Final Submission, footnote 1

**(a) Conclusion**

210. FBC submits that its requested changes to point-to-point transmission services and associated ancillary services have been uncontested, largely accepted, and should be approved.

**PART SEVEN: WHEELING RATE HARMONIZATION**

**A. Short Term and Long Term Wheeling Rates (RS 101 and RS 102)**

**(a) Intervener Positions**

211. The other area of discussion in intervener submissions with respect to RS 101 and RS 102 was FBC's proposed tariff amendments to clarify the existing anti-pancaking language for PTP rates. FBC's proposed changes were addressed at Section 7.2 of the Application and pages 26-27 of FBC's Final Submissions. Of the interveners that addressed this topic, BC Hydro, BCOAPO, and the CEC all support FBC's proposed changes to the wording of RS 101 and 102:

- (a) BC Hydro, a joint applicant in the proceeding giving rise to BCUC Order G-12-99 submits that, "the BCUC can and should accept the rate harmonization proposals of FortisBC (referred to as the 'anti-pancaking provisions of RS 101 and RS 102') solely for the reasons identified by FortisBC in its Final Submission".<sup>74</sup>
- (b) BCOAPO submits that "FBC has adequately demonstrated that its interpretation on the intent of G-12-99 is correct", taking particular note of a number of points listed at page 71 of BCOAPO's Final Submissions, and that, "the BCUC should accept the wording changes proposed by FBC for RS 101 and RS 102".<sup>75</sup>

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<sup>74</sup> BC Hydro Final Submissions, p. 2

<sup>75</sup> BCOAPO Final Submissions, p. 71

- (c) The CEC submits that the intent in the wording of the anti-pancaking provisions “was very well articulated [by the BCUC] and should not be misused”.<sup>76</sup> The CEC also submits that “it is inappropriate for FBC to forgo wheeling revenue that it would otherwise receive to facilitate the delivery [of power exports by self-generating customers], and that this is detrimental to other ratepayers”.<sup>77</sup>

212. The ICG is the only intervener opposed to FBC’s proposed changes to RS 101 and 102. The following submissions provide FBC’s reply to various arguments raised by ICG regarding RS 101 and RS 102 in its Final Submissions, dated November 7, 2018.

**(b) The Alleged Procedural Fairness Issues**

213. ICG argues that there is a lack of clarity regarding the nature of FBC’s application with respect to RS 101 and RS 102. ICG submits that a request for “clarification” of Order G-12-99 should have been made to the BCUC pursuant to section 53(3) of the *Administrative Tribunals Act*, S.B.C. 2004, c. 45 (**ATA**), and, failing that, the “only appropriate alternative” was for FBC to seek reconsideration and variance of Order G-12-99.<sup>78</sup> ICG goes on to argue that it would be procedurally unfair for the proposed changes to RS 101 and 102 to be made in the absence of a “full process” in accordance with the BCUC’s guidelines for reconsideration of its decisions and orders.<sup>79</sup>

214. While FBC disagrees that its proposed tariff amendments would constitute a “clarification” of a tribunal decision within the meaning of section 53 of the *ATA*, FBC notes that section 53 of the *ATA* does not apply to the BCUC pursuant to section 2.1 of the *UCA*.

215. With respect, the approvals FBC seeks regarding RS 101 and RS 102 were clearly set out in the Application and the draft order attached as Appendix B to the Application. They

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<sup>76</sup> CEC Final Submissions, para. 247

<sup>77</sup> CEC Final Submissions, para. 250

<sup>78</sup> ICG Final Submissions, paras. 16-17

<sup>79</sup> ICG Final Submissions, paras. 18-19

involve amendments to the terms of the anti-pancaking provisions in these rate schedules. The specific amendments FBC is seeking are set out in black-line format at Sections 7.2.3.1 and 7.2.3.2 of the Application.

216. The fact that the amendments are sought for the purposes of clarifying the original intent of these rate schedules does not mean that FBC is seeking a formal “clarification” of the BCUC’s Order G-12-99, nor does it mean that FBC is purporting to apply for reconsideration and variance of Order G-12-99.

217. Utility rate schedules are frequently changed and amended by application to the BCUC. Indeed, section 61(2) of the *UCA* specifically contemplates a public utility amending its filed rate schedules upon obtaining the BCUC’s consent. It would be impractical, unwieldy, and contrary to established practice and the express terms of the *UCA* for a public utility to be required to seek a reconsideration of the BCUC decision that originally approved a rate in order for any changes to be made to it.

218. There are any number of examples of utilities applying to amend their rates pursuant to sections 58-61 of the *UCA* rather than seeking to reconsider the original decision approving a particular rate. A recent and analogous example is FBC’s Net Metering Program Update Application, filed in April 2016. This application ultimately led to BCUC approval, in Order G-63-18, of various changes to the terms of RS 95 regarding the treatment of net excess generation, including the adoption of a kWh bank. No suggestion was made by any of the participants in that proceeding, or by the BCUC in its decisions, that FBC’s application should have been made by way of a reconsideration of the BCUC’s 2009 order (G-92-09) that originally approved RS 95 and FBC’s Net Metering program.

219. Similarly, in its decision regarding BC Hydro’s 2009 Application to Amend Section 2.1 of RS 3808, the panel determined that it had jurisdiction to order amendments to a bi-lateral agreement (the PPA between BC Hydro and FBC) that meets the definition of “rate” in section

1 of the *UCA* under the BCUC's general rate setting powers.<sup>80</sup> In that case, the amendments to the terms of RS 3808 were approved, in part, because the circumstances that had arisen (potential sales of power, not in excess of load, by self-generating FBC customers) could not reasonably have been contemplated by the parties when the PPA was originally executed and approved.<sup>81</sup>

220. ICG's argument also misconstrues the nature of a reconsideration proceeding under section 99 of the *UCA*. FBC is not seeking to rescind or vary Order G-12-99 nor is any error of fact or law being alleged regarding the BCUC's decision in support of that order. Rather, FBC is seeking to amend the language in its electric tariff, in a manner consistent with the intent behind the original BCUC decision, to address new circumstances that were not reasonably contemplated at the time of the transmission rate harmonization application in 1999.

221. Furthermore, ICG's argument that it is procedurally unfair to address the proposed changes to RS 101 and RS 102 in the current RDA proceeding is without merit. ICG has had the opportunity in this proceeding to pose IRs to both FBC and BC Hydro, has filed evidence in support of its position and addressed IRs in response to that evidence, and has filed lengthy written submissions. It is hard to imagine a more robust process or an intervener receiving more encompassing procedural rights than what has occurred in this proceeding in respect of the RS 101 and RS 102 issues. Tellingly, ICG has not explained how it would present its case differently or what additional evidence or lines of inquiry it could pursue in a process that ICG does consider "procedurally fair".

222. ICG also asserts, in support of its procedural fairness argument, that Celgar has relied on Order G-12-99 and on the representations of FBC executives, in making prior investment decisions. First, this argument is misconceived as an issue of procedural fairness.

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<sup>80</sup> Decision and Order G-48-09, p. 19-21

<sup>81</sup> *Ibid.*, p. 20



There are no participatory rights in this proceeding that are impacted in any way by past billing practices or by Celgar's purported reliance on a previous BCUC order.

223. Second, Celgar could not have had any legitimate expectation that it would be entitled to wheeling services indefinitely on FBC's transmissions system without being required to pay for those services. For example, the letter from FBC's Don Debienne, dated June 30, 2006, that ICG cites at paragraph 12 of its Final Submissions is clearly in draft format: it contains various hand-written edits and is not signed on behalf of Celgar. The letter also expressly states that "the terms outlined in this letter are offered on a short-term basis, without prejudice, to allow for exports while a longer term agreement is arrived at through negotiation". Celgar could not reasonably have relied on this letter in making any long term investment decisions.

224. Similarly, the unsigned Transmission Access Agreement, effective November 1, 2006, provided as Exhibit C to Elroy Switlishoff's prepared testimony expressly stated that, "THE TERMS AND CONDITIONS AND SCHEDULES MAY BE AMENDED FROM TIME TO TIME SUBJECT TO APPROVAL BY THE COMMISSION, AND THE CUSTOMER SHALL BE SUBJECT TO ANY SUCH AMENDMENTS AND THE TERMS AND CONDITIONS AS AMENDED SHALL BECOME PART OF THIS CONTRACT".<sup>82</sup>

225. Furthermore, the Long Term Service Agreement for PTP Transmission Service, dated September 23, 2010, which is Celgar's current agreement with FBC, does not refer to a \$0.00 charge for wheeling services under RS 101. Instead, the agreement provides that the transmission charge will be as per "Tariff Rate Schedule 101 – Long-term and Short-term Firm Point-to-Point Transmission Service, as amended from time to time" (underlining added).<sup>83</sup> The Long Term Service Agreement also provides that ICG will take and pay for transmission services in accordance with Part II of FBC's Tariff Supplement No. 7 and that Celgar will comply with "any Tariff changes approved by the British Columbia Utilities Commission".<sup>84</sup> FBC's Tariff

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<sup>82</sup> Ex. C12-6, Prepared Testimony of Elroy Switlishoff, Ex. C, s. 10

<sup>83</sup> Ibid, Ex. D, p. 6

<sup>84</sup> I, Ex. D, p. 2, 3

Supplement No. 7 itself expressly provides, at section 5.2, that: “The rates, terms and conditions of this Tariff are subject to decisions, orders, rules and regulations of the Commission and may be amended from time to time” (underlining added).

226. Accordingly, Celgar has been on notice throughout that the terms and conditions on which it receives transmission services from FBC and the provisions of RS 101 are subject to change. FBC also notes that no direct evidence from any Celgar representative has been provided in support of ICG’s position that Celgar relied on FBC representations and the BCUC’s previous order in making investment decisions. The only evidence in this respect is from Mr. Switlshoff, who is not an officer or employee of Celgar. In 2008-2010, when Celgar’s purported detrimental reliance took place, Mr. Switlshoff was, according to his C.V., a project manager with the Columbia Power Corporation.<sup>85</sup> Mr. Switlshoff does not give any indication of the source of his knowledge that the interpretation of the non-pancaking provisions and Order G-12-99 was a fundamental assumption that was relied upon by Celgar in deciding to build additional generation.<sup>86</sup>

**(c) The Purpose and Intent of Order G-12-99**

227. ICG argues that the payment of a \$0.00 rate by FBC’s self-generating customers for transmission wheeling services into BC Hydro’s system is consistent with Order G-12-99.

228. FBC disagrees. The purpose and intent of Order G-12-99 is clear on the face of the order.

229. Recital A to Order G-12-99 states that the application arose as a result of an identified “need for harmonizing the transmission wheeling rates of WKP [now FBC] and British Columbia Hydro and Power Authority” and, further, that the “objective of harmonization is to eliminate rate stacking or ‘pancaking’ – that is, the payment by customers of two transmission

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<sup>85</sup> Ibid, Ex. A, p. 2

<sup>86</sup> Ibid, p. 3-4

wheeling tariffs on transactions where power is moved between utility service areas” (underlining added).<sup>87</sup> Recital C of Order G-12-99 goes on to describe the effect of the proposed tariff harmonization as being “to relieve transmission service customers from the requirement to pay both B.C. Hydro’s and [FBC’s] transmission wheeling rates by charging only the transmission service rate of the utility within whose service area the customer taking service is located” (underlining added).<sup>88</sup>

230. As BCOAPO rightly points out in its submissions, the reference to the “customer taking service” in Recital C is significant and is not consistent with an intention for the \$0.00 rate in RS 101 and RS 102 to apply to customers in the service area of one utility exporting generation into the other utility’s service area.<sup>89</sup>

231. More significant, in FBC’s submission, is that the clear intention of anti-pancaking in Order G-12-99 was to avoid utility customers paying the transmission wheeling rates of both utilities on a single transaction. Based on Order G-12-99 itself and the accompanying decision, the BCUC was clearly not contemplating or intending to approve a rate that would permit FBC customers to use FBC’s transmission system to export self-generation output to BC Hydro without paying for any transmission wheeling service (or *vice versa* for BC Hydro customers). Such transactions do not involve any pancaking of wheeling rates because only FBC’s transmission system is being used to wheel power. Rather, if ICG’s position is adopted FBC’s self generation customers, such as Celgar, will avoid paying for the wheeling services that are necessary to facilitate their sales to BC Hydro.

232. A rate that permits such an outcome cannot be considered just and reasonable given that it involves FBC foregoing millions of dollars in revenue for the use of its transmission system.<sup>90</sup> As the CEC submits, “it is inappropriate for FBC to forego wheeling revenues that it

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<sup>87</sup> Ex. B-1, Appendix I-3,

<sup>88</sup> Ibid.

<sup>89</sup> BCOAPO Final Submissions, p. 71

<sup>90</sup> Ex. B-8, FBC Response to BCUC IR 1.64.3

would otherwise receive to facilitate the delivery [of power to BC Hydro], and that this is detrimental to other ratepayers”.<sup>91</sup>

233. ICG relies on a single reference to a “generator locating in WKP’s service area and exporting its energy” in an IR response from the 1999 rate harmonization proceeding as supporting its view that Order G-12-99 contemplated a “range of scenarios involving generators, export, and retail access”.<sup>92</sup> However, there is no reference to generators exporting power in the BCUC’s decision or Order G-12-99 itself. The BCUC’s decision focuses solely on the issue of revenue shifting between the utilities as a result of customers using transmission wheeling to take deliveries from third-party suppliers. This further supports the conclusion that Order G-12-99 only contemplated application of the \$0.00 rate for PTP transactions where customers were using transmission wheeling to receive deliveries of energy, not when they were exporting their own generation.

234. ICG also relies on the BCUC’s endorsement of the “license plate” approach in its decision accompanying Order G-12-99, and on the evidence of Will Cleveland regarding that approach, as supporting its position. However, in its 1999 decision, the BCUC described its understanding of the operation of a “license plate scheme” in this context as being where, “the transmission customer is charged only the transmission wheeling rate of the utility within whose service territory the customer is located” (underlining added).<sup>93</sup> FBC’s proposed changes to RS 101 and 102 are entirely consistent with this description. FBC also notes that reliance on the license plate approach in the context of exports by self-generating customers is inapt. Where, for example, a self-generator exports power from within FBC’s service territory to BC Hydro, there is no “stacking” or “pancaking” of transmission wheeling tariffs. It is clear that only the utility whose transmission system is being used to wheel power is entitled to

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<sup>91</sup> CEC Final Submissions, para. 250

<sup>92</sup> ICG Final Submissions, para. 20; Ex. B-26, Attachment 15.2, Joint BC Hydro-WKP letter to BCUC, dated January 6, 1999, and Attachment 3.1

<sup>93</sup> BCUC Order G-12-99, Appendix A, p. 2

compensation for wheeling services, so reference to the customer's "license plate" to determine which utility is entitled to the associated revenue is unnecessary.

235. ICG also cites Mr. Cleveland's evidence in support of an argument that rate pancaking will still occur following the proposed amendments to RS 101 and RS 102. This is because, according to Mr. Cleveland "certain end-use customers (specifically, those end-use customers who are native load customers of either BC Hydro or FBC) ... [will] pay the full cost of both utilities' transmission systems for any energy they receive which is procured from a generator located within the other utility's service area".<sup>94</sup> With respect to Mr. Cleveland and ICG, this is neither the wheeling rate pancaking that Order G-12-99 was intended to address, nor is it an accurate description of the circumstances. There is no evidence or reason to expect that, for example, BC Hydro's end-use customers will pay "the full cost" of FBC's transmission system if a self-generator like Celgar pays FBC for wheeling services. The only change is that self-generators in FBC's service area will actually pay FBC for wheeling services on export transactions to BC Hydro going-forward.

236. With respect to Mr. Cleveland's other evidence regarding the license plate approach that ICG relies upon, FBC notes that Mr. Cleveland candidly acknowledged in IR responses that he had not had "any prior assignments specifically addressing electricity transmission access rates, electricity transmission harmonization and the license plate approach."<sup>95</sup> Generally, a tribunal or adjudicator only accepts opinion evidence if it is from an expert who is more knowledgeable than the tribunal itself on the subject matter of the evidence. In any event, for the reasons explained above, FBC submits that ICG's reliance on the license plate approach to transmission rate harmonization is misplaced in the context of self-generator exports from FBC customers to BC Hydro and *vice versa*.

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<sup>94</sup> ICG Final Submissions, para. 26

<sup>95</sup> Ex. C12-8, ICG Response to BCUC IR 1.1.1

**(d) Alleged Rate Shock and Discrimination**

237. ICG submits that FBC's reasons for proposing amendments to RS 101 "are directly aimed at recovering revenues from two self-generation customers" and that FBC is "attempting to erode the value [of one of these customer's investment] via increased transmission charges targeted at this project".<sup>96</sup> ICG goes on to argue that the proposed changes to RS 101 should be denied because they are discriminatory and will result in rate shock.

238. FBC denies that the proposed tariff amendments were aimed at or intended to harm particular customers or their projects. FBC notes that the sole IR response that ICG relies upon to make these accusations, FBC's response to BCUC IR 1.64.1, simply listed the rate schedules on which the two effected customers take service.<sup>97</sup> Further, the principles and policies upon which FBC's self-generating customers may export their generation output has been the subject of extensive recent examination in the two-stage BCUC proceeding addressing FBC's self-generation policies. It is reasonable to expect that clarification of FBC's self-generation policies through the BCUC's pending decision on the SGP Stage II Application could potentially result in increased interest in or proliferation of self-generation in FBC's service territory. In such circumstances, it is reasonable for FBC to seek clarification of the application of its wheeling tariff rather than forego future revenue that would benefit all of its ratepayers.

239. With respect to ICG's argument that rate shock could result from the tariff amendments, FBC disagrees that this would be the case. FBC's proposed amendments to RS 101 and 102 do not involve any increase in utility rates; they would simply clarify the circumstances in which its transmission service rates are charged. The fact that Celgar would experience a billing increase under this proposal does not mean that rate shock will occur, either in respect of a class of customers or Celgar in particular.

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<sup>96</sup> ICG Final Submissions, paras. 29-31

<sup>97</sup> Ibid, para. 29 and fn. 15

240. FBC also notes that, if its position regarding the intent behind G-12-99 is accepted, then Celgar will have received a multi-million dollar windfall for its prior use of FBC wheeling service at no charge. For the reasons explained above, Celgar could have had no legitimate expectation that it would receive such transmission wheeling service at no cost indefinitely into the future. No evidence has been provided demonstrating that Celgar's business analysis of its self-generation investment was premised upon on-going use of FBC's transmission system to export power at no cost.

241. Finally, ICG's rate discrimination argument based on Mr. Cleveland's scenario analysis is without merit. Mr. Cleveland opines that FBC's tariff amendments would be discriminatory because they involve "different rate treatment for exporters to the BC Hydro system based on a distinction that is not clearly supported by any principle".<sup>98</sup> Mr. Cleveland's opinion is based on the different rate treatment in respect of transactions where a self-generator in FBC's service area is wheeling power through BC Hydro's service territory to the BC-US border, where it will be transmitted to a load in the US ("Scenario A" in his evidence) vs. transactions where an FBC self-generating customer is exporting power through sales to BC Hydro for BC Hydro's use to serve load ("Scenario B").<sup>99</sup>

242. However, in order for rate discrimination to occur under the *UCA*, different rates must be applied to customers that have "substantially similar circumstances and conditions for service of the same description" (*UCA*, s. 59(2)(b)).

243. The transactions Mr. Cleveland describes as Scenario A and Scenario B do not involve substantially similar circumstances. Under Scenario A, the power is being wheeled on both utilities' transmission systems and the anti-pancaking provisions prevent the self-generating customer from paying both otherwise applicable transmission tariffs. The \$0.00 rate in FBC's RS 101 or RS 102 would apply because the customer would be paying BC Hydro's typical

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<sup>98</sup> ICG Final Submissions, para. 36

<sup>99</sup> Ex. C12-6, Prepared Testimony of Will Cleveland, p. 7-11

transmission charges in this scenario, as Mr. Cleveland himself notes.<sup>100</sup> Under Scenario B, on the other hand, wheeling only occurs on FBC's transmission system and no charges are payable to BC Hydro for transmission services. Accordingly, FBC proposes to charge its standard wheeling rates for this service. It cannot be discriminatory for FBC to do so. If anything, Mr. Cleveland's Scenario B could arguably constitute a rate preference if self-generating customers are not subject to any rates for their use of FBC's transmission wheeling services in these circumstances. No other users of FBC's transmission system are entitled to such a benefit.

**(e) Conclusion**

244. For all of these reasons, FBC submits that ICG's arguments with respect to the proposed amendments to RS 101 and RS 102 should be rejected. The amendments are supported by all other interveners that took a position on the issue, are consistent with the provisions of the *UCA* and the purpose and intent behind Order G-12-99 and will be of benefit to FBC's ratepayers generally. The BCUC should accept the amendments as proposed.

**PART EIGHT: TERMS AND CONDITIONS**

**(a) Summary of Intervener Arguments**

245. Of the intervener groups that filed Final Arguments, BCSEA-SCBC and CEC express support for FBC's proposed changes to the Electric Tariff General Terms and Conditions (GT&Cs) set out in Section 10 of the Application.

246. FBC notes that the intervener groups BCMEU, AMCS-RDOS, BC Hydro, Mr. Gabana, ICG, KSCA81 and Resolution do not address or mention any specific support for or opposition to FBC's proposed changes to the GT&Cs.

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<sup>100</sup> Ex. C12-6, Prepared Testimony of Will Cleveland, p. 7



247. BCOAPO notes its general support of FBC's proposed changes to the GT&Cs, but takes issue with certain of FBC's requested changes. FBC addresses each of BCOAPO's arguments in the following sections.

**(b) Issues Raised by BCOAPO**

**Radio-Off Advanced Meter Option**

248. FBC is proposing to increase the Radio-Off Advanced Meter Option per-read fee by \$1.50 to \$19.50 in order to recover the balance of the Radio-off Shortfall Deferral Account over a period of five years, beginning in 2019.<sup>101</sup> FBC is also proposing to continue recording any additional shortfall amounts (anticipated to be small) in the Radio-Off Shortfall Deferral Account until December 31, 2019 and amortize the balance over a five-year period from 2019 to 2023.<sup>102</sup>

249. In its final submissions, BCOAPO expresses its support for FBC's proposed recovery but submits that the increase to the per-read fee should expressly terminate after the five-year amortization is complete and that language should be added to the Electric Tariff stating the specific termination date. BCOAPO bases its argument on the fact that there is no guarantee that FBC's next rate design application will occur before the five years has elapsed.<sup>103</sup>

250. FBC has no concerns with the BCOAPO recommendation to set out a termination date in the Electric Tariff providing that it is set as five years from the implementation of the new per-read fee to ensure that the amounts recorded in the Radio-off Shortfall Deferral Account as at December 31, 2019 are fully recovered.

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<sup>101</sup> Exhibit B-8, FBC Response to BCUC Information Request No. 1.97.1.

<sup>102</sup> *ibid*

<sup>103</sup> BCOAPO Final Argument, pages 85-86

## Security Deposits

251. BCOAPO is supportive of the FBC proposal for changes to its security deposit provisions to be in alignment with the security deposit provisions of FEI. However, BCOAPO suggests that FBC should implement additional security deposit measures for low income customers who are not able to establish satisfactory credit-worthiness. BCOAPO's suggestions include the adoption of a policy to waive security deposit requirements for low-income customers similar to the Ontario Energy Board's (OEB) Low Income Customer Rules, or BC Hydro's waiver for clients of the Ministry of Social Development and Social Innovation.<sup>104</sup> BCOAPO also suggests that FBC should accept non-monetary alternatives to a cash security deposit and provides the example of BC Hydro allowing guarantors instead of a cash security deposit.<sup>105</sup>

252. BCOAPO's suggestions for additional security deposit provisions do not form any part of the evidence on the record in this proceeding. FBC notes that BCOAPO did not request any information from FBC regarding the topic of alternative security deposit measures for low income customers in either of the two rounds of information requests in the regulatory proceeding. There is accordingly no evidence demonstrating any economic or cost of service justification for the low-income security deposit measures BCOAPO has proposed. Apart from not being an appropriate matter to raise for the first time in final submissions, BCOAPO's proposal is also contrary to the BCUC's prior determinations in respect of BC Hydro's 2015 Rate Design Application that it does not have jurisdiction under the *UCA* to order such low income rate design measures.<sup>106</sup>

253. In any event, FBC believes that its proposed changes to the minimum security deposit policy will address challenges for low-income customers by, in most cases, reducing the

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<sup>104</sup> BCOAPO Final Argument, page 87

<sup>105</sup> BCOAPO Final Argument, page 88

<sup>106</sup> BCUC Decision and Order G-5-17, p. 101; Application for Reconsideration and Variance dismissed, BCUC Order G-87-17; leave to appeal refused, 2017 BCCA 400

required security deposit amounts, while still protecting all FBC ratepayers.<sup>107</sup> On that basis, FBC submits that the BCOAPO suggestion for additional security deposit provisions for low income customers should be rejected.

### **Miscellaneous Charges – Account Setup or Transfer**

254. BCOAPO submits that the BCUC should direct FBC to implement separate charges for the setup of new accounts at \$13 and the transfer of an account at \$8.<sup>108</sup> BCOAPO's stated reason for this suggestion is that the Equifax credit check is only required for new customers when setting up an account and not for existing customers transferring their accounts.<sup>109</sup>

255. FBC has previously noted that it does not separately track when the Account Setup or Transfer fee is applied for a new customer requesting an account versus an existing customer requesting to transfer an account.<sup>110</sup> As such, FBC is not able to apply a weighted average of the Equifax credit check costs based on the ratio of account setups to account transfers. Continuing the Account Setup or Transfer fee as a single fee was determined to be the most reasonable approach based on the available information and to remain consistent with past administration and FEI's similar standard charge.<sup>111</sup>

## **PART NINE: COST OF SERVICE ANALYSIS AND REBALANCING**

### **A. Cost of Service**

256. Of the interveners that provided a final submission, the following provided comments on at least certain aspects of the COSA methodology employed by EES in support of the FBC RDA:

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<sup>107</sup> Exhibit B-8, FBC Responses to BCUC IR 1.103.1.

<sup>108</sup> BCOAPO Final Argument, page 88

<sup>109</sup> Ibid, page 89

<sup>110</sup> Exhibit B-8, FBC Responses to BCUC IR 1.110.1

<sup>111</sup> Ex. B-8, FBC Responses to BCUC IR 1.110.1.

- KCSA81
- ICG
- BCOAPO
- CEC.

257. In addition, several interveners that did not provide specific comments indicated a general satisfaction with the COSA as filed.

258. BCMEU indicated that it, "...does not object to the changes to FBC's fully-bundled rates guided by the underlying cost of providing service supported by the Cost of Service Analysis ("COSA") that has been filed with the Application."<sup>112</sup>

259. BCSEA-SCBC did not provide comment on the COSA specifically, but FBC notes that it did engage a COSA and rate design expert witness to evaluate the Company's Application and expressed no objection to any portion of the FBC COSA as part of its Final Argument.

260. AMCS-RDOS, Resolution, and Mr. Gabana did not engage any COSA and Rate Design expertise and provided no additional comment specific to the COSA.

**(a) Submissions of KSCA81**

261. The submissions of KSCA81 with regard to the use of the minimum system study have been addressed by FBC in Part D of this Reply Submission concerning the harmonization of the residential Customer Charges and will not be repeated here.

262. Beginning at page 23 of its Final Submission, KSCA81 begins an argument in favour of the use of a 12 Critical Peak (CP) instead of the 2CP allocator for the allocation of demand related costs.

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<sup>112</sup> BCMEU Final Submission, page 1

263. KSCA81 includes the following statement: “If, in the determination of the Commission, the objective is to achieve alignment of all the classes closest to 100%, then KSCA#81 believes that what needs to be measured is what percentage of the overall load moves closest to 100% alignment and what percentage moves further away from 100% alignment.”

264. This statement reflects a further misunderstanding of the COSA process and results:

- Closer grouping of the results around the 100% R/C ratio may look attractive, but is not a reason to justify its use. Cost causation is the reason for the use of the 2CP based on planning and use of the system.
- Just because the 12 CP allocator produces a certain set of results does not mean that it reflects cost causation. KSCA81 provided no evidence supporting the use of 12 CP, and confuses peak demand and energy, as shown by the ensuing discussion range of electrical consumption and the variations in weather.
- Further, smart meters are not relevant to the selection of the demand allocator. FBC looks at total system data by hour when forecasting and planning for peak loads. FBC has always had this hourly data for the system. Smart meters are only useful for providing better data for allocating costs among customer classes once the demand allocator is determined.

**(b) Submissions of ICG**

265. The ICG submission related to the FBC COSA pertains only to the FBC treatment of RS 37 revenues within the COSA. ICG would prefer that these revenues be allocated only to RS31 customers rather than across all customer classes. FBC has explained its rationale for the COSA treatment of the RS 37 revenues and continues to believe that it is appropriate. The revenues are intended to compensate all customers for use of the fixed system, and are

allocated to all customers that contributed to the fixed costs of the utility required to provide RS 37 service to a customer that is normally self-generating power to meet plant load.

266. In paragraph 55 of its submission, ICG states, "...In a subsequent information request, the ICG asked for the updated COSA spreadsheet to show the calculation of the per cent change from 107.0 to 107.2." This is not correct. The referenced information request (ICG 2.12.3), requests, "... the revised COSA model spreadsheet that yields the RC ratio of 104.9 percent reference in the response and identify where any changes were made."

267. Further, ICG errs when it claims that the responses to ICG IR 1.4.1 and ICG IR 2.12.3 are in conflict. ICG states that, "The response (to ICG IR 1.4.1) suggests that FortisBC has distributed RS37 revenues across the entire rate base, and has not allocated the RS 37 revenues on the basis of the generation and transmission rate base as FortisBC stated in the first information request."

268. However, the response does not indicate that RS 37 revenues are allocated on the basis of the generation and transmission rate base. As reproduced in ICG paragraph 54, the response to ICG IR 1.4.1 states, "If the COSA was changed to allocate the revenues only on the basis of the generation and transmission rate base...", which was an alternate scenario provided in order to respond to the ICG question.

269. The change requested by ICG should not be granted by the BCUC in light of the immaterial impact it would have and the likelihood that RS 37 will be amended to also be available to self-generating customers taking service under RS 30 as an outcome of the Company's Self-Generating Policy Application that is awaiting a BCUC Decision.

**(c) Submissions of BCOAPO**

270. The BCOAPO has provided a lengthy discussion of the COSA performed by EES. In many cases, this discussion is simply a review of the approach utilized and BCOAPO concludes by agreeing with the methodology as filed. For example, in the case of the classification of

generation costs, BCOAPO submits that FBC's approach to classifying Generation costs is reasonable and should be accepted by the BCUC.<sup>113</sup>

271. Other analyses provided by BCOAPO, such as that of the Primary/Secondary split used in the allocation of Poles and Wires, concluded with language similar to the following: "As a result, BCOAPO submits that the use of an 80%/20% split based on 'industry experience' should be viewed as a generalization which will impact the precision of FBC's COSA, a factor that needs to be taken into consideration when interpreting and using the results of the COSA."<sup>114</sup>

272. Such conclusions speak to the fact that there are a variety of decisions that must be made when conducting a COSA, and often there is not a "correct" answer and some judgement is required and acceptable. These conclusions on the part of BCOAPO support the use of a Range of Reasonableness (ROR) when evaluating the results of the COSA. FBC will return to a discussion of the ROR in a later section of this Reply Submission.

273. In other places in its Final Submission, BCOAPO does indicate that a different approach should be taken in the FBC COSA. The Company discusses those specific objections in the following paragraphs.

274. With regard to the functionalization of the Generation Related Transmission Assets (GRTA), BCOAPO believes that GRTA should be functionalized to Generation rather than to Generation and Transmission as is currently the case. FBC has provided its rationale for the current COSA treatment of the GRTA in response to BCOAPO IR 1.36.3, and has also allowed that the treatment proposed by BCOAPO is also reasonable. Generally speaking, FBC would not object to either approach, however, the difference in terms of the COSA results are minimal

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<sup>113</sup> BCOAPO Final Submission, page 19.

<sup>114</sup> Ibid, page 25

and FBC believes that comparability to previous COSAs has value and changes to the current COSA should be avoided if possible.

275. With regard to the functionalization of DSM spending (discussed on page 14 of the BCOAPO Final Submission), FBC notes that BCOAPO submits only that, "...at the very least the BCUC should take note of this simplification when applying the results of the COSA and FBC should be directed to refine and improve its allocation of DSM costs in future COSA's." FBC concludes that no changes are called for in the current COSA and this matter can be the subject of future deliberations.

276. With regard to the use of the minimum system study, and in light of the submissions of KSCA81, FBC notes the following BCOAPO comments at page 20 of its submission.

Investments in the balance of the distribution network system are classified as demand and customer-related. In BCOAPO's view this dual classification is reasonable as the facilities must not only be sized to meet the total load being delivered but must also be built so as to deliver that power to all customers (i.e., the amount of poles and lines and number of transformers required will vary with the number of customers on the system).

FBC's evidence notes there are various methods that are used by the industry to undertake this split between demand and customer-related costs. BCOAPO accepts that the minimum system method when combined with the PLCC adjustment as FBC has proposed is a reasonable way of calibrating this split.

277. BCOAPO submits that FBC should review the determination of its NCP allocation factors for Poles, Conductors and Transformers (as used in the COSA Model) and confirm that they do include the PLCC adjustment.<sup>115</sup>

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<sup>115</sup> Ibid, page 26.



278. In response, FBC offers the following clarification. The PLCC adjustment is made to reflect the fact that a certain amount of peak load is already covered by the customer-related component of the minimum system. The goal is to avoid the double counting of this amount. Therefore, an appropriate amount of costs is deducted from the costs allocated to the customer class. It would not be appropriate to deduct the amount from both the demand-related portions and the customer-related portion of costs. To determine the amount of the adjustment, EES looked at the amount that would have been based on peak demand before and after the PLCC adjustment. That is done in the C&A by Cust tab of the COSA model in lines 253 and 254. The difference in the amount of demand-related costs before and after the PLCC amount of peak demand is the amount that is deducted from the customer-related portion of cost. In line 255 the customer-related cost is reduced by the difference between lines 253 and 254. The result is that line 255, which is the customer-related allocation, contains the deduction in cost associated with the PLCC. The demand-related allocation shown in line 256 should not include the PLCC deduction and is therefore based on the demand allocator before the PLCC adjustment rather than after the PLCC adjustment.

279. FBC can also confirm, as requested in the second paragraph on page 26 of the BCOAPO submission, that the COSA model is correct. Transformers should be (and are) allocated on the basis of NCP-Primary.

**b) Submissions of CEC**

280. The CEC provides comment on two elements of the COSA, the use of the minimum system study, and the 2CP allocator for demand.

281. With regard to the minimum system study, CEC notes:

- FBC's minimum system approach, with the PLCC adjustment, reflects the theoretical advantages of the minimum system and zero intercept approaches. It does allocate more costs to residential and other small customers than the 100% demand approach, but less than if the PLCC adjustment is not included. It does

contain some uncertainty, but less than that for fixed or negotiated splits used by many others.<sup>116</sup> (original footnote omitted)

- The CEC submits that an alternative of 100% demand is not a suitable approach because it moves away from the best information for cost causation to a simplistic assumption, and is known for a bias towards smaller customers by shifting costs from small distribution uses (Residential and Small Commercial) and moves them towards large distribution uses (Commercial, Large Commercial-Primary, and Wholesale served at Primary).<sup>117</sup>(original footnote omitted)
- The CEC submits that the minimum system approach, with the PLCC adjustment is theoretically reasonable.<sup>118</sup>(original footnote omitted)

282. The CEC recommends that the Commission approve FBC's use of the minimum system with PLCC adjustment approach for use in its COSA.<sup>119</sup>

283. With regard to the use of the 2CP demand allocator, CEC submits that the 2CP allocator appears to represent FBC's system peaks well and can be expected to continue to do so over the near future.<sup>120</sup>

284. The overall conclusion of the CEC is that BCUC should approve FBC's COSA and rely on the information derived from the studies in the Commission's determinations.<sup>121</sup>

**(a) Conclusion**

285. FBC submits that the evidence in this process generally supports the COSA methodology utilized by EES and that the COSA performed is consistent with past practice

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<sup>116</sup> CEC Final Submission, paragraph 29.

<sup>117</sup> Ibid, paragraph 37

<sup>118</sup> Ibid, paragraph 38.

<sup>119</sup> Ibid, paragraph 41

<sup>120</sup> Ibid, paragraph 50

<sup>121</sup> Ibid, paragraph 58

approved by the BCUC, and consistent with industry practice. Most aspects of the COSA have received support from interveners.

286. Where alternate methods have been suggested, such as by BCOAPO, these can be considered in future COSAs, but any impact associated with the changes would be small and there is no practical benefit from making changes to the COSA as filed.

287. In particular, the minimum system study is accepted or supported by all interveners other than KSCA81, and FBC has shown that that the KSCA81 evidence on the matter is at least in part based on a flawed understanding of its use and other arguments put forward by KSCA81 are insufficient to prompt a change, particularly in light of the submissions of other intervener groups.

288. FBC urges the BCUC to approve the COSA as filed.

**B. Rebalancing and Range of Reasonableness (ROR)**

**(a) Discussion**

289. The COSA as filed results in R/C ratios for the various customer classes as contained in the table below, which is reproduced from the Application.

**Table 5-11: COSA Revenue to Cost Ratios**

Customer Class	Default Rate Schedule	Revenue to Cost Ratio
Residential	RS 01	98.4%
Small Commercial	RS 20	102.2%
Commercial	RS 21	104.7%
Large Commercial Primary	RS 30	104.0%
Large Commercial Transmission	RS 31	107.0%
Lighting	RS 50	92.2%
Irrigation	RS 60	97.2%
Wholesale Primary	RS 50	96.7%
Wholesale Transmission	RS 60	103.9%

290. FBC has proposed that the BCUC approve a ROR consistent with that approved for the Company in its 2009 COSA and RDA process. That is, 95% to 100%.

291. Approval of the 95% to 100% ROR in consideration of R/C ratios noted in paragraph 289 above, would lead to rebalancing adjustments to only two classes, Large Commercial Transmission and Lighting.

292. With regards to the Company's proposal to maintain the previously approved 95% to 105% ROR, no intervener other than CEC provided submissions.

293. No intervener has advocated for an ROR different from the one proposed by FBC.

294. CEC is not in favour of the establishment of a ROR, stating, "The CEC does not consider that a pre-established ROR adds any value and indeed detracts from the Commission's due exercise of its judgement, which can be readily and more appropriately exercised utilizing the R:C ratios themselves rather than an arbitrarily established range from that information."<sup>122</sup>

295. BCOAPO states that, "...customer classes with revenue to cost ratios falling within the range should all be equally viewed as having rates that fairly recover the cost to serve them. The implication is that if the R/C ratios are within the ROR, moving all of the ratios to 100% would not improve the fairness of the rates in terms of Bonbright Principle #2".

**(b) Issues raised by ICG and CEC**

296. With regard to rebalancing, ICG simply states that FBC's proposed rebalancing strategy is not in accordance with BCUC's decisions regarding rebalancing. However, the ICG submission contains no further information on this point and FBC has provided its interpretation of the previous BCUC decisions on this point, in section 5.2 of the Application and in its responses to BCUC IR 1.20.1 and 1.20.2.3. FBC relies on these submissions in this regard.

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<sup>122</sup> Ibid, paragraph 81.

297. CEC recommends discarding the ROR and utilizing the best available information, which is the R/C ratios.

298. CEC also submits that unity is the appropriate target for rebalancing.

299. The CEC considers that targeting to the end points of the ROR effectively results in disregard for the best evidence available and for the ROR concept itself.

300. The CEC submits that, in the absence of other considerations, all rebalancing should be undertaken to achieve unity as the fairest method. CEC recommends that the Commission deny FBC's request to rebalance to the end points and require FBC to rebalance its customer classes to unity.

**(c) Conclusion**

301. FBC submits that the concept of Range of Reasonableness is necessary and accepted industry practice in rate design given that COSA results are not precisely accurate.<sup>123</sup> The Commission panel in its decision on FEI's COSA accepted that in theory an R/C ratio of 100 percent for each rate schedule would indicate that the revenues recovered from each rate schedule are equal to the cost to serve them. However, due to the assumptions, estimates and judgements involved in a COSA study, the Panel considers it appropriate to use a range of reasonableness.<sup>124</sup>

302. FBC submits that rebalancing to 100% or unity would be inconsistent with the ROR concept. The ROR is a guideline, in that the Commission may determine that rebalancing is not required even if an R/C ratio is outside the ROR. If rebalancing is determined to be

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<sup>123</sup> FEI 2016 Rate Design Application, FEI Final Argument on COSA and R:C ratios, pages 17-19

<sup>124</sup> BCUC Order G-4-18, FEI 2016 Rate Design Application, page 35

appropriate, rebalancing should be to the nearest boundary of the range of reasonableness only, as the COSA results provide no evidence to justify further rebalancing.<sup>125</sup>

303. In summary, FBC submits that BCUC should continue to use ROR as a guide to rate setting to inform rate design and rebalancing proposals. FBC's proposed range of reasonableness of 95 percent to 105 percent of the R/C ratio is reasonable and appropriate for the purposes of FBC's rate design, rebalancing and setting rates for the utility.

304. FBC requests that BCUC should approve FBC's rebalancing proposals as proposed and set out in the Application.

**(d) Conclusion**

**PART TEN: OTHER MATTERS**

**A. Other matters raised by KSCA81**

305. In its final submission, KSCA81, has raised or introduced a number of matters that are not part of this COSA and rate design process, such as net metering, municipal power sales, as well as low income and inter-jurisdictional utility issues. Accordingly, FBC has not addressed these submissions.

306. With regard to the issue of the stationing of a Powerline Technician in Kaslo, FBC provided a full response to this issue in response to KSCA81 IR 2.4.5.iii.

307. Further, KSCA81 has requested the BCUC to consider whether, "...British Columbia utilities to be directed to set up a jointly dedicated billing ombudsperson hotline to assist customers, particularly residential customers, deal with any ongoing lack of service by the utilities concerning correction of billing errors. And further, that this Commission panel consider

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<sup>125</sup> BCUC Order G-135-18, FEI Rate Design Application, pages 41 and 42; Exhibit A2-8 of FEI 2016 Rate Design Application, CEC-Elenchus IR 1.2.2: "Rebalancing should be undertaken to move all classes that are outside the approved range to the nearest boundary"

the need for the Commission to direct each utility to report on a quarterly basis the number of customers, by class, that are in arrears, the amount of those arrears by class, the number of claims by class that have arisen disputing those claims of arrears, the number of claims by class disputing any and all fees and charges, the number of customers by class who have been reimbursed for billing errors, and the amounts involved for which customers by class have been reimbursed, with or without interest.”

308. Clearly, this is not a request related to the COSA or RDA and it should not be a matter for the current process.

**B. Other matters raised by ICG**

309. ICG has raised two additional matters not addressed elsewhere in this Final Submission and that require discussion by FBC. These are the Discounting policy and Metering Interval.

310. With regard to the discounting policy discussed in paragraphs 39-41 of FBC’s Final Submission, FBC concludes that what ICG is suggesting is not so much a discount as it is a negotiated transmission rate outside of the tariff process. This would be the result of special circumstances based on “the customer can demonstrate that it has a viable and economical alternative to using the transmission path.” This is not a discount that would then apply to all customers but only to the one customer with the special circumstances.

311. In its evidence, ICG likens this approach to a situation, “...used by FBC when it negotiated and sought approval for a bypass rate for a sawmill located in Grand Forks. The sawmill sought to build a substation so it could move to the transmission rate.”<sup>126</sup> In the referenced case, the proponent filed a separate application with the BCUC in accordance with the existing Bypass Rate Guidelines. In the case where a bypass situation contemplated by the

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<sup>126</sup> Ex. C12-6, page 18

guidelines occurs, this is the appropriate action and is not a rationale for changing the previously approved discounting provisions.

312. With respect to ICG's request regarding the metering interval at paragraph 60 of its Final Submission, the current metering interval used for billing is consistent with that used for other commercial customers and should not be changed solely in response to the request of a small number of customers such as represented by ICG.

313. While FBC indicated in the G-8-17 process that the topic may be more appropriately addressed in a rate design proceeding, the BCUC made no determinations on the matter, and it has not previously been raised in the current process. ICG did not raise the issue either in its evidence or information requests to FBC and now requests that the BCUC make a determination affecting a large number of customers without any evidence being placed on the record.

314. FBC is not against a separate process to consider this issue, but the imposition of such a change should not be considered as part of this process.

#### **PART ELEVEN: RESIDENTIAL DEFAULT RATE IMPLEMENTATION**

315. With respect to the default residential rate, FBC continues to seek BCUC approval of the rate changes it put forward in the Application. FBC believes that the proposed return to a flat rate structure over a five-year period along with the requested increase to the Customer Charge over the same five-year period represents the best balance of rate design considerations at this time for its residential customers.

316. However, FBC recognizes that interveners in this proceeding have conflicting positions about the most appropriate path forward for residential rates, ranging from switching from the RCR to a flat rate structure in one single change to retaining the RCR structure unmodified. FBC provides the following comments in an effort to reach an outcome that may bridge the positions of the parties.



317. A key point of difference in the discussions has been with respect to the appropriate referent for the Tier 2 rate of the RCR, both in terms of its continuing applicability in setting residential rates and, where interveners suggest that the appropriate referent should be some measure of LRMC, how a LRMC applicable to the setting of rates should be determined.

318. In order to accommodate the various interests and conflicting positions expressed in this proceeding, FBC would be amenable to providing an assessment report on the results of its proposed phase-in of the flat rate structure after three years.

319. Such matters as any evolution in government policy or developments with respect to an appropriate Tier 2 referent for FBC could be considered in that report, as well as an evaluation of any conservation that can be definitively linked to the RCR over the period.

320. The flat rate phase-in report could occur at the same time and be filed together with the assessment report FBC has proposed with respect to the optional TOU rates sought in this application. The filing of the phase-in report with the BCUC would give interested parties an opportunity to reassess the circumstances of the partially flattened RCR based on updated information and, if it was considered warranted, to seek the BCUC's determination that the phase-in process should cease at that point and the RCR structure that applies at that time should be retained, rather than continuing the phase-in to flat rates pursuant to the order made in this proceeding.

321. FBC notes for example, that while it does not agree with the value for LRMC put forward by BCSEA-SCBC (0.13131/kWh), the Tier 2 rate that would be in effect in year 3 of the Company's proposal would be a similar value at 0.13421/kWh. Effectively, the evaluation after the year 3 rate change could result in consideration of whether a continued transition to a flat rate remains the appropriate outcome, or whether the evidence in the form of the phase-in report would justify retaining a modified RCR, but would be based on considerations that seem to underpin even the varying positions of the parties in this process.

322. To be clear, FBC is not proposing to change its requested approvals as described in the Application, but sees no procedural issue with the insertion of a decision point during year 3 that would provide additional information by which to confirm the path for the remaining two years.

**PART TWELVE: CONCLUSION**

323. In its Final Argument, dated October 17, 2018, FBC provided in paragraphs 133 to 140, a summary of the BCUC approvals requested as part of this process, and which are also detailed in the draft order attached as Appendix A to that filing.

324. FBC submits that the approvals described in the Final Argument are supported by the evidence on the record including the further discussion in this Reply Argument, are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 22, 2018

***Original signed by***  

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**Diane Roy**