

FortisBC Cost of Service Analysis

Public Open House
May 2009



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Goals of COSA Public Consultation

- Explain Cost of Service
- Gather Input
- Answer Questions
- Encourage Ongoing Participation

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The Public Consultation Process – “Who”

- Residential customers
- Industrial Customers
- Commercial Customers
- Municipal Utilities (Wholesale customers)
- Customer Group Organizations
- Government
- First Nations
- British Columbia Utilities Commission

The Public Consultation Process – “How”

- General Communications
- One-on-one communications
- Meetings with wholesale and industrial customers
- Open Houses and Information Sessions

FortisBC Profile

- Oldest electric utility in British Columbia
- 110,000 direct customers across BC's southern interior
- Provide power to 5 Municipal utilities (resellers)
- Four hydroelectric generating stations
- 7000 km of power lines, 65+ substations,
- Kelowna-based head office, with over 14 field offices
- Over 500 employees
- Many different types of customers



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FortisBC Cost of Service Analysis



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Key Concept - Revenue Requirement

Revenue Requirement

=

Power Supply
Operations & Maintenance
Depreciation & Taxes
Interest and Return

- Determines the revenue required to operate the utility

- Approved Annually by the Utilities Commission

- Basis for Annual Rate Adjustment

What is "Cost of Service Analysis" ?

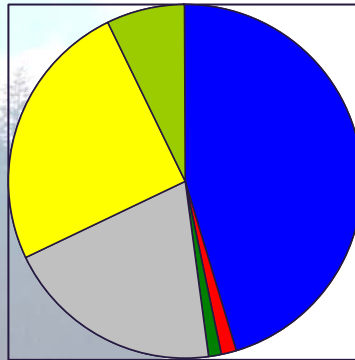
- The purpose of a Cost of Service Study is to break down the total Revenue Requirement to the Customer Classes.
- The result of the Cost of Service Study shows the Cost to Serve each Customer Class.

Why now?

- Last done in 1997
- Many changes to the system and the industry.

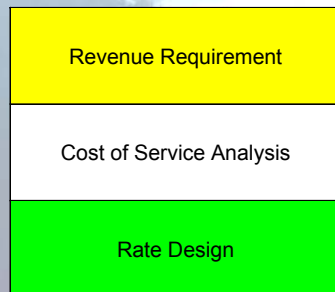
Slicing the Revenue Pie

Revenue Requirement – The “Size” of the Pie



■ Revenue Requirement

Overview – The COSA Process



•The total dollars to collect.

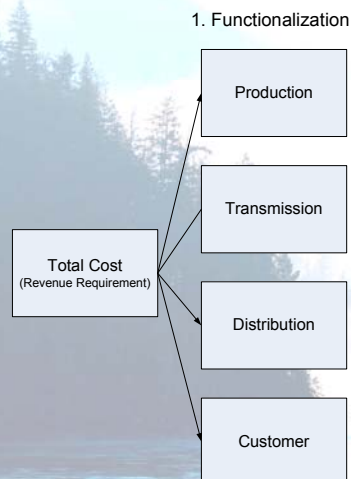
•Determine the costs that each customer class is causing and how much revenue the utility is collecting from each.

•How does the utility collect the costs?

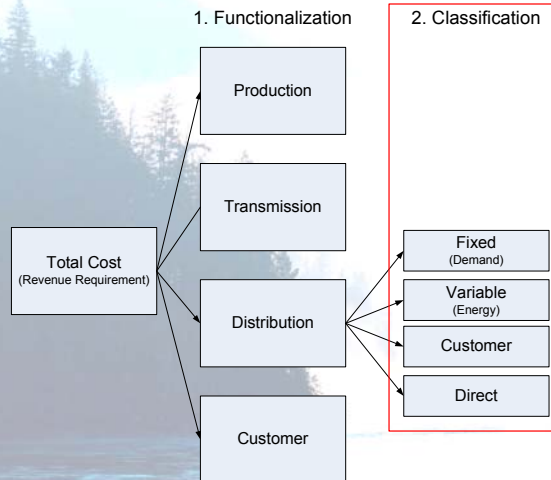
Brief Overview of COSA

	Determine the revenue requirement of the utility	Revenue Requirement Determination
Step 1	Functionalize costs and services	Cost of Service Analysis
Step 2	Classify costs	
Step 3	Allocate costs among customer classes	
	Design rates	Rate Design

Step 1 - Functionalization



Steps in COSA

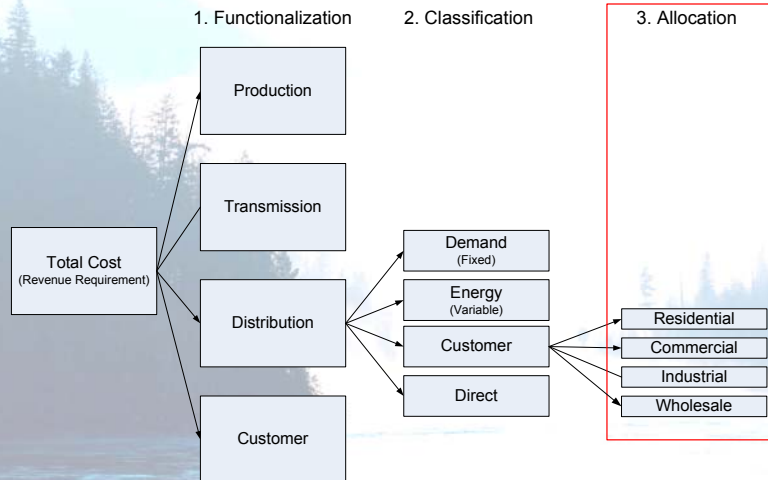


Step 3 – Allocation of Costs

- **Cost allocation** – the process of matching the different types of classified costs to different groups of customers
- allocation factors proportion the costs on an equitable basis.
- Example
 - ❖ Meter costs can be allocated based upon the number of customers in each class of service

Class of Service	Number of Customers	%
Residential	4,000	93.9%
Commercial	250	5.9
Industrial	10	0.2%
Total	4,260	100.0%

Steps in COSA



Then & Now

Since 1997 the FortisBC system has changed in a number of ways:

- Significant investment in infrastructure
- Customer load characteristics are different
- Capacity Constrained

Interpreting the COSA Results

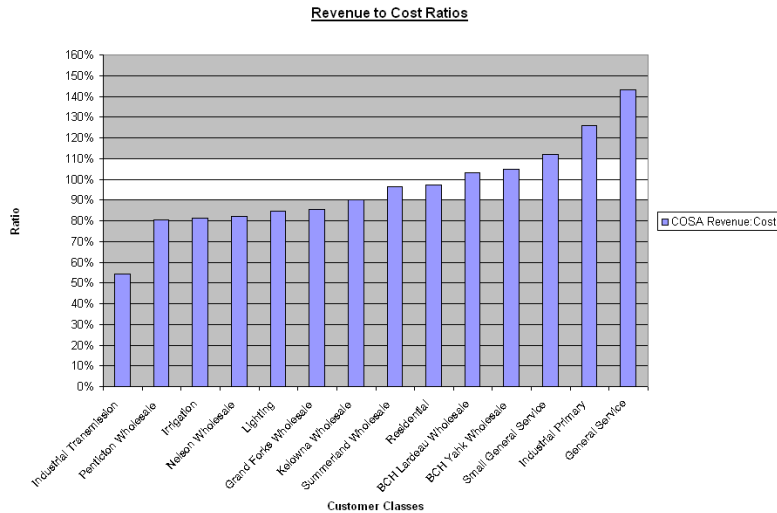
- The COSA results show the allocated cost that should be collected from rates for each customer class.
- The revenue to cost ratios for each class show FortisBC is collecting the appropriate amount of revenue from each class.
- COSA can be used to help design rates
- Revenue neutral to the Utility

Results of FBC COSA

- **Revenue to Cost Ratios** are used to show how much customers are paying relative to their allocated costs.

	2009 Revenue To Cost Ratio
Residential	97.1%
Small GS (20)	111.9%
General Service (21)	143.1%
Industrial Primary (30)	125.9%
Industrial Transmission	54.4%
Lighting	84.8%
Irrigation	81.3%
Kelowna Wholesale	90.1%
Penticton Wholesale	80.4%
Summerland Wholesale	96.4%
Grand Forks Wholesale	85.4%
BCH Lardeau Wholesale	103.3%
BCH Yahk Wholesale	104.9%
Nelson Wholesale	82.3%

Results of FBC COSA



What is “Cost of Service Analysis” ?

Determines,

- How costs are divided among the customer groups.
- Whether FortisBC is collecting the appropriate amount of revenue from each class.

Now you know!

Next Steps –Rate Design

- Rate Design is the next logical step that comes after the Cost of Service Analysis is complete.

Some considerations:

- *(1) A public utility must not make, demand or receive (a) an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia,.... UCA Section 59*
- Explore with B.C. utilities new rate structures that encourage energy efficiency and conservation. (2007 Energy Plan – Policy Action 4)

Rate Design Considerations

- “Conservation” Rates
- Revenue/cost ratio adjustments
- Rate Relevance
- Terms & Conditions Review

Rate Design Options

Options to Consider

- Flat Pricing
- Inclining Block Rates
- Time-of- Use Rates
- Critical Peak Pricing
- Customer Charge adjustments
- Others

Regulatory Process

1. Cost of Service

- Public Consultation
 - Open Houses – Castlegar, Osoyoos, Kelowna
 - Feedback received by June 12
- COSA Submission to BCUC – June 30, 2009

2. Final COSA & Rate Design

- More Public Consultation
- Rate Design Application to BCUC – September 30, 2009

Feedback

- Sign-in sheets
- Surveys
- Website
- Hand-out
- E-mail: regulatory@fortisbc.com

Q & A

- Questions / Comments ?