

July 23, 2012

BC Residential Utility Customers Association
c/o Leroux Regulatory Consulting Ltd.
1855 Lemax Ave.
Coquitlam, BC
V3J 2C5Attention: Mr. Guy Leroux, Director and Partner

Dear Mr. Leroux:

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 BC Residential Utility Customers Association (“BCRUCA”) Information Request (“IR”) No. 2**

In accordance with British Columbia Utilities Commission Order No. G-83-12 setting out the Regulatory Timetable for review of the Application, the FEU respectfully submit the attached response to BCRUCA IR No. 2.

If there are any questions regarding the attached, please contact the undersigned.

Yours very truly,

on behalf of the FORTISBC ENERGY UTILITIES***Original signed:***

Diane Roy

Attachment

cc (e-mail only): Commission Secretary
Registered Parties

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1.0 Reference: Request for Common Rates

Exhibit B-3, Section 5, p. 80, Section 10, p. 240; Exhibit A2-3, Inquiry Report for Order G-100-96, pp. 1-18; Reasons for Decision for Order G-45-11, p. 5 Reasons for Decision for Order G-171-07, p. 33, FEU Response to IR No. 1 to the BCUC, Question 7.2 Common Rates Evaluation Framework - Criteria Exhibit B-1, Letter, p.2

- 1.1 Does FEU believe that postage stamp rates for Natural Gas would be a more efficient market signal for residential consumers considering which energy sources to use; Electric or Natural Gas?

Response:

Yes, the FEU believe that postage stamp rates would provide a better market signal for decisions about which energy source (electricity or natural gas) for residential consumers to use in end use applications that can be served by natural gas. All residential consumers will use electricity in their homes for purposes such as lights and appliances, so the question of gas versus electricity (or other energy sources such as geo-exchange systems) comes into play mainly for thermal end uses such as space heating and water heating. Since electricity rates in BC Hydro's service territory are postage stamped across the province, efficient decision making with regard to energy choices would be facilitated by having the same natural gas rates in place in the various parts of the FEU's service territories. Having postage stamp rates for both electricity and natural gas would mean that the analysis and value proposition on the choice of energy systems would be similar throughout the province, rather than having some areas such as FEI and FEFN with a stronger business case and other areas (FEVI and FEW) with a weaker one.

- 1.2 In consideration of the Bonbright principles, does not amalgamation and postage stamp rates meet more of the principles than the current structure.

Response:

Amalgamation and postage stamp rates as proposed in the Application better meet the Bonbright principles than the current structure of separate utilities with postage stamp rates. The table in the response to BCRUCA IR 2.1.3 illustrates this, comparing and contrasting the



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postage stamp rate proposal against the current service area specific postage stamp rates in place.

- 1.3 Please prepare a table comparing and contrasting the current versus proposed rate and company structure as compared to each of the Bonbright principles FEI has summarized.

Response:

The FEU have prepared the table below which compares and contrasts the current with the proposed rate and company structure for each of the seven Bonbright principles as stated in Section 9.5 of the Application.



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	Customer Impact	Fairness	Economic Efficiency	Stability	Ease of Understandability Administration & Continuity	Competitiveness	Recovering Cost of Service
Proposed Postage Stamp Rate Structure	<ul style="list-style-type: none"> Positive impact on Vancouver Island and Whistler customers, as rate decreases are expected for these service territories. FEI and FEFN customers will experience a rate increase, the impact of which will be mitigated as proposed in the Application. 	<ul style="list-style-type: none"> The proposed rate structures require similar customers across all service areas to pay similar delivery rates. The proposed rates reflect the cost of service as demonstrated in the COSA study. Elimination of the rate disparity that currently exists amongst FEU service areas, based on historical circumstance and despite the integration of the FEU. 	<ul style="list-style-type: none"> Proposed rates ensure that revenues from each rate class are closely aligned with the cost to serve them, and reward those who utilize the system more efficiently through lower rates for customer classes with higher load factors. Recognizes the integrated nature of FEU's operation and management, the significant level of common costs that are shared, and the growing integration of the FEU system. 	<ul style="list-style-type: none"> Rate stability for the smaller service areas of FEVI, FEW and Fort Nelson (see Section 4 of the Application) 	<ul style="list-style-type: none"> Common rate regardless of region minimizes customer confusion, ensures consistency and is easy to administer. Will result in net reduction of 18 rate schedules. 	<ul style="list-style-type: none"> Eliminates price differential of natural gas across the FEU service areas and minimizes the regional variations in competitiveness that currently exist (see response to BCUC IR 2.34.2). 	<ul style="list-style-type: none"> Proposed interim rates are sufficient to recover the Company's cost of service & are based on the consolidated proposed revenue requirements for 2013 for the FEU (less amalgamation adjustments).



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	Customer Impact	Fairness	Economic Efficiency	Stability	Ease of Understandability Administration & Continuity	Competitiveness	Recovering Cost of Service
<p>Current Rate Structure</p>	<ul style="list-style-type: none"> Customers in FEW and FEVI currently paying significantly higher rates than those in FEI and FEFN. 	<ul style="list-style-type: none"> Similar customers within each utility pay similar delivery rates, reflecting the cost of service for each utility. Large rate disparity between FEI, FEVI, FEW and FEFN, resulting in FEVI, FEW and FEFN continuing to be exempt from the full benefits of being part of a larger utility. 	<ul style="list-style-type: none"> Recognizes the historical service areas and assets. Revenues match regional cost of service. Does not recognize the integrated nature of FEU's operation and management, the significant level of common costs that are shared, and the growing integration of the FEU system. 	<ul style="list-style-type: none"> No change to the rates and rate structures themselves. Smaller entities FEVI, FEW and FEFN remain vulnerable to loss of customers, loss of volumes and sustainment capital additions. 	<ul style="list-style-type: none"> No change to the rates and rate structures themselves. Customers will continue to be confused by changes that are applicable in one area and not another. Extra cost associated with offering programs in certain areas, such as Customer Choice, NGT, etc. 	<ul style="list-style-type: none"> Competitiveness relative to competing energy forms such as postage stamp electricity rates will continue to vary across the service areas. 	<ul style="list-style-type: none"> Loss of government subsidies results in revenue deficiency on FEVI. Revenue requirements increasingly require allocation of costs via shared services agreements or other approaches among regions/entities as the system becomes more integrated.



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2.0 Reference: Request for Common Rates

Exhibit B-3, Section 6, pp. 107, 108; Reasons for Decision for Order G-17-06, pp. 7, 10; Exhibit A2-4, Alberta EUB Decision U96055, p. 27 Distinct and Special Area - District of Chetwynd

- 2.1 Does FEU agree that creating additional Distinct and Special Areas would defeat the purpose of the amalgamation Application?

Response:

Yes, the FEU agree that creating additional Distinct and Special Areas would be counter to the primary objectives of the Application.

The introduction of additional Distinct and Special Areas does not meet the rate design principles of: 1) ease of understandability, administration and rate continuity; and, 2) economic efficiency. Please refer to the response to BCUC IR 1.8.2 that discusses the implications of Distinct and Special Areas on these two rate design principles.

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3.0 Reference: Request for Common Rates

Exhibit B-3, Section 4, p. 71, Section 10, p. 232; Reasons for Decision for Order G-171-07, pp. 7, 33 BC Hydro – Postage Stamp History, FEU Response to IR No.1 to the BCUC, Question 13.2.2.

- 3.1 Please confirm that FEU does not believe it should discriminate against customers simply based on their social status and whether they own vacation homes or condos in Whistler, or a small home in Victoria.

Response:

Confirmed. The FEU does not believe that customers should be discriminated against based on social status or whether they own vacation homes, condos or small homes in Whistler, Vancouver Island or elsewhere in the Province.

- 3.2 Please provide a table and graph showing the average percentage difference in rates between electricity and natural gas for residential customers in Fort Nelson, FEI, FEW, and FEVI

Response:

Please refer to the response to BCUC 2.51.2.

- 3.3 Please provide a simple table with the average yearly bill for residential customers in the four service areas (including commodity), from 2005 through to present and the average yearly bill that would result under the amalgamation as proposed.

Response:

The following tables provide the average annual bill for residential customers effective January 1 of each year from 2005 to 2012. In addition, the forecast amalgamated annual bill effective January 1, 2014, exclusive of phase-in, is provided. These annual bills have been calculated based on the typical consumption rate for each service area.



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Effective January 1,	FEI - Lower Mainland								Amalgamated 2014
	2005	2006	2007	2008	2009	2010	2011	2012	
Annual Bill	\$1,124.19	\$1,337.00	\$1,204.31	\$1,178.66	\$1,226.50	\$1,070.42	\$1,008.86	\$987.30	\$1,081.96

*Based on 95 GJ Annual Consumption

Effective January 1,	FEVI								Amalgamated 2014
	2005	2006	2007	2008	2009	2010	2011	2012	
Annual Bill	\$900.69	\$901.28	\$929.70	\$933.22	\$965.45	\$965.45	\$965.46	\$965.46	\$721.84

*Based on 58.6 GJ Annual Consumption

Effective January 1,	FEW								Amalgamated 2014
	2005	2006	2007	2008	2009	2010	2011	2012	
Annual Bill	\$1,739.25	\$1,986.66	\$2,058.57	\$2,235.51	\$2,235.51	\$1,633.50	\$1,468.35	\$1,510.14	\$1,032.49

*Based on 90 GJ Annual Consumption

Effective January 1,	FEFN								Amalgamated 2014
	2005	2006	2007	2008	2009	2010	2011	2012	
Annual Bill	\$1,060.72	\$1,362.19	\$1,160.59	\$1,166.30	\$1,427.38	\$1,213.18	\$1,101.05	\$1,008.21	\$1,527.17

*Based on 140 GJ Annual Consumption

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4.0 Reference: Overview of the FortisBC Energy Utilities

Exhibit B-3, Section 3.2.1.3, p. 25 & 26

Amalgamation of Squamish and FEI

- 4.1 Please describe the benefits that have accrued to Squamish as a result of their amalgamation and the consequences had the amalgamation of Squamish not taken place.

Response:

There are a number of benefits that the customers of Squamish have realized since the amalgamation into Terasen Gas Inc. These are listed below:

- Rates – Prior to amalgamation, TGS rates were tied to the lower of the retail pump price of gasoline or 67% of the BC Hydro Trailing block. Due to the high price of oil/gasoline, this would have resulted in a rate pegged against the BC Hydro rate. Since 2008, when BC Hydro introduced the inclining block rate, the resultant rate for TGS customers would have been between \$1.33/GJ lower than FEI in fall of 2008 to \$4.35 higher than FEI in spring of 2012. On an annual basis, assuming 61 GJ/year consumption, this would have resulted in TGS customers paying between approximately \$81 less than to \$265 per year more than FEI customers. The cumulative effect is that TGS customers were better off as FEI customers over the period. TGS customers would not have benefited from the lower price of commodity seen in North America over that time period.
- Rate Design – customers in the Squamish service area were able to take service in a number of different rates such as Transport Rates, Rate Schedule 6 (NGV), Rate Schedule 4 (Seasonal), and Commodity Unbundling Rate Schedules.
- EEC – post amalgamation, the Squamish service area had access to all of the same EEC programs that were already offered in the TGI service area. From 2007 to June 2012, 136 customers in the Squamish area have received \$30,116 in incentives, resulting in a reduction of 2,023 GJ annually.
- Regulatory Efficiency – prior to amalgamation, the Province was involved in the regulation of TGS. Post amalgamation, the Province no longer played a direct role in the regulation of gas service in Squamish.
- Main Extension Test – Post amalgamation, customer connections in Squamish used the TGI MX test and methodology. The Province and Commission were no longer involved in every main extension test. This efficiency results in an easier and transparent process for customers to be attached to the gas system in Squamish.



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- Commodity Unbundling/Transportation Service – post amalgamation, all customers in the Squamish service area were able to purchase gas from a marketer as part of the Commodity Unbundling Program or via Transportation Service. This gives customers in Squamish the same choice that was already available to other FEI customers.

The consequences to not amalgamating are that customers in Squamish would not have realized any benefits as noted above.



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5.0 Reference: Overview of the FortisBC Energy Utilities Exhibit A2-1, Reasons for Decision for Order G-63-92, pp. 16-20; Exhibit A2-2, Reasons for Decision for Order G-101-93, p. 6; Exhibit B-3, Section 3.2.1.2, p. 27 Legal/Regulatory Considerations - Fort Nelson

- 5.1 Does FEU agree that Fort Nelson was likely excluded from the 1993 Phase B consolidation and postage stamp proposal as the sentiment expressed by Fort Nelson then (as is the case now) is that "we're not paying that much for gas when we're the ones pulling it out of the ground at our feet!"

Response:

As stated in the response to BCUC IR 1.19.4 the decision to exclude Fort Nelson from the 1993 Rate Design Phase B consolidation was made "in recognition of the position of the officials of Fort Nelson municipality as stated at the Company's revenue requirement hearings in 1992." (1993 RDA, BCUC IR No. 1, Part B, Volume 1, Tab 5, Question 20 (a).)