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June 1, 2012

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Energy Utilities (comprised of FortisBC Energy Inc. ("FEI"), FortisBC Energy Inc. Fort Nelson Service Area ("FEFN" or "Fort Nelson"), FortisBC Energy (Vancouver Island) Inc. ("FEVI"), and FortisBC Energy (Whistler) Inc. ("FEW") Common Rates, Amalgamation and Rate Design Application (the Application)

Response to the Commercial Energy Consumers Association of British Columbia ("CEC") Information Request ("IR") No. 1

In accordance with Commission Order No. G-46-12 setting out the Regulatory Timetable for the review of the Application, the FEU respectfully submit the attached response to CEC IR No. 1.

If there are any questions regarding the attached, please contact Paul Craig at 604-592-7459.

Yours very truly,

on behalf of the FORTISBC ENERGY UTILITIES

Original signed:

Diane Roy

Attachment

cc (e-mail only): Registered Parties

1. Reference: Exhibit B-3, Page 10

- First, as stated in section 53(3), an application to the Commission must be made for the consent of the Lieutenant Governor in Council (the "LGIC");
- Second, under section 53(4) of the Act, the Commission must inquire into the application for amalgamation and consider whether the amalgamation would be beneficial in the public interest;
- Third, if the Commission determines that the amalgamation would be beneficial in the public interest, section 53(5) of the Act requires the Commission to submit a report and its findings to the LGIC; and
- Finally, the LGIC considers the report and findings of the Commission in determining whether to issue an order consenting to the amalgamation.

1.1 Please provide the FEU view with respect to specifically what criteria should and or could be involved in the Commission's determination of "beneficial in the public interest".

Response:

Please refer to the response to BCUC IR 1.5.1.

1.2 How do the FEU believe the Commission should deal with criteria, which might state "the public utility and the users of the services of the public utility ought not to be detrimentally affected by the transaction"?

Response:

The criteria quoted in the preamble to the question is from section 54(9) of the UCA which is not applicable to an application for an amalgamation. It is, therefore, not criteria in respect of approval of an amalgamation.

2. Reference: Exhibit B-3, Page 10

> The FEU are seeking approvals to implement common or postage stamp delivery, midstream and commodity rates for the Amalgamated Entity which will eliminate the existing rate discrepancies across the regions served by the FEU. Common rates provide a fair and equitable approach for all customers of the FEU going forward by eliminating the complexity and rate disparity that currently exists. This approach is consistent with the electric utilities in the Province, including British Columbia Hydro and Power Authority ("BC Hydro") and FortisBC Inc. ("FBC").

2.1 Please confirm that from the FEU perspective as a regulated public utility and from the BCUC perspective as a regulator, the existing rates of the separate entities are, as approved, fair, just and reasonable as well as not being unduly discriminatory.

Response:

Confirmed.

2.2 Please confirm that there is not a legislative basis for suggesting that the rates for the FEU must be equitable across all customers.

Response:

The legislative basis is that the UCA would require that rates of FEI Amalco be just and reasonable.

2.3 Please confirm that the FEU are actually seeking approval to change the basis of fairness in rate setting from regional zone based rates to postage stamp based rates.

Response:

Not confirmed.

Within each of the FEU rate bases (FEI, FEFN, FEVI and FEW), the rates in effect reflect postage stamp rates, other than minimal differences in FEI's midstream rates. In this

Application, the FEU are seeking to apply the same methodology (or the same "basis of fairness in ratesetting" as referred to in IR) for the one utility rate base of FEI Amalco.

2.4 Please confirm that there is a basis of fairness for each rate setting model and that the FEU find that they prefer the postage stamp model versus the regional zone model primarily because of the beneficial effects for the FEVI and FEW customers.

Response:

The FEU agree that both regional zone rates and postage stamp rates have a basis of fairness for rate setting.

The primary reason the FEU are proposing postage stamp rates is because they provide the most equitable rates for FEU's customers. As discussed in Section 6.2 of the Application, postage stamp rates are the most widely accepted and equitable rate setting model. Postage stamp rates are the most appropriate for an amalgamated FEU and provide benefits for all customers.

The beneficial effects for FEVI and FEW customers are an important benefit of postage stamp rates given the unique circumstances of the FEU.

3. Reference: Exhibit B-3, Page 12

> As described in section 3 of the Application, this conceptual issue with regional rates has been addressed to date within the FEU simply by using the regional distinctions of the service areas of the predecessor companies to the FEU. The three separate companies, four distinct rate bases and six service areas that make up the FEU today are an artefact of the FEU's growth by acquisition. In their report, EES Consulting recognizes that "*the current regional differences in delivery rates… [for the FEU]…do not necessarily reflect the same regional separation that*

3.1 When the FEU were acquired by their parent company, specifically when FEVI and FEW were acquired and or converted to natural gas service, were there any comments or submissions made at the time that reflected a view that the acquisitions were risky and would potentially result in higher costs falling back on the Lower Mainland customers. If so please provide them.

Response:

The FEU have not found any submissions of the kind referenced in the IR related to the acquisitions of FEVI and FEW. The acquisitions came about as a result of an application made to the Commission, pursuant to section 54 of the *Utilities Commission Act,* by what was then BC Gas Inc. on December 6, 2001, for approval to acquire a reviewable interest in the shares of Centra Gas British Columbia Inc. and Centra Gas Whistler Inc. On January 31, 2002, the Commission, by Order No. G-8-02, approved the acquisition of a reviewable interest in the shares subject to consent of the Province of British Columbia, through amendments to the Vancouver Island Natural Gas Pipeline Act. On February 4, 2002, the Commission, by Order No. G-9-02 approved the registration of a transfer of the common and preferred shares of Centra Gas British Columbia (now FEVI) to BC Gas Inc. (now FortisBC Holdings Inc. or "FHI"), and by Order No. G-10-02, approved the registration of a transfer of the common shares of Centra Gas Whistler Inc. (now FEW) to BC Gas Inc. (now FHI).

The FEU have reviewed the argument submissions in the proceeding record for the Whistler Pipeline Construction and propane conversion CPCN applications (the "Whistler CPCNs"). CEC made a submission in that proceeding that "customers should remain responsible for transmission pipeline costs through a rate rider in the event amalgamation or corporate reorganization occurs between TGW, TGVI and TGI." (CEC Submission, paragraph 24). The following are the relevant submissions made regarding the amalgamation by FEW/FEVI (then TGW and TGVI) in the applications:

FEW/FEVI's Final Submissions

"109. TGVI has been exploring the possibility of some form of amalgamation or merger of the separate gas utility entities including TGW and TGVI, for implementation at some as yet undetermined future date. TGVI has not reached a conclusion with respect to that option. If a form of amalgamation is pursued it expects that an application will be filed with the Commission seeking approval of such amalgamation, including the rate proposed. It is expected that the Commission will review that application in accordance with its powers under the Act. At this time it is premature to establish or discuss how any group of customers might be treated in an amalgamation or merger."

FEW/FEVI's Reply Submissions

"98. In paragraphs 25 through 27 of its submission the CEC refers to the possible amalgamation or merger of the Terasen Gas Utilities. As the CEC notes, it is the position of TGVI and TGW that it is premature to establish or discuss how any group of customers might be treated in an amalgamation or merger.

99. The CEC takes the position that it is not premature, and that the Commission should now determine how the costs associated with the proposed projects be borne in the event of an amalgamation. The form of amalgamation or merger, the utilities involved in such amalgamation, the timing of the amalgamation, and the terms under which the amalgamation would take place are not known at the current time. An amalgamation or merger will require that an application be brought before the Commission. A Commission Panel today cannot bind the Commission in future.

100. The CEC will be able to make its position known in the event that an application for amalgamation or merger is filed in the future. TGVI and TGW submit that an order made today would not be binding on the Commission Panel that considers such application for amalgamation or merger; and since the terms under which an amalgamation or merger may be proposed are not known, an order made today would effectively be made in the absence of all relevant information. TGVI and TGI submit that this Commission Panel should not order that the "costs associated with the extension remain within the service territory" as advocated by the CEC."

In the Decision on the Whistler CPCNs dated May 18, 2006, at page 73, the Commission Panel agreed with the Companies that in the absence of any information concerning any corporate reorganization, it could not speculate or comment on the matter.

In the FEW 2010-2011 RRA, in which FEW applied to include the Whistler Pipeline construction and conversion costs in rates, the FEU have not found any submissions or comments made by any parties or the Commission Panel in its decision of the kind referenced in the IR.

3.2 If the issues, of imposing higher costs on Lower Mainland customers, were previously identified at the time of acquisition and the parent company pursued the acquisition anyway, are the rate differences an artifact of acquisitions or are the rate differences really a consequence of specific shareholder risk taking in making acquisitions.

Response:

The rate differences are an artifact of the FEU's growth by acquisition which has resulted in three separate companies, four distinct rate bases and six service areas. Any risk taken by the shareholder in making acquisitions is not a factor in the rate differences. Any acquisition was not predicated on a requirement or assumption of amalgamation and postage stamp rates.

4. Reference: Exhibit B-3, Page 25 and Page 71

Table 3-1: Lower Mainland, Inland and Columbia Rate Components

Effective January 1, 2012	Lower Mainland	Inland	Columbia
Basic Charge per Day	$0.389	$0.389	$0.389
Delivery Charge per GJ	$3.559	$3.559	$3.559
Commodity Charge per GJ	$4.005	$4.005	$4.005
Midstream Charge per GJ	$1.424	$1.398	$1.433

Table 4-6: Rates for the FEUs Service Areas

	FEI (LM)	FEI (Inland)	FEI (Columbia)	FEVI[1]	FEW[2]	FEFN[3]
Basic Charge (per day)	$0.3890	$0.3890	$0.3890	$0.3450	$0.2464	*$0.3184**
Delivery Charge ($/GJ)	$3.881	$3.881	$3.881	*$7.872**	$11.686	$2.443
Midstream Charge ($/GJ)	$1.402	$1.367	$1.411	*$1.384**	*$1.107**	*$0.276**
Cost of Gas ($/GJ)	$3.997	$3.997	$3.997	*$5.069**	*$3.997**	*$3.920**

* *Proxy Charges* – As a basis for comparison, a proxy charge has been developed for the bundled charges of FEVI FEW and FEFN
[1] FEVI has an 'Energy charge' that bundles the Delivery, Midstream and Cost of Gas charges together
[2] FEW has a 'Cost of Gas' Charge that bundles Midstream and Commodity charges together
[3] FEFN has a Minimum Daily Charge. A proxy basic reflecting only the delivery component of the minimum daily charge is shown here. Also, FEFN has 'Cost of Gas' charge that bundles the Midstream and Cost of Gas Charge together.
***Table excludes all Riders

4.1 Please explain why it may be appropriate for the FEU to have the same 'basic charge' in all service areas.

Response:

The rationale for having the same basic charge in all service areas is similar to having common delivery, midstream and commodity rates; that is, fairness amongst all of FEU's customers. Further, the basic charge is intended to cover customer-related costs, such as meter reading, billing and customer service, which are performed on an integrated basis for the FEU and therefore costs do not differ across the various regions.

The current differences in rates, including basic charge, across the FEU are the result of the FEU's growth by acquisition and do not reflect the equities amongst all of the FEU's customers combined.

4.2 Please explain whether or not the high 'delivery charges' for FEI and FEW are the consequence of decisions to put in lengthy natural gas transmission lines to Vancouver Island and to Whistler respectively.

Response:

The FEU assume the question is referring to the higher delivery rates in *FEVI* and FEW service areas.

The FEU disagree with the statement that higher "delivery charges" for FEVI and FEW are the consequence of decisions to put in lengthy natural gas transmission lines to Vancouver Island and to Whistler. Although the newer transmission and delivery systems are a significant factor, the higher delivery charges for FEVI and FEW in relation to delivery charges for FEI are a result of a combination of factors including when customers connect to the system, the number of customers that connect to the system, relative age of the system, how close customers are to transmission pipeline delivery points, geographical terrain and residential density. These factors are also highlighted by EES Consulting:

> "*In general, customers that were hooked up to the system long ago have lower costs than those hooked up more recently just because of when the facilities were built and the level of depreciation of facilities. Also customers in the more dense urban areas are less costly to serve than customers in more rural locations. Differences also exist because of the distance from the 3rd party transmission pipeline delivery points and because of the geographical terrain.*"[1]

For example, FEI customers pay relatively lower rates due to the centralized load centers in the Lower Mainland, which creates benefits of scale for all customers no matter where they live in FEI's service territory.

Further, as demonstrated in the response to CEC IR 1.13.2, customers in FEW continue to experience the benefit of lower annual bills as a result of the investment in the natural gas distribution system.

While there are differences in the cost of service between the FEI, FEVI and FEW regions, it is difficult to justify continuing rate disparity amongst some customers, when most customers pay the same rates regardless of location.

[1] Exhibit B-3-1, Appendix D-1, EES Consulting, "Natural Gas Cost of Service Review," page 6.

4.3 Please explain why the cost of gas for FEVI and or the combined midstream and cost of gas are so much higher than for others.

Response:

There are minor differences between the gas supply portfolios, as well as the gas cost allocation and recovery methodologies, in place for the various FEU entities / service areas; however, the main driver of the variance in the cost of gas is the amount and cost of fixed price swaps in place for FEVI versus FEI pursuant to previously approved Price Risk Management Plans.

Based on differences in the price risk management strategies and plans implemented for the various FEU entities / service areas, a higher percentage of the commodity volumes for 2013 have been hedged within the FEVI portfolio while the FEI commodity portfolio contains relatively less hedging in 2013. Further, FEI hedging was implemented when market prices were lower.

The average prices are different for FEVI than for FEI because the price risk management strategies implemented for FEI and FEVI have been different. In the past, FEVI has developed, and sought Commission approval for, Price Risk Management Plans ("PRMPs") which included hedging strategies that recognized the uniqueness of the FEVI competitive challenge, especially given the expiration of the royalty revenue arrangement at the end of 2011. As part of the approval for the FEVI 2009-2014 PRMP, the Commission recognized this unique situation for FEVI and approved the five-year PRMP in light of the favourable market price environment at the time. As such, FEVI implemented hedges for 2013 during 2009 and 2010. FEI, operating under a three-year hedging horizon, did not implement hedging for 2013 until 2011, when market prices were considerably lower.

4.4 Please provide the above rate analysis for service areas on a comparable basis as opposed to the mixed bundling used in Table 4-6.

Response:

Table 4-6 does provide a breakdown of rates to allow for an effective comparison of rate components between the six service areas. Although the Lower Mainland, Inland and Columbia service areas have a similar rate structure, the FEVI, FEW and FEFN service area rate structures are all based on the historical rate structure that existed at the time of acquisition.

In order to provide a baseline for comparison, "proxy" values have been extrapolated for the FEVI, FEW and FEFN service areas. For example, although FEVI utilizes a bundled Energy

Charge, that charge has been broken down into Delivery, Midstream and Cost of Gas "proxy" values to provide a better understanding of the difference between each component of the rate structure.

Details of the proxy values are provided in the footnotes of Table 4-6.

5. Reference: Exhibit B-3, Page 35, Page 37, Page 45, Page 50

Table 3-3: 2013 FEI COSA Model Revenue to Cost Ratios

Rate Schedule	R:C Ratio
Rate 1 - Residential	92%
Rate 2 - Small Commercial	103%
Rate 6 - Seasonal	124%
Rate 3 & 23 - Combined	117%
Rate 5 & 25 - Combined	146%

Table 3-5: 2013 FEFN COSA Model Revenue to Cost Ratios

Rate Schedule	R:C Ratio
Rate 1 - Residential	81%
Rate 2.1 - General Service 2.1	116%
Rate 2.2 - General Service 2.2	129%
Rate 25 - Firm Transportation Service	126%

Table 3-8: 2013 FEVI COSA Model Revenue to Cost Ratios

Rate Schedule	R:C Ratio
RGS - Residential	82%
AGS - Apartment General Service	115%
SCS1 - Small Commercial 1	112%
SCS2 - Small Commercial 2	152%
LCS1 - Large Commercial Service 1	124%
LCS2 - Large Commercial Service 2	121%
LCS3 - Large Commercial Service 3	117%
High Load Factor	140%
Inverse Load Factor	173%

Table 3-10: 2013 FEW COSA Model Revenue to Cost Ratios

Rate Schedule	R:C Ratio
Residential	76%
Commercial	114%
LGS1 - Large Commercial Service 1	115%
LGS2 - Large Commercial Service 2	150%
LGS3 - Large Commercial Service 3	114%

5.1 Apart from the expectation that rates approved by the Commission are deemed fair just and reasonable and not unduly discriminatory, please explain whether or not the FEU believe that the RC Ratios shown above should be considered by the Commission as evidence of fair, just and reasonable rates or whether such RC Ratios warrant further investigation with regard to the merits of rebalancing the rates.

Response:

If amalgamation and postage stamp rates are not approved, then the FEU will be considering individual rate design applications for each utility, which will consider the merits of rebalancing the rates for FEI, FEFN, FEVI and FEW. One of the outcomes of the proposed postage stamp rates is that the rates fall within an appropriate range of reasonableness, and therefore, no rate rebalancing is required.

5.2 Please discuss the above in light of the Commission's decisions, including the BC Hydro rate rebalancing decision, reaffirming that RC Ratios of 100% are the appropriate target and the BC Legislative provisions affirming that rate rebalancing may not take place at any rate over 2% per year for any rate class.

Response:

The FEU have discussed the appropriate range of reasonableness in Section 9 of the Application in the context of the R:C ratios for the proposed postage stamp rates.

Section 58.1 of the UCA restricts the extent of rebalancing of BC Hydro's rates and does not apply to the FEU.

5.3 Please explain whether or not the FEU believe that customer classes should be paying rates that would recover their cost of service.

Response:

The following response also addresses CEC IRs 1.5.4 and 1.5.5.

The FEU believe that individual customer classes should pay to recover their allocated cost of service.

Generally, while setting rates for any customer class, a utility takes into consideration seven rate design guiding principles, also known as Dr. Bonbright's principles (refer to page 189, Section 9.5.1 of the Application). The objective of any rate design application is to set rates such that it satisfies/balances all of the seven rate design guiding principles. In order to meet this objective, a utility works on a COSA study that appropriately allocates the total cost of service to each customer class to get the allocated cost of service for that customer class. This allocated cost of service is then compared to the revenues collected from that customer class to develop an R:C ratio for that customer class. These R:C ratios are assessed based on whether or not they fall within an established "range of reasonableness".

As a COSA study necessarily involves assumptions, estimates, simplifications, judgements and generalizations, a "range of reasonableness" is warranted when evaluating the appropriateness of the R:C ratios. The result of the COSA study for each rate class is considered in light of this "range of reasonableness" and each rate class that falls within that range is deemed to be at unity. This means that as long as R:C ratio for any customer class falls within this range of reasonableness, the rates are considered to be economically efficient, fair and sufficient to recover their allocated cost of service. The FEU submit that the appropriate range of reasonableness for the FEU is 90 per cent to 110 per cent as discussed in the Application.

Tables 3-3, 3-5, 3-8 and 3-10 suggests that R:C ratios for some rate classes in the individual entities are outside the established range of reasonableness of 90 to 100 percent. However, the FEU are not seeking a determination on individual entity rate designs in this proceeding. If amalgamation and postage stamp rates are not approved, then the FEU will consider individual rate design applications for each utility, which will likely involve rebalancing given the current R:C ratios as shown above.

5.4 Please discuss the cost of service RC Ratios, above, in terms of Bonbright's principle 2 that rates should fairly apportion the costs of service among customers.

Response:

Please refer to the response to CEC IR 1.5.3.

5.5 Please discuss the cost of service RC Ratios, above, in terms of the FortisBC proposed principle that rates should 'recover the cost of service'.

Response:

Please refer to the response to CEC IR 1.5.3.

6. Reference: Exhibit B-3, Page 63

Table 4-3: Average Use Rates 2003 - 2013

FEI	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Rate 1	104.8	102.6	97.2	96.8	96.0	92.5	93.3	92.6	91.7	90.8	89.9
Rate 2	321.2	313.8	305.8	314.3	316.5	312.2	320.6	311.3	309.6	308.0	306.4
Rate 3	3,428	3,501	3,388	3,314	3,426	3,420	3,372	3,370	3,352	3,334	3,316
Rate 23	5,015	5,113	4,714	4,686	4,778	4,698	4,886	4,850	4,875	4,901	4,926

FEVI	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
RGS	60.3	57.5	57.3	60.2	57.0	56.1	53.5	52.4	50.5	48.6	46.9
SCS1	66.2	63.7	70.0	75.1	90.7	102.6	110.1	101.1	105.7	110.1	114.7
SCS2	295.8	284.9	303.4	313.8	310.3	313.0	325.4	330.2	338.8	347.0	355.5
LCS1	898.5	882.5	926.4	903.2	943.1	952.0	979.7	997.1	1,023.4	1,048.7	1,074.6
LCS2	2,319.4	2,318.3	2,365.1	2,295.4	2,406.0	2,359.0	2,430.4	2,490.4	2,542.0	2,591.2	2,641.4
AGS	1,243.9	1,402.3	1,350.4	1,387.1	1,366.7	1,297.0	1,260.9	1,300.8	1,283.4	1,264.0	1,244.9
LCS3	16,476.5	16,650.4	16,630.0	17,378.9	17,694.3	16,521.0	15,793.3	16,342.2	16,342.0	16,342.0	16,342.0

FEW	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
SGS-R	71.5	70.8	71.3	85.6	95.7	95.2	82.6	99.5	101.7	104.0	106.3
SGS-C	68.0	83.5	94.1	218.6	265.1	308.2	251.0	338.0	374.5	414.9	459.7
LGS-1	1,079.6	1,108.4	1,159.2	1,149.6	1,284.7	1,308.7	1,185.3	1,595.3	1,658.7	1,724.5	1,793.0
LGS-2	3,151.4	3,114.7	3,430.0	3,203.7	3,214.1	2,874.2	2,454.4	2,802.6	2,647.2	2,500.3	2,361.6
LGS-3	13,015.7	13,403.4	12,889.3	13,092.6	11,853.0	10,972.0	9,174.7	8,872.2	7,409.2	6,187.4	5,167.1

FEFN	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Rate 1	162.3	155.1	153.7	141.5	141.9	139.6	138.4	140.9	140.6	140.3	140.0
Rate 2.1	563.6	537.3	502.1	486.5	472.0	448.9	464.0	468.1	467.2	466.2	465.2
Rate 2.2	3,404.2	3,814.7	3,634.5	3,302.8	3,083.7	3,137.1	3,370.7	3,387.5	3,496.7	3,609.4	3,725.7

6.1 As the use rate factors put increased pressure on rates and the amalgamation and common rates proposal will do the same, for the Lower Mainland, does FortisBC have any initiatives which will reduce the pressure on rates, apart for FEVI and FEW because of postage stamping of rates. If so please list the positive initiatives FortisBC could use to offset the rate impacts of amalgamation and common rates.

Response:

The FEU are undertaking measures to increase usage by some customers, which would result in costs being spread amongst more volume resulting in a lower rate per GJ. The most notable of these measures is the Natural Gas for Transportation (NGT) programs. NGT customers have a high load factor and therefore use the system more efficiently which benefits existing customers. Additionally, large industrial customers are starting to take advantage of low gas prices by switching energy sources to natural gas. As this occurs, rate pressure is decreased on other customers.

The FEU, as prudent utility operators, look for ways to reduce costs and therefore rates to customers. The FEU are currently considering productivity improvements. Additionally, customers can take advantage of EEC programs that while not reducing rates, can have the effect of reducing consumption of individual customers and therefore the customer's bill.

6.2 Would the FEU reject a Commission decision that allowed for convergence toward amalgamation at no more than 2% per year for any amalgamating entity, to use the Provincially Legislated rebalancing adjustment rate as a guide?

Response:

Section 58.1(6) of the UCA, which prevents changes in BC Hydro R:C ratios at more than 2% per year, is applicable only to BC Hydro, and therefore, the Commission is not required to apply this policy to the FEU.

The request for common rates that will address the rate disparity across the service areas served by the FEU could be converged over time. However, the FEU do not believe that a 2% increase/decrease (dependent on service area) is appropriate for the following reasons:

- Under a 2% per year convergence proposal, typical FEI residential and commercial customers would reach the common rate by 2016[2] at the latest. The FEU are proposing to mitigate the rate increase to all FEI customers via a 3 year phase-in, with customers realizing the impact of common rates in 2017. Therefore, with an additional year before the common rate is achieved, the FEU believe that their proposal is more beneficial to FEI customers than a 2% per year convergence proposal.
- The FEU are proposing a 15 year phase-in for Fort Nelson customers. The FEU believe that 15 years is an appropriate and reasonable time period to phase-in the rate increases to Fort Nelson customers. The FEU's proposal aligns the phase in period for residential and commercial customers, whereas a 2% per year guideline would result in a longer phase in for residential customers than commercial customers.
- Finally, it is beneficial to customers in the FEVI and FEW service areas to move to common rates upon amalgamation. As FEVI and FEW customers will receive a rate decrease upon the implementation of common rates, there is no negative consequence to these customers in realizing the common rate immediately and therefore no need for a phase-in approach.

2 Typical FEI residential customer impact is between 5.0% – 5.3%, which equals 2.5 – 2.65 years under a 2% per year convergence proposal. Typical FEI small commercial customer impact is between 3.7% – 4.1%, which equals 1.85 – 2.05 years under a 2% per year convergence proposal. Typical FEI large commercial customer impact is between 4.2% - 4.6%, which equals 2.1 – 2.3 years under a 2% per year convergence proposal.

While, the FEU do not agree with a 2% per year convergence proposal, the FEU would consider other methods of phasing in the impact of amalgamation across the service areas. Please refer to the response to BCUC IR 1.2.3.

7. Reference: Exhibit B-3, Page 73

Table 4-7: FEVI and FEW Customers Pay More for Natural Gas[96]

FEI (LM)	FEI (Inland)	FEI (Columbia)	FEVI	FEW	FEFN
$10.859/GJ	$10.824/GJ	$10.868/GJ	$ 15.725/GJ	$17.850/GJ	$7.280/GJ

Because of these higher rates, the operating trends being experienced by the FEU (namely challenges in increasing total demand) pose more of a problem for FEVI and FEW than for FEI. Failing to address the rate discrepancies will make it more challenging for FEVI and FEW to increase their customer bases and retain existing customers.

7.1 Is this issue of enabling the increase of customer base and retention of customers a key reason for the common rates proposal?

Response:

The main rationale for amalgamation and common rates is one of fairness amongst all of the FEU's customers. Under common rates, all customers within a rate class would pay the same rate, regardless of location within its service areas. This Application proposes to extend the common rates already realized by the majority of the FEU's customers across the Province, including those customers located in the FEW and FEVI service areas. Increasing customer base and retention of customers in FEVI and FEW service areas will be a benefit of introducing common rates via amalgamation as described in Section 6 of the Application.

7.2 If the common rates were implemented and increasing customer base continued along with retention of existing customers, could FortisBC estimate the potential for new customers and retention of existing customers and demonstrate an increased throughput benefit for all customers?

Response:

The FEU are unable to estimate with any certainty the potential for new customers in FEVI and FEW due to common rates at this time. The FEU believe that it will be easier to retain existing FEVI and FEW customers due to the proposed lower rates resulting from amalgamation. However, it is difficult to estimate the potential for new FEVI and FEW customers. While the lower rates may assist in adding new customers, this may be limited, since delivery rates are only one factor among many influencing a customer's choice to take natural gas service. Please also refer to the response to BCUC IR 1.81.3.

7.3 Is there likely to be a benefit or would the proposed amalgamation and common rates simply be cost shifting?

Response:

Please refer to the responses to CEC IRs 1.7.1 and 1.11.1.

8. Reference: Exhibit B-3, Page 77

Table 4-9: Reliance on Large Customers in Smaller Utilities Compared to FEI

	Total Throughput in 2010 *(in TJs)*	Throughput - Top 10 Consuming Customers *(in TJs)*	Percentage of Top 10 to Total Throughput	Actual Total Revenue 2010[108] *(in $000)*	Revenue - Top 10 Consuming Customers *(in $000)*	Percentage of Top 10 to Total Revenue
FEVI	31,017	19,455	63%	$193,410	$31,125	16%
FEW	753	132	18%	$13,587	$2,883	21%
FEFN	615	102	17%	$4,846	$520	11%
FEI	161,133	9,971	6%	$1,311,002	$7,896	0.6%

8.1 Does this table reflect the business risk associated with smaller utilities, being that they are susceptible to volatility regarding the heavy importance of larger customers?

Response:

There are a number of factors that impact business risk associated with smaller utilities, and reliance on large customers is one factor.

8.2 Is this risk eliminated and or reduced with the amalgamation and with common rates?

Response:

Please refer to the response to BCUC IR 1.70.1.

9. Reference: Exhibit B-3, Page 85

Table 5-2: Initial Evaluation Objective Descriptions

#	Qualitative Objective	Description
1	Minimize Rate Differences	Does the option minimize rate differences between the different service areas?
2	Address the Revenue Deficiency for FEVI	Does the option address the revenue deficiency for FEVI due to the loss of the government subsidies?
3	Provide Long-term Rate Stability	Does the option provide long term rate stability by mitigating rate impacts resulting from significant expenditures, or the loss of volumes, in the smaller service areas?
4	Mitigate Rate Impact on FEI (Mainland) Customers	Does the option mitigate any rate impacts on FEI (excluding Fort Nelson) customers?
5	Mitigate Rate Impact on Fort Nelson Customers	Does the option mitigate any rate impacts on Fort Nelson customers?

9.1 Given the framing of the objectives does FortisBC need to implement 'common rates', for instance could Fortis BC absorb the loss of the government subsidies for FEVI across all FEU, avoiding about a 20% rate increase in FEVI rates by 2017 but not implement the 45% reduction is existing rates, which would come about with full common rates?

Response:

The proposal suggested in the question could reduce the impact of future price increases due to loss of the royalty arrangement, but would not meet the primary objective of the FEU, which is to address the rate disparity across the FEU's service areas, and would not meet the objective of providing long-term rate stability to the smaller service areas. In addition, most of the benefits of amalgamation and postage stamp rates identified in Section 6 of the Application would not be realized under this option. The proposal would also be difficult to implement. This option is therefore not a practical alternative to the FEU's common rates proposal.

9.2 How significantly does FortisBC believe it should go in mitigating customer rates for those bearing the increases?

Response:

The FEU have proposed a phase-in for the increases to FEI (Mainland) and Fort Nelson rates which the FEU believe is appropriate. Other phase-in options may be considered in this proceeding and the Commission will determine what mitigation will be applied.

10. Reference: Exhibit B-3, Page 98

Table 5-7: Rate Changes Required from Current Rates for Option C-1, and Option Groups D, E and F

#	Percent Change from Status Quo Rates by (%)	Option C-1 Amalgamation of FEI (Mainland), FEVI and FEW into One Legal Entity with Common Rates and Fort Nelson Remain as-is	Option Group D Amalgamation of the Three Legal Entities into One Legal Entity; Six Service Areas Maintained; Common Commodity and Delivery Rates with Regional Midstream Rates Implemented	Option Group E Amalgamation of the Three Legal Entities into One Legal Entity; New Service Areas Created with Common Commodity and Midstream Rates and Regional Delivery Rates	Option Group F Amalgamation of The Three Legal Entities into One Legal Entity; One Service Area with Common Commodity, Midstream and Delivery Rates
1	FEI Lower Mainland	+5.6%	5.8%	+5.6%	+5.5%
2	FEI Inland	+5.9%	5.9%	+5.5%	+5.9%
3	FEI Columbia	+5.5%	6.2%	+5.1%	+5.4%
4	FEVI	-29.0%	-30.4%	-29.4%	-29.5%
5	FEW	-43.5%	-43.6%	-44.0%	-44.1%
6	Fort Nelson	0.0%	24.8%	+43.1%	+43.5%

10.1 With the options selected for analysis representing a very narrow band of differences, does the FEU believe that it may be subject to the critique that its analysis is insufficiently robust at looking for alternatives or its application of the criteria was too narrow to allow for satisfactory but less impactful options to emerge?

Response:

The FEU's analysis of options was sufficiently robust. The four options set out in the preamble do not represent all of the options analyzed by the FEU. As discussed in Section 5 of the Application, the FEU undertook a review of options that spanned a continuum from the status quo to the implementation of common rates. In identifying alternatives the FEU did not consider any that would increase the number or complexities of existing rate differences. The FEU did not believe that the development and analysis of such options was appropriate as they are contrary to the FEU's objectives and the FEU would not pursue them.

11. Reference: Exhibit B-3, Page 109

> with the provincial and federal governments, it is the opportune time for the FEU to amalgamate and implement postage stamp rates. The FEU submit that the benefits of implementing postage stamp rates make amalgamation of the FEU beneficial in the public interest.

11.1 Please describe what benefits the FEU believe to be available from implementing postage stamp rates and whom they benefit, and whether or others will be disadvantaged.

Response:

As elaborated in Section 6 of the Application in detail, the main principle behind common rates is fairness amongst all the FEU's customers. Postage stamp rates appropriately spread the costs of utility service so that all customers within a class pay the same rate regardless of location. Common rates will bring more rate stability for all of our customers. In addition, common rates will provide simplicity and ease of administration through a reduced number of rate classes and billing determinants and create some modest reporting and operational efficiencies for regulatory, legal and financial filings.

Common commodity, midstream and delivery rates will moderate the relatively high natural gas rates in FEW and FEVI while increasing the natural gas rates for the customers in FEI and FEFN service areas once the full impact of common rates is realized. Common rates will also mitigate the expected rate increases faced by FEVI customer following the expiration of government subsidies and the return of the RSDA to FEVI customers. Amalgamation and postage stamp rates will also facilitate a more efficient introduction of common service offerings to FEVI, FEW and FEFN.

11.2 Please describe why a large pool of disadvantaged customers should be found by the Commission to be in the public interest.

Response:

The FEU have explained the benefits of amalgamation and common rates in Section 6 of the Application and believe that the overall benefit of having postage stamp rates for all customers is in the public interest.

Postage stamp rates are the most common form of public utility rate and reflect appropriate policy for public utility service. By their nature, postage stamp rates spread costs across all customers so that all customers pay the same rate regardless of location. The result is that some customers pay more and some customers pay less than they would if only the particular costs of serving their location were considered. However, while each customer has their own cost of service, it is not in the public interest to have a separate rate for each customer on the system. The smoothing of differences of cost by location occurs today in the postage stamp rates in place within each of the FEU rate bases and for the other utilities in the Province with postage stamp rates. As is the case with every other utility with postage stamp rates, this overall benefit outweighs the fact that some customers may pay more than they would if only the costs of serving their particular location were considered.

12. Reference: Exhibit B-3, Page 109

A key benefit of the proposal to introduce common rates via amalgamation is to allow FEVI and FEW to access natural gas services at more affordable rates on an equal basis with other customers served by the FEU. For FEVI, common rates will also mitigate the upward pressure on rates expected as a result of the discontinuation of the Royalty Revenues arrangement with the Province at the end of 2011 as well as the additional rate pressures from the repayment of the federal/provincial repayable contributions as discussed in Section 4.

12.1 How did FortisBC decide part way through its analysis to introduce the concept of affordable rates, does FortisBC believe that Bonbright's principle 2 'a fair apportionment of cost to customers' is more appropriate that 'affordable' rates.

Response:

The term "affordable" in the context of the extract provided from the Application is with respect to better aligning the rates of FEVI and FEW's customers to those of the majority of FEU's customer base. FEVI and FEW customers on average pay higher rates today than the majority of the FEU customers, and the common rates proposal would lower FEVI and FEW rates to a similar level to the rest of FEU.

With respect to the reference, "fair appointment of cost to customers", as discussed in response to the BCUC IR 1.10 series, alignment with cost causation principles is an evaluation criteria in evaluating the Companies' postage stamp rate proposals. Cost causation must be balanced with the other rate design principles and used as a guide to developing an appropriate rate for each customer class. The revenue to cost ratios as stated in Table 9-10 on page 200 of the Application reflect a reasonable basis for the fair appointment of cost to customers for each class considered. Please also refer to the response to BCUC IR 1.90.1.

12.2 Please define how FortisBC would specify what is affordable and to whom it must be affordable.

Response:

In this context, the FEU simply meant "lower". Please refer to the response to CEC IR 1.12.1.

13. Reference: Exhibit B-3, Page 113

> In the absence of common rates, a typical Whistler residential customer in 2013 is expected to pay an effective rate of $17.790 per GJ for natural gas, compared to $10.859 per GJ for typical Lower Mainland residential customers. This is a difference of approximately 64 percent.[134] FEW customers, upon amalgamation and implementation of common rates, will experience an immediate reduction in natural gas bills. For example, a typical residential FEW customer is expected to see an average annual bill decrease of approximately 37 percent upon amalgamation, equivalent to approximately $616 per year.[135]

13.1 Please discuss what, in general, the FEW customers were using for fuel for heating before they were acquired and before natural gas was brought to Whistler.

Response:

In 2002, BC Gas Inc. purchased Centra Gas Whistler Inc. (now FEW). At the time of acquisition, FEW customers were served by a piped propane system. The propane gas distribution system in Whistler was established in 1980 and was originally owned and operated by the Resort Municipality of Whistler (the "RMOW").

In 2009, the propane system was converted to natural gas as part of the Whistler Conversion Project. Construction of the natural gas pipeline lateral connecting the RMOW to the transmission system of FEVI was completed in April 2009. Upon completion, FEW customers were converted from the piped propane system to natural gas.

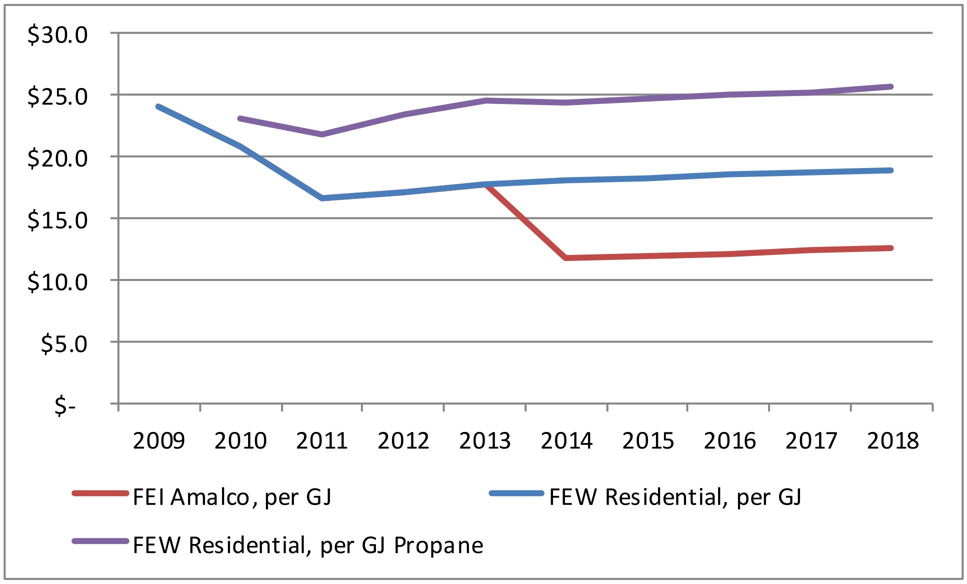
13.2 Please provide a quantitative analysis of what their costs would have been with their former fuel versus the natural gas brought in and compare it graphically to the costs shown in figure 6-3.

Response:

Please see the graph and corresponding quantitative analysis below.

The 'FEW Residential, per GJ Propane' line added to the graph reflects what the effective rate (including cost of gas) would have been under FEW's formal fuel. The difference between this new line and the existing 'FEW Residential, per GJ' line in the graph is primarily driven by the estimated delivered cost of propane to Whistler versus the cost of natural gas (commodity plus midstream). Offsetting the gas cost difference would be avoided delivery margin impacts from

FEVI Transportation charges, amortization expense for the Whistler pipeline contribution and conversion costs and associated reduction in the earned return from the reduced rate base.



The following table calculates the incremental cost of service if FEW were still on propane for the period 2010 through 2018. The 'Incremental Adjustment $ / GJ' was added to the original 'FEW Residential, per GJ' to derive the 'FEW Residential, per GJ Propane' price shown in the graph above.

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cost of Service									
Cost of Gas	$ 7,259.9	$ 9,198.2	$ 9,694.1	$ 9,976.0	$ 9,727.7	$ 9,719.3	$ 9,802.9	$ 9,733.5	$ 9,814.7
TGVI Transportation Charge	(2,430.2)	(2,386.3)	(2,518.0)	(2,553.0)	(2,665.0)	(2,665.0)	(2,665.0)	(2,665.0)	(2,665.0)
Operating & Maintenance Expense	30.6	31.2	31.8	32.5	33.1	33.8	34.5	35.1	35.9
Property Tax Expense	74.5	53.1	53.1	53.1	54.2	55.2	56.4	57.5	58.6
Depreciation Expense	158.1	158.1	157.2	157.2	157.2	157.2	157.2	157.2	157.2
Amortization Expense	(1,294.9)	(1,055.0)	(1,059.5)	(1,059.5)	(1,059.5)	(1,028.7)	(1,028.7)	(1,028.7)	(1,028.7)
Income Tax Expense	(343.6)	(269.0)	(230.7)	(241.7)	(254.5)	(255.4)	(265.3)	(273.6)	(280.6)
Earned Return	(1,793.2)	(1,927.2)	(1,624.6)	(1,572.9)	(1,509.7)	(1,447.6)	(1,386.5)	(1,325.5)	(1,264.4)
Incremental Impact on Revenue Requirement	$ 1,661.3	$ 3,803.1	$ 4,503.5	$ 4,791.6	$ 4,483.5	$ 4,568.8	$ 4,705.3	$ 4,690.5	$ 4,827.6
Sales Volumes (GJ)	753,195.0	736,844.0	716,000.0	708,500.0	707,000.0	711,000.0	722,000.0	722,000.0	722,000.0
Incremental Adjustment $ / GJ	$ 2.206	$ 5.161	$ 6.290	$ 6.763	$ 6.342	$ 6.426	$ 6.517	$ 6.497	$ 6.686
Cost of Gas Adjustment									
Natural Gas Sales Volumes	753,195	736,844	716,000	708,500	707,000	711,000	722,000	722,000	722,000
UAF Natural Gas	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
UAF Propane	3.496%	3.496%	3.496%	3.496%	3.496%	3.496%	3.496%	3.496%	3.496%
Propane Purchase Volume (GJ)	779,526.7	762,604.1	741,031.4	733,269.2	731,716.7	735,856.6	747,241.1	747,241.1	747,241.1
Propane Cost per GJ	$ 15.933	$ 17.702	$ 17.960	$ 18.481	$ 18.551	$ 18.623	$ 18.696	$ 18.771	$ 19.052
Natural Gas Cost per GJ	$ 6.620	$ 5.640	$ 4.878	$ 4.876	$ 5.257	$ 5.415	$ 5.577	$ 5.745	$ 5.917
Incremental Cost of Propane ($000's)	$ 7,259.9	$ 9,198.2	$ 9,694.1	$ 9,976.0	$ 9,727.7	$ 9,719.3	$ 9,802.9	$ 9,733.5	$ 9,814.7

The cost of propane is based on actual Edmonton Spot Price for 2010 and 2011 and on GLJ Petroleum Consultants Ltd. Price Forecast as of January 1, 2012 for Edmonton Propane (converted to $ / GJ plus delivery charge to Whistler) for forecast 2012 through 2018. The cost of natural gas is as forecast in Figure 6-3.

13.3 Please confirm that the FEW customers were well aware that they would have to pay for the natural gas line connection, when that decision to provide it was made.

Response:

Confirmed. Please also refer to the responses to BCUC IRs 1.78.2 and 1.78.2.1.

13.4 Does the FEU believe that the Commission may run the risk of providing preferential rate treatment to wealthy, apparently frequently absentee customers by forcing other customers to pay for the reduction in their fuel costs provided through a significant pipeline addition made under different terms and conditions than common rates and amalgamation?

Response:

The FEU understand the root of this inquiry to be the proposed reduction of natural gas rates in FEW to align them with the rest of the FEU. Overall, the common rates Application will not cause preferential rate treatment to any particular group of customers. The main principle behind this Application is one of fairness amongst all of the FEU customers.

Income levels should not be used as a yardstick in determining rates as the income levels in British Columbia vary considerably.

14. Reference: Exhibit B-3, Page 116 and 117

Currently, FEI customers have access to certain service offerings that are not available to customers of the other utilities. Although expansion could be achieved through entity specific proposals and approvals, amalgamation and the adoption of common rates will facilitate and accelerate the process of extending Commission-approved service offerings to FEVI, FEW and Fort Nelson customers.

Table 6-3: Amalgamation Facilitates Consistent Service Offerings Across Areas Served by the FEU

	Stand-Alone				Amalgamated
	FEI	FEVI	FEW	FEFN	FEI Amalco
Customer Choice Program	✓	×	×	×	✓
Transportation Service	✓	✓[144]	×	×	✓
Compressed Natural Gas Fuelling Service (NGT)[145]	✓	×	×	×	✓
Energy Efficiency and Conservation ("EEC")	✓	✓	RRA[146]	RRA	✓
Biomethane Service	✓	×	×	×	✓
Thermal Energy Services ("TES")	✓	✓[147]	×	×	✓

14.1 Does this mean that the FEU are intending to increase the cost of service to provide extended service to FEW and FEVI, which will further result in increased costs to the FEI customers over and above the move to postage stamp rates?

<u>Response:</u>

The majority of the programs that will be extended to FEW and FEVI consist of rates or other recoveries which recover the full or the majority of the cost of service associated with that program.

1. The costs of the Customer Choice program are largely offset by recoveries from natural gas marketers. As discussed in the response to BCUC IR 1.43.1, there would be some additional customer education costs recovered from all FEU customers.

2. There are no additional costs associated with offering Transportation Service as there are existing rate schedules in place that recover the cost of service associated with the offering.

3. Each NGT fueling station customer pays a unique rate which recovers the cost of service of their fueling station.

4. The program costs associated with Biomethane (i.e. the costs to make the program available to all customers) are recovered from all customers. However, the FEU expect that the costs associated with extending the offering to FEVI and FEW will be minimal. The costs of the Biomethane commodity as well as upstream costs are recovered from those who choose to enter the program.
5. The costs of offering EEC programs are currently included in the FEVI and FEW cost of service.
6. The costs associated with TES are recovered from the TES class of service and not from natural gas customers.

14.2 Please quantify these service offering costs in total for the FEI jurisdiction and the projected quantity for the FEW and FEVI.

Response:

As described in the response to BCUC IR 1.14.1, if amalgamation is approved and common rates implemented, the FEU expect incremental costs associated with offering these services to FEW and FEVI to be minimal and largely reflect costs associated with customer education for the Customer Choice and Biomethane programs. If additional customer education costs are required for Customer Choice and Biomethane, they will be applied for and reviewed in the context of the next RRA or a separate filing with the Commission.

The approximate cost of these service offerings is as follows:

Forecast Service Offering Costs[1]

($ Thousands)

	FEI	FEVI	FEW	Total	
Customer Choice	300	23	-	323	2
Transportation Service	24,206	-	-	24,206	3
NGT	552	-	-	552	4
EEC	3,152	359	11	3,522	5
Biomethane	507	38	1	546	6
TES	(842)	-	-	(842)	7
Total	27,874	420	12	28,306	

Notes:

1 This analysis is limited to O&M expense and in the case of EEC, amortization expense. Incremental costs of approximately $60 thousand for customer choice and biomethane are forecasts only and will be determined in the next RRA or other Regulatory proceedings. Forecast costs are based on 2013 amounts

2 Existing customer education amount. Please refer to BCUC IR 1.42.3 where incremental cost of Customer Choice Functional Module for program roll out is discussed

3 Allocated O&M costs recovered from Transportation service customers

4 Costs per Appendix I, 2012/13 FEU RRA. Please note that these costs are not specific to FEU fueling stations but reflect the general costs for the promotion of natural gas as a fuel for vehicles in the province, including the time and effort to establish the Greenhouse Gas Reduction regulation

5 2013 amortization of EEC incentives per the 2012/13 FEU RRA

6 Program O&M costs per Appendix J, 2012/13 FEU RRA. Prorated additional customer education costs for roll out of program to FEVI & FEW

7 Allocation from FEI to TES for overhead pursuant to BCUC Order No. G-44-12

14.3 Is there any reason FEVI has not implemented CNG/LNG services for customers.

Response:

The adoption of natural gas as a heavy duty transportation fuel is largely driven by the incremental cost differential associated with natural gas vehicles compared to diesel powered equivalent vehicles. Over the past few years, this barrier has limited adoption in British Columbia to a few projects which used incentives. FEVI has not implemented CNG/LNG services for customers in the absence of financial incentives, as adoption would not likely occur. Vehicle incentives recently became possible through the Greenhouse Gas Reduction (Clean Energy) Regulation.

A secondary reason is that the CNG/LNG service offering is relatively new and regulatory approvals need to be secured before expanding the service. While the Commission issued its NGT Decision in July of 2011, FEI has only been able to offer CNG/LNG service with Commission-approved General Terms & Conditions since March of 2012. FEVI, FEW and Fort Nelson do not currently have rate schedules to offer a similar service offering. Furthermore, the uncertainty created by the AES Inquiry has delayed the implementation of CNG/LNG services to all regions.

A final reason that FEVI has not implemented CNG/LNG service is due to natural gas fueling economics. At present, prospective CNG/LNG service customers within FEVI (assuming large commercial rate schedules) would have a higher cost of CNG/LNG service and a less attractive value proposition for CNG/LNG service relative to similar customers within FEI. Common rate schedules would eliminate these regional differences and encourage adoption within FEVI if CNG/LNG service is introduced.

14.4 Please confirm that neither amalgamation nor common rates is necessary to provide CNG or LNG services through FEVI.

Response:

Confirmed, as stated in the quote from the Application in the preamble to the IR, expansion could be achieved through entity specific proposals and approvals. Please refer to the responses to BCUC IRs 1.40.1 through to 1.40.5.1 for further information.

15. Reference: Exhibit B-3, Page 124

> The FEU are integrated operationally today and legal amalgamation is the next logical step as a means of facilitating the postage stamping of rates across the FEU. The adoption of common rates will provide equitable rates for all of FEU's customers and provide more economic and stable natural gas rates in FEVI, FEW and FEFN. It also provides several ancillary benefits as described above. In the next section, the FEU address the rate impacts to current customers of FEI and Fort Nelson that would result from the proposed amalgamation and common rate structures.

15.1 Please confirm that the common shareholder for the FEU would as a result of amalgamation and common rates be relieved of a significant risk of the cost of service for FEVI and FEW driving customers to other forms of heating and therefore potentially leading to a spiral of increasing rates and decreasing customer base.

Response:

This Application proposes to extend the common rates already realized by the majority of the FEU's customers across the province, including to those customers located in the FEW and FEVI service areas. Increasing customer base and retention of customers in FEVI and FEW service areas will be a likely benefit of introducing common rates; however this alone does not reduce the risk of post amalgamation FEI, as there are a number of risk factors, other than cost, that impact competitiveness of the FEU.

16. Reference: Exhibit B-3, Page 158

> In support of the rates sought in this Application, the FEU are addressing the cost of capital for FEI Amalco in comparison to the existing pre-amalgamation Benchmark. The FEU believe for the reasons outlined in this section, that it is reasonable to have a 12 basis point premium over the benchmark ROE, which is currently 9.5%, and a capital structure of 40% equity and 60% debt for FEI Amalco. Since the cost of capital for FEI Amalco will need to be updated following the outcome of the GCOC Proceeding and any subsequent proceeding relating to a risk premium for the Amalgamated Entity, the FEU have proposed rates on an interim basis only.

16.1 The Amalgamated Entity will have significantly reduced risks and greater opportunities to succeed and with its lower business risk related to the collection of changes there is no sound basis for including any premium for ROE in rates on an interim basis or otherwise. Please comment.

<u>Response:</u>

The FEU disagree with this statement.

The evidence filed as part of the Application (Exhibit B-3-1, Appendix C-4) includes the expert opinion of Ms. McShane on the impact of amalgamation on the cost of capital and allowed return on equity for FEI Amalco. Her conclusions, as found at pages 11 -13 of her Opinion, are summarized below.

1. The amalgamation of the three utilities, from a capital markets perspective, would not alter the relative size of FEI to a degree that would alter its cost of capital.

2. The proposed amalgamation does not result in any meaningful diversification for FEI, given the broad spectrum of business-risk related characteristics that are common to all three utilities. Thus, FEI Amalco's cost of capital would lie in a range bounded by the benchmark, i.e. FEI's pre-amalgamation, cost of capital at the lower end and the weighted average of the pre-amalgamation costs of capital of the three utilities at the upper end.

3. Certain business risks unique to FEVI and FEW transfer to the amalgamated FEI, increasing FEI's post-amalgamation cost of capital relative to the benchmark utility, i.e., FEI pre-amalgamation.

4. Harmonization of rates with amalgamation will improve the competitive pricing position of the former FEVI and FEW service areas versus electricity, but will modestly weaken the competitive position of the Mainland service area. The slightly higher post-

amalgamation price competitive risks of FEI Amalco indicate, directionally, a higher post-amalgamation cost of capital for FEI Amalco.

5. The transfer of certain of the FEVI's and FEW's utility-specific business risks to FEI, and the overall impact of rate harmonization on the price competitive risks of FEI point to a modestly higher cost of capital for FEI Amalco than for the benchmark utility (i.e., FEI pre-amalgamation), and hence thus both the ROE and common equity ratio for FEI Amalco should be toward the upper end of the range.

Hence the post amalgamation return on equity should be in the higher end of the 9.50%-9.62% range

Please also refer to the response to BCUC IR 1.70.1 for an assessment of the impact of amalgamation and common rates on the specific long-term business risks of FEI Amalco.

17. Reference: Exhibit B-3, Page 220

Table 9-10: Amalgamated Entity Rate Class Revenue to Cost Ratio

Rate Schedule	Revenue to Cost Ratio
Rate 1 – Residential	93.4%
Rate 2 – Small Commercial (<2000 GJ/yr)	104.6%
Rate 6 – Natural Gas Vehicle	112.7%
Rate 3 & 23 Combined	107.9%
Rate 5 & 25 Combined	110.4%

17.1 Please provide the comparative weighted average RC Ratios for FEI prior to the amalgamation proposal.

Response:

Table 3-3 of the Application (refer to Section 3, Page 35) shows the R:C Ratios for FEI prior to the amalgamation proposal.

However, the Table 3-3 as filed in the Application had typographical errors in the column showing R:C Ratios. The FEU have updated this table (reproduced below) in response to BCUC IR 1.76.1.

Updated Table 3-3: 2013 FEI COSA Model Revenue to Cost Ratios

Rate Schedule	R:C Ratio
Rate 1 - Residential	92%
Rate 2 - Small Commercial	103%
Rate 6 - Natural Gas Vehicle	124%
Rate 3 & 23 - Combined	113%
Rate 5 & 25 - Combined	116%

18. Reference: Exhibit B-3, Page 225

> Meetings with these key stakeholder groups took place to inform them of the Application and discuss common rates, amalgamation, and anticipated bill impacts. Through discussions about the upcoming filing, stakeholders were provided with the opportunity to pose questions and raise concerns, which the Companies have considered and, where appropriate, addressed in this Application. A summary of the meetings with key stakeholders, including names of attendees and meeting dates, can be found in Appendix E-1.
>
> Meetings with the key stakeholders mentioned above will continue post-filing if requested by them, to address any further concerns or questions that they may have.

18.1 The CEC can confirm that it was consulted and will seek further clarifications from FortisBC over the course of this proceeding. Has FortisBC reflected responses to all substantive stakeholder concerns it has heard during its consultations in the application and if not could a list of outstanding issues not addressed be provided?

Response:

The FEU have addressed or acknowledged all substantive stakeholder concerns it heard during the consultation process in the Application and have described the feedback obtained from stakeholders throughout Section 10.5 of the Application and the Stakeholder Engagement Appendices.[3]

18.2 As FEI customer rates increase as a consequence of the proposed postage stamp rates and in particular the commercial customers are paying more than their cost of service are their steps the FEU could take to assist all customers and commercial customers in particular to be able to lower their bills, through enhanced conservation and efficiency initiatives to offset the proposed impact of the common rates?

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[3] Refer to the following Exhibit B-3-1 Appendices for feedback and customer concerns - Appendix E-5 and E-6 for Market Research feedback, Appendix E-13 for Public Information Session feedback, Appendix E-14 for Large Commercial and Industrial feedback, E-15 for the Fort Nelson & District Chamber of Commerce Letters, and E-16 for the FEU's response to the statements made in the Fort Nelson letters.

Response:

The FEU note that the revenue to cost ratios for the commercial customer classes in FEI Amalco are within the "range of reasonableness" and as such are deemed to be at unity. It is therefore incorrect to conclude that commercial customers are paying more than their cost of service.

The FEU are committed to rolling out cost-effective programs to assist all customers, including commercial customers, to manage their bills. The commercial sector offers a significant demand side management opportunity for the Companies. The FEU's EEC offerings to commercial customers comprise a significant portion of the Companies' currently approved EEC funding levels at 29% and 39% for 2012 and 2013, respectively. Thus, the Companies are already planning to support commercial demand side management activity to a significant degree.

Please also refer to the response to CEC IR 1.6.1.

18.3 Could FEI phase in the implementation of common rates to allow it time match rate increases for FEI with bill reduction options?

Response:

No. This response assumes that "bill reduction options" refers to EEC initiatives. It is the goal of the FEU to roll out all cost-effective EEC programs in a timely manner, so as to support our customers to manage their natural gas consumption and bills. Customers participate in EEC programs on an individual basis, at various times, so delaying the implementation of common rates for all customers, to try to have rate impacts coincide with the individual customer adoption and payback periods for EEC programs is not practical.

18.4 Please provide Scenarios for a 5 year and 10 year phase in of the proposal for the FEI impacts.

Response:

As discussed in Section 8.4.1.2, the phase in proposal for FEI applies the remaining December 31, 2013 RSDA balance (actual balance less the amount allocated to Fort Nelson) to FEI non-bypass customers to mitigate the rate increase associated with the transition to common rates.

The following table provides an expanded view of Table 8-10, which provides the approximate cumulative annual bill increase experienced by a Lower Mainland Residential customer (consuming 95 GJs per year) under various RSDA amortization periods:

Table 8-10: Forecast Cumulative Annual Bill Impact of FEI Mainland RSDA Allocation Options

RSDA Allocation Analysis	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
FEI- Full RSDA Allocation	0.3%	4.2%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
FEI- 3 Year RSDA Allocation	3.3%	3.3%	3.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
FEI- 5 Year RSDA Allocation	4.1%	4.1%	4.1%	4.1%	4.1%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
FEI- 10 Year RSDA Allocation	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	5.3%

As discussed in Section 8.4.1.2, the FEU have proposed a three year phase-in for FEI because it achieves the best balance amongst the customer impact, stability and ease of understandability, administration and rate continuity rate design principles.

Please also refer to the response to BCUC IR 1.24.2 where an alternate phase-in approach for FEVI, FEW and FEI is discussed.