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June 7, 2011

Via Email
Original via mail

Ms. Alanna Gillis
Acting Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Gillis:

Re: *FortisBC Inc. Residential Inclining Block Rate Application – Errata 1*

FortisBC Inc. (“FortisBC” or the “Company”) provides the following errata to its Residential Inclining Block Rate Application (the “Application”). Replacement pages are attached.

- 1 FortisBC Residential Inclining Block Rate Application, Page 1, Line 29**
“section 4.2” should read “section 5.2.1”
- 2 FortisBC Residential Inclining Block Rate Application, Page 15, Lines 9-11**
“(excluding rebalancing)” should be removed from Line 9
Lines 10 and 11 should read “adjusted by an amount equal to the sum of the general revenue requirement increase and any rebalancing adjustments;”
- 3 FortisBC Residential Inclining Block Rate Application, Page 16, Line 20**
“Table 8-2” should read “Table 7-2”
- 4 FortisBC Residential Inclining Block Rate Application, Page 20, Line 7**
“section 2” should read “section 3.2”
- 5 FortisBC Residential Inclining Block Rate Application, Page 22, Table 7-2**
Column header “.05/.010” should read “.05/.10”

6 FortisBC Residential Inclining Block Rate Application, Page 26, Table 8-3, Impact of rate increases on RIB Rate Options

During a review of the data in the table, FortisBC discovered that a formula error caused the miscalculation of the Block 2 rates in rate options E, G and H. These errors have been corrected on the replacement page attached. The affected table cells have been marked.

The Company notes that the error affects only the Block 2 rates beyond 2011 and does not affect the Company's choice of preferred option, nor does it impact any of the other conclusions drawn in the Application.

7 FortisBC Residential Inclining Block Rate Application, Page 26, Table 8-3
Row headers "Ratio: Block 1/ Block 2" should read "Ratio Block 2 / Block 1"

FortisBC apologizes for any difficulty these corrections may pose to the Commission and Interveners in evaluating the Application.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis Swanson", with a long horizontal flourish extending to the right.

Dennis Swanson
Director, Regulatory Affairs

1 **1 EXECUTIVE SUMMARY**

2 FortisBC Inc. (FortisBC or the Company) files this Residential Inclining Block (RIB) Rate
3 Application in compliance with Commission Order G-156-10 which directed the Company "...to
4 develop a plan for introducing residential inclining block rates that also incorporate a lower Basic
5 Charge in the immediate future and to file an RIB rate application with the Commission no later
6 than March 31, 2011."

7 Accordingly, FortisBC hereby applies under sections 58-61 of the Utilities Commission Act,
8 R.S.B.C. 1996, c.473, as amended, for British Columbia Utilities Commission (BCUC or the
9 Commission) approval of a new, two-step, inclining block rate for its residential customers who
10 are currently served under rate schedule RS01.

11 A RIB rate is intended to promote conservation by employing a tiered rate structure in which
12 consumption that occurs above a certain amount is billed at a higher rate. The higher second
13 tier, or "block" rate, is meant to incent customers to reduce consumption. RIB rates are
14 discussed in greater detail in section 5 of the application.

15 The Company examined eighteen options for its RIB rate structure which varied the amount of
16 the fixed customer charge as well as the block 1 and block 2 rates. Each option was designed to
17 collect the necessary revenue requirement from the residential class as determined by
18 FortisBC's 2011 Revenue Requirements Application. FortisBC used the total impact to
19 customers' bills as a determining factor in setting the individual block rates and threshold. Each
20 option was evaluated against general rate setting criteria based on the Bonbright Principles (see
21 section 3.1) as well as criteria specific to a RIB rate structure. The preferred rate option is the
22 most appropriate when these criteria are considered.

23 The option proposed by the Company, which exempts the customer charge from rate
24 adjustments other than those related to rebalancing through to 2015, effectively reduces the
25 customer charge relative to the other billing determinants. The block 1 and block 2 rates are set
26 such that 95 per cent of customers will experience annual bill impacts of less than 10 per cent.
27 The Company is of the opinion that its treatment of the customer charge complies with the
28 directives of Order G-156-10 and gives due consideration to cost causation principles and the
29 effect on the consumptive billing components of the rate. As explained in section 5.2.1, the
30 current customer charge collects less than half of the amount prescribed by a cost of service
31 analysis.

1 **5.1 The Revenue Requirement Constraint**

2 It is not possible to independently vary each of the RIB components. FortisBC must design a
3 rate that will recover its revenue requirements for the residential customer class. At a minimum,
4 one of the four variables will be dependent on the levels chosen for the other three. Each of the
5 options examined as part of this application is designed to recover the revenue requirement as
6 determined by the Company's recent 2011 Revenue Requirements Application.

7 Except for those options that include exempting the customer charge from future rate increases
8 (except for rebalancing adjustments) as part of the structure, FortisBC proposes to apply future
9 general revenue requirement rate increases as follows:

10 **Customer charge:** adjusted by an amount equal to the sum of the general revenue
11 requirement increase and any rebalancing adjustments;

12 **Block 1:** adjusted by an amount equal to the sum of the general revenue
13 requirement increase and any rebalancing adjustments; and

14 **Block 2:** adjusted by an amount sufficient to recover the balance of the general
15 revenue requirement and any rebalancing adjustments.

16 **5.2 Options for Inclining Block Rates**

17 As discussed in Section 5, there are four components to the RIB rate that have been varied in
18 the examination of rate options. A discussion of each follows. In calculating the rates under
19 each of the options, FortisBC has based the analysis on the residential rate expected to be in
20 effect as of May 1, 2011. This includes the impact of the 2.5 per cent rebalancing increase as
21 approved by Commission Order G-196-10, but does not include any forecast interim flow
22 through rate adjustment related to the BC Hydro 2012-2014 Revenue Requirements
23 Application.

24 **5.2.1 CUSTOMER CHARGE**

25 As at January 1, 2011, the customer charge under the RS01 residential flat rate is \$28.22 per
26 billing period and forecast to be \$28.93 per billing period⁸ after May 1, 2011. After consideration
27 of the final Commission Order in the 2009 RDA that required adjustments to the cost of service

⁸ A billing period under the residential rate schedule is two months.

1 analysis, a customer charge based on cost causation principles was found to be \$28.74 per
2 month. At the current level of \$28.22 per two month billing period, the customer charge
3 presently collects just under 44 per cent of the amount required by strict adherence to cost
4 causation principles.

5 As the Commission has determined that the RIB application will include a reduction in the
6 customer charge, the level at which the charge is set becomes somewhat arbitrary.

7 It should be noted that lowering the customer charge has a bill impact very similar to that of a
8 RIB rate – lower consumption customers pay less, and higher consumption customers pay
9 more. Therefore, the combined bill impact of a lower basic charge and the block differential
10 must be managed.

11 The three options modeled as part of the application are as follows:

12 • **Reduction through an exemption from future rate increases**

13 By exempting the existing customer charge from future rate increases (except for rebalancing
14 adjustments), the proportion of customer class revenue collected through the customer charge
15 will fall over time. At this time, the Company proposes to exempt the customer charge from rate
16 adjustments other than those related to rebalancing through to 2015 and to revisit the issue at
17 the end of that period. FortisBC is of the opinion that this a conservative and viable approach
18 that will not immediately reduce the customer charge further below the amount identified by cost
19 causation principles and will maintain consistent and acceptable levels for the rates charged for
20 consumption (block 1 and particularly block 2 rates). As can be seen in Table 7-2, a reduction in
21 the initial level of the customer charge drives significant increases in the level of the block 1 and
22 block 2 rates.

23 • **Customer Charge Reduction**

24 To gauge and demonstrate the impact that lowering the customer charge has on the other rate
25 components, the Company selected an additional option of a bi-monthly customer charge of
26 \$21.50 to model for analysis.

1 **7 EVALUATING THE OPTIONS**

2 As noted above, in order to evaluate the impact of a rate option on customer bills, the Company
3 used a representative random sample of its direct residential customers.

4 For each of the 18 options, the evaluation factors listed in Table 7-1 below have been
5 determined. FortisBC has not ranked these factors for importance, nor has the Company
6 produced a score for each option intended to produce a final recommendation. The information
7 is useful to compare outcomes against the criteria listed in section 3.2. It should also be noted
8 that while the Company has estimated the conservation impact as discussed below, the amount
9 of consumption that occurs in each discrete block has not been adjusted to account for the
10 assumed impact of conservation.

11 **Table 7-1: RIB Rate Evaluation Criteria**

Evaluation factor	Description
Annual Breakeven kWh	The level of annual consumption required to have annual billing under the RIB rate option equal annual billing under the current flat rate option.
Percentage of Customers That Benefit	The percentage of customers whose annual bill for electricity is lower under the RIB Rate option than under the existing flat rate.
Maximum Bill Impact	The highest single percentage increase experienced by a customer in any month when the RIB rate option is compared to the flat rate.
Percentage of Customers with Bill Increases > 20%	The percentage of customers who will experience an annual increase in their bills greater than 20% when billing under the RIB rate option is compared to billing under the existing flat rate.
Number of Customers With Consumption in Block 2 At Least Once	The number of customers who will have consumption in a billing period in the second block at least once in a year.
Percentage of Load Billed in Block 2	Of the total residential load (in kWh), the percentage that is consumed in the second block.
Conservation Impact	The conservation impact of a RIB rate option is the estimated reduction in both consumption and demand that is attributable to the implementation of the given RIB rate option.

Table 7-2: Residential Inclining Block Rate Option Comparison

Option	Criterion	Threshold	Customer Charge	Block 1 Rate	Block 2 Rate	Block Differential	Annual Breakeven kWh	Percentage of customers better off	Maximum Bill Impact	Percentage of Customers with Bill Increases > 20%	Percentage of customers who have consumption in the second block at least once	Percentage of load billed in Block 2	Conservation Impact (-lower/upper)		
													.05/.10	.10/.20	.20/.30
1	90% see <10%	1350	28.93	0.06708	0.12208	82.0%	13500	70.7%	32.4%	2.7%	79.2%	43.3%	2.8%	5.6%	8.3%
2	95% see <10%	1350	28.93	0.07526	0.11138	48.0%	13500	70.7%	21.3%	0.1%	79.2%	43.3%	1.9%	3.7%	5.5%
3	100% see <10%	1350	28.93	0.08365	0.10039	20.0%	13500	70.7%	9.9%	0.0%	79.2%	43.3%	0.9%	1.7%	2.5%
4	90% see <10%	2100	28.93	0.07454	0.13641	83.0%	16000	78.7%	46.9%	4.2%	60.7%	26.4%	3.3%	6.6%	9.7%
5	95% see <10%	2100	28.93	0.08181	0.11618	42.0%	16000	78.7%	26.0%	0.4%	60.7%	26.4%	1.8%	3.7%	5.4%
6	100% see <10%	2100	28.93	0.08743	0.10055	15.0%	16000	78.7%	9.9%	0.0%	60.7%	26.4%	0.7%	1.4%	2.1%
7	90% see <10%	1600	28.93	0.07069	0.12584	78.0%	15000	75.7%	36.2%	2.7%	72.8%	36.6%	3.0%	6.0%	8.8%
8	95% see <10%	1600	28.93	0.07828	0.11272	44.0%	15000	75.7%	22.6%	0.2%	72.8%	36.6%	1.9%	3.7%	5.5%
9	100% see <10%	1600	28.93	0.08557	0.10012	17.0%	14000	72.5%	9.6%	0.0%	72.8%	36.6%	0.8%	1.6%	2.3%
10	90% see <10%	1350	21.50	0.07391	0.12121	64.0%	13500	70.7%	31.6%	1.9%	79.2%	43.3%	2.8%	5.6%	8.2%
11	95% see <10%	1350	21.50	0.08197	0.11066	35.0%	13500	70.7%	20.6%	0.1%	79.2%	43.3%	1.8%	3.7%	5.4%
12	100% see <10%	1350	21.50	0.09010	0.10001	11.0%	13500	70.7%	9.5%	0.0%	79.2%	43.3%	0.9%	1.7%	2.6%
13	90% see <10%	2100	21.50	0.08037	0.13341	66.0%	16000	78.7%	43.8%	2.7%	60.7%	26.4%	3.2%	6.4%	9.4%
14	95% see <10%	2100	21.50	0.08703	0.11488	32.0%	15500	77.3%	24.7%	0.4%	60.7%	26.4%	1.8%	3.6%	5.4%
15	100% see <10%	2100	21.50	0.09220	0.10050	9.0%	14000	72.5%	9.9%	0.0%	60.7%	26.4%	0.8%	1.5%	2.3%
16	90% see <10%	1600	21.50	0.07715	0.12421	61.0%	14000	72.5%	34.6%	2.7%	72.8%	36.6%	2.9%	5.8%	8.6%
17	95% see <10%	1600	21.50	0.08449	0.11152	33.0%	14000	72.5%	21.4%	0.1%	72.8%	36.6%	1.8%	3.6%	5.4%
18	100% see <10%	1600	21.50	0.09106	0.10016	10.0%	13500	70.7%	9.6%	0.0%	72.8%	36.6%	0.8%	1.7%	2.5%

1 **Table 8-3: Impact of Rate Increases on RIB Rate Options**

Base Rate Option	Threshold	Increase Applied to:	Rate Increase*						
			2011	2012	2013	2014	2015		
				8.90%	6.50%	3.40%	6.50%		
A	2	1350 kWh	Both Blocks	Customer Charge	28.93	29.65	30.34	30.34	30.34
				Block 1 Rate	0.07526	0.08196	0.08729	0.09025	0.09612
				Block 2 Rate	0.11138	0.11903	0.12519	0.12761	0.13500
				Ratio: Block 2 / Block 1	1.48	1.45	1.43	1.41	1.40
B	2	1350 kWh	Block 2 Only	Customer Charge	28.93	29.65	30.34	30.34	30.34
				Block 1 Rate	0.07526	0.07526	0.07526	0.07526	0.07526
				Block 2 Rate	0.11138	0.12780	0.14093	0.14723	0.16231
				Ratio: Block 2 / Block 1	1.48	1.70	1.87	1.96	2.16
C	8	1600 kWh	Both Blocks	Customer Charge	28.93	29.65	30.34	30.34	30.34
				Block 1 Rate	0.07828	0.08525	0.09079	0.09387	0.09998
				Block 2 Rate	0.11272	0.12009	0.12603	0.12814	0.13541
				Ratio: Block 2 / Block 1	1.44	1.41	1.39	1.36	1.35
D	8	1600 kWh	Block 2 Only	Customer Charge	28.93	29.65	30.34	30.34	30.34
				Block 1 Rate	0.07828	0.07828	0.07828	0.07828	0.07828
				Block 2 Rate	0.11272	0.13214	0.14766	0.15510	0.17292
				Ratio: Block 2 / Block 1	1.44	1.69	1.89	1.98	2.21
E	11	1350 kWh	All Components	Customer Charge	21.50	23.41	24.94	25.78	27.46
				Block 1 Rate	0.08197	0.08927	0.09507	0.09830	0.10469
				Block 2 Rate	0.11066	0.11630	0.12096	0.12213	0.12700
				Ratio: Block 2 / Block 1	1.35	1.30	1.27	1.24	1.21
F	11	1350 kWh	Customer Charge and Block 2	Customer Charge	21.50	23.41	24.94	25.78	27.46
				Block 1 Rate	0.08197	0.08197	0.08197	0.08197	0.08197
				Block 2 Rate	0.11066	0.12585	0.13811	0.14351	0.15674
				Ratio: Block 2 / Block 1	1.35	1.54	1.68	1.75	1.91
G	17	1600 kWh	All Components	Customer Charge	21.50	23.41	24.94	25.78	27.46
				Block 1 Rate	0.08449	0.09201	0.09799	0.10132	0.10791
				Block 2 Rate	0.11152	0.11648	0.12062	0.12124	0.12549
				Ratio: Block 2 / Block 1	1.32	1.27	1.23	1.20	1.16
H	17	1600 kWh	Customer Charge	Customer Charge	21.50	23.41	24.94	25.78	27.46
				Block 1 Rate	0.08449	0.08449	0.08449	0.08449	0.08449
				Block 2 Rate	0.11152	0.12948	0.14396	0.15034	0.16599
				Ratio: Block 2 / Block 1	1.32	1.53	1.70	1.78	1.96

*Does not include any forecast increases related to BC Hydro flow-through.

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3