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British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Ms. Erica M. Hamilton,
Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Utilities, Project No. 3698652
Common Rates, Amalgamation and Rate Design Application

In accordance with the Regulatory Timetable set for this proceeding by Order No. G-106-12, the FortisBC Energy Utilities are filing the attached Reply Argument.

Twelve hard copies of the enclosed will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by Christopher Bystrom]

Christopher Bystrom

CRB/ccm
Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

PROJECT NO. 3698652

FORTISBC ENERGY UTILITIES COMMON RATES, AMALGAMATION AND RATE DESIGN APPLICATION

REPLY ARGUMENT

OF

THE FORTISBC ENERGY UTILITIES

OCTOBER 12, 2012

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1.0 INTRODUCTION

1. FortisBC Energy Inc. (“FEI”), FortisBC Energy (Vancouver Island) Inc. (“FEVI”) and FortisBC Energy (Whistler) Inc. (“FEW”), together referred to as the “FortisBC Energy Utilities” or the “FEU”, filed their Final Submission on September 14, 2012. Intervenor submissions have been filed by:

   (a) British Columbia Pensioners’ and Seniors’ Organization, Active Support Against Poverty, BC Coalition of People with Disabilities, Council of Senior Citizens' Organizations of BC, and Tenant Resource and Advisory Centre (collectively, “BCPSO”);

   (b) BC Residential Utility Customers Association (“BCRUCA”);

   (c) The Commercial Energy Consumers Association of British Columbia (“CEC”);

   (d) The Fort Nelson and District Chamber of Commerce (“Fort Nelson Chamber of Commerce”);

   (e) Mr. Randolf Robinson; and

   (f) Rental Owners and Managers Society of BC (“ROMSBC”).

2. The submissions of the intervenors representing customer groups of FEI Mainland, FEVI and FEW are generally supportive of the Application. The submissions of ROMSBC and BCRUCA indicate unqualified support of the FEU’s proposal to amalgamate and implement postage stamp rates. BCPSO is also supportive, but takes different positions on the proposed phase-in, the cost of capital and aspects of the rate design for FEI Amalco. CEC is generally supportive of the proposal, but argues for a regional midstream rate and takes positions on the proposed phase-in, the cost of capital, the range of reasonableness and the fixed charge.

3. Mr. Robinson’s submission is the only submission that opposes the Application generally. While the Fort Nelson Chamber of Commerce opposes the postage stamping of rates in the Fort Nelson service area (“FEFN”), it takes no position on the

amalgamation and introduction of postage stamp rates for the remainder of FEI, FEVI and FEW.[1]

4. The FEU will first respond to the submissions of BCPSO and CEC together as they consider some of the same issues. The FEU then respond to the submissions of Mr. Robinson and will address the Fort Nelson Chamber of Commerce's submissions last. Silence on a particular point should not be taken as agreement.

2.0 REGIONAL MIDSTREAM OPTION

5. The CEC argues for a regional midstream rate, which is Option D in section 5 of the FEU's Application. The CEC submits that there is a significant cost difference to justify a regional midstream rate and that there are significant transmission costs for FEVI and FEW which are not applicable to Fort Nelson.[2] The CEC also submit that this would send the appropriate price signals, especially in relation to FEFN.[3]

6. The FEU disagree that there are significant cost differences to justify a regional midstream rate amongst FEVI, FEW and FEI Mainland. The CEC appears to assume that the midstream costs include the transmission costs of the FEVI transmission system,[4] which is incorrect. Midstream resources include the *contracted* transmission pipeline and storage capacity, and balancing and peaking gas required to support the annual load and manage load variability, as well as revenues from mitigation activities.[5] The midstream costs are predominantly fixed costs for *third party* pipeline and storage charges.[6] The current midstream rates for the Lower Mainland, Inland and Columbia service areas are therefore similar to the current midstream component of FEVI and FEW's bundled rates.[7] Thus, the adoption of a regional midstream rate would have little impact on rates for the FEVI, FEW and FEI Mainland customers. Further, the FEU midstream resources are

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1 Fort Nelson Chamber of Commerce Submission, p. 3.

2 CEC Submission, p. 6.

3 CEC Submission, p. 13.

4 CEC Submission, p. 6.

5 Exhibit B-3, Application, p. 29, footnote 39, and p. 203.

6 Exhibit B-9, BCUC IR 1.17.7, p.80.

7 An estimate of the regional midstream unit cost for all core classes on average has been provided in Exhibit B-9, BCUC IR 1.142.3.

operated as part of an integrated system and support gas supply to the entire FEU region.[8] Therefore, the FEU submit that it is more appropriate to postage stamp the midstream rate as proposed in the Application.

7. The adoption of a regional midstream rate would primarily benefit FEFN, which would have a much lower midstream charge than any of the other service areas.[9] A common midstream rate applied to Fort Nelson would result in an approximate 20% rate increase to Fort Nelson residential customers,[10] which would be avoided under the regional midstream option. The FEU have addressed the midstream rate for FEFN in pages 66 to 69 of its Final Submission.

8. In leading up to its comments on the midstream rate, the CEC states that "when put to a test from another jurisdiction retreats to the UCA as a defence and then attempt to deny that there are primary financial reasons for proposing the amalgamation and "postage stamp" rates."[11] In the referenced IR, the FEU noted that Ofgem has a different statutory regime, which is a valid and important point when comparing decisions from other jurisdictions.[12] The FEU did not avoid the substance of the question but addressed the framework that was proposed to evaluate FEU's Application. One of the factors referred to was whether rates result in "bailing-out" a utility that has encountered financial stress as a result of its own behaviour. None of the FEU are in "financial distress," let alone financial distress as a result of its own behaviour.

3.0 EXTENSION OF SERVICE OFFERINGS

9. The CEC submit that extension of the service offerings should not be seen as a benefit of the FEU's proposal.[13] While the FEU can in theory extend the service offering to the FEVI, FEW and FEFN in the absence of amalgamation and postage stamp rates, one of the benefits of amalgamation and postage stamp rates lies in the efficiency and timely

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[8] Exhibit B-9, BCUC IR 1.142.5 and 1.145.1.

[9] Exhibit B-9, BCUC IR 1.142.3.

[10] Exhibit B-3, Application, page 87.

[11] CEC Submission, p. 5.

[12] Exhibit B-9, BCUC IR 1.6.1.

[13] CEC Submission, p.12.

extension of FEI service offerings.[14] In addition, postage stamp rates will improve the economic feasibility of NGT services in FEVI and FEW due to lower delivery rates.[15] In the case of the Customer Choice Program, the FEU submit that it may not be cost-effective to extend the program to FEVI in the absence of amalgamation and postage stamp rates.[16]

4.0 PHASE-IN OPTIONS

10. This section will consider the CEC and BCPSO positions regarding the phase-in options for postage stamp rates.

4.1 FEI Phase-In Options

11. BCPSO submits that decreases to FEVI and FEW rates should be phased-in over a three-year period.[17] The FEU supports an immediate implementation of the decreases to FEVI and FEW for the reasons set out in section 4.5.2 of its Final Submission. While BCPSO states that a three-year phase-in may be as attractive to FEVI and FEW customers as an immediate reduction,[18] the FEU disagree. An immediate decrease will provide an immediate benefit and will facilitate the transfer of FEVI and FEW customers to the FEI rate schedules so that the next rate design can be based on the correct customer information. The BCPSO states that it favours a phase-in schedule that minimizes volatility.[19] In the FEU's submission, an immediate decrease minimizes the volatility for FEVI and FEW customers, while the use of the RSDA mitigates volatility for FEI customers. The BCPSO states that it supports the used of the funds from a phase-in to offset rate increases to FEFN.[20] If the Commission were to implement a phase-in of the decreases, the FEU submit the phase-in should be implemented as modeled by the FEU as described in its Final Submission.[21]

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[14] Exhibit B-15, BCUC IR 2.54.1.

[15] Exhibit B-15, 2.47.3.

[16] See the FEU's Final Submission, section 5.2.1.

[17] BCPSO Submission, pp. 5-6.

[18] BCPSO Submission, p. 5-6.

[19] BCPSO Submission, p. 6.

[20] BCPSO Submission, p. 6.

[21] Exhibit B-9, BCUC IR 1.24.2; Exhibit B-15, BCUC IR 2.57.2.2; FEU Final Submission, pp. 45-47.

12. The CEC argues for a five-year phase-in of FEI's rate increases and FEVI and FEW rate decreases and that the phase-in should be tailored to be no more than 2% to the most impacted customer.[22] The FEU submit that the rate impact restrictions proposed by the CEC are arbitrary and do not appear to be supported by any evidence or rationale. The FEU believes the phase-in period should be balanced by other considerations, such as how long the phase-in should be extended over and the practicality of managing a phasing in of rate decreases and increases to multiple rate classes over those years.

13. The CEC states that under FEI's proposal one rate class will experience a 15% rate increase in one year and that there will be "shocking rate increases". This is incorrect. The FEU's proposal substantially mitigates the rate impacts to FEI Mainland customers, with a 3.3% increase in year 1 and a 2.0% increase in year 4 (i.e. in the year that rates reach parity). The Large Industrial Rate Schedule 22 will experience a cumulative annual change of 14.5% to their delivery rate, but this is phased in with a 10.5% change in 2013 and a 4% annual change in 2017.[23] Moreover, the approximately 10% delivery rate increase to Rate Schedule 22 customers is estimated to result in a burner tip impact of 4%.[24]

14. Under the FEU's proposal, no customer is expected to experience "shocking rate increases". Rate shock for a gas utility is properly assessed by examining the burner tip rates faced by customers, as this measures the actual impact that customers will experience. Both the 10 percent rule and the two times rule can be used as a guide to assess rate shock.[25] Under the FEU's proposed phase-in, only three rate schedules out of 48 would experience more than a 10% increase to their delivery rates, and the burner tip impact to customers under these rate schedules is estimated at between 4 to 6%.[26]

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[22] CEC Submission, pp. 8-10.

[23] Exhibit B-9, BCUC IR 1.93.4, which provides tables assuming postage stamp rates are approved with the proposed phase-in.

[24] Exhibit B-9, BCUC IR 1.93.2.

[25] Exhibit B-9, BCUC IR 1.91.2 and 1.91.4.

[26] Exhibit B-9, BCUC IR 1.93.2.

15. The CEC states that five years is appropriate to give customers time to implement energy efficiency measures.[27] The FEU submit that three years is sufficient time to implement energy efficiency measures.

16. If the Commission determines that FEVI and FEW rate decreases should be phased-in, the FEU submit that a 3 year phase-in is preferable. As shown on page 46 of the FEU's Final Submission, the phasing in of the rate decreases over a three-year period results in an annual rate impact to FEI Mainland residential customers of between 1.3% and 1.5% depending on the year, while a five-year option results in an annual rate impact of between 0.8% and 1.1% depending on the year. These annual impacts could be reduced yet further with the use of the balance in the RSDA.[28] In the FEU's submission, the five year phase-in offers no substantial improvement to the 3-year phase-in, would interfere with the overall transition to the new rate schedules, increases the years over which the phase in must be administered, and unnecessarily delays the full implementation of postage stamp rates.

17. The CEC's proposal to use the RSDA to reduce capital[29] is not an appropriate use of the RSDA funds and is inconsistent with the purpose for which it was collected. As stated in the Application, the rationale for accumulating the balance in the RSDA as justified in FEVI's 2009 Rate Design Application was primarily to help transition FEVI's customers to the higher rate that would result after the loss of the Royalty Revenues.[30] Under amalgamation and postage stamp rates, the increase to FEVI's rates would be avoided and the impact of the loss of Royalty Revenues would be shared by all of FEI Amalco, so it is appropriate to return the RSDA to FEI Mainland customers as those customers will incur an increase to their rates as a result.[31] The use of the balance in the RSDA to reduce rate base, however, would not be consistent with the purpose for which it was collected. Generally, the FEU submit that balances in deferral accounts that were designed to be returned to customers should not be used to reduce capital. Further, as

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[27] CEC Submission, p. 10.

[28] Exhibit B-15, BCUC IR 2.57.2.2.

[29] CEC Submission, p. 9.

[30] Exhibit B-3, Application, p. 168.

[31] Exhibit B-3, Application, p. 168.

capital is amortized over many years, the contribution of the RSDA to a reduction of capital would only result in a 1 percent decrease in the delivery rates proposed for FEI Amalco. In addition, the phase-in for FEI Mainland and FEFN would have to be funded by other means.[32] In the FEU's submission, the balance in the RSDA is more appropriately and more effectively used as a short-term mitigation measure for FEI Mainland and FEFN customers.

4.2 FEFN Phase-In Options

18. BCPSO suggests a 15-year phase-in option for FEFN that begins immediately.[33] The CEC also suggest that the FEFN phase-in begin immediately and be extended over 20 years.[34]

19. The FEU agreed to its proposed 15 year phase-in approach for FEFN, including 5 years of no increases due to postage stamping, in consultation with the Northern Rockies Regional Municipality ("NRRM").[35] The initial 5-year hiatus provides an economic benefit due to the time-value of money and also provides time for customers to prepare. Given that the proposed five-year period without any increase was agreed to in consultation and has benefits, the FEU submit that it is preferable to BCPSO and CEC's proposal to implement the rate increase immediately. Fifteen years is already a significant time over which to phase-in rates and that the CEC's proposal to extend the phase-in to 20 years unnecessarily draws out the implementation of postage stamp rates.

5.0 WHISTLER CONVERSION COSTS

20. The BCPSO argues that the Whistler conversion costs should be borne by the FEW customers rather than being spread amongst all customers.[36] The CEC suggest that FEW customers should continue to contribute the conversion costs during the phase-in period.[37]

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[32] Exhibit B-9, BCUC IR 1.89.1.

[33] BCPSO Submission, p. 6.

[34] CEC Submission, p. 10.

[35] Exhibit B-3, Application, p. 226.

[36] BCPSO Submission, p. 5.

[37] CEC Submission, p. 13.

21. The FEU have addressed the issue of the Whistler conversion costs in section 6.2 of the Final Submission. As discussed there, other projects and conversion costs have been spread across the customer base. The FEU do not see any reason in principle to treat the Whistler conversion costs differently. The FEU do not believe it is appropriate to make these costs the "price of admission" to the amalgamated entity.

22. The FEU submit that the fact that the Whistler conversion was recent should not be a factor, as BCPSO suggests.[38] FEW is unlikely to have many capital projects in the foreseeable future due to the newness of the system. In contrast, FEI Mainland will have more capital projects due to its aging system. Since FEW will share in the costs of all FEI Mainland capital projects, the FEU submit that it is more consistent that FEW's conversion costs also be shared.

23. BCPSO states that FEW customers consist of many vacation and recreation users that are able to bear the cost increase.[39] The FEU do not believe the ability to bear the increase is a significant consideration. Further, FEW customers should not be all painted with the same brush. There are of course full time residents in the FEW service area, just as there are recreational and vacation homes in other service areas. There are also seniors and low-income customers in the FEW service area.[40] In addition, commercial customers account for more than 65% of FEW's annual consumption.[41] Overall, the FEU support a principled approach that would treat the Whistler conversion costs similar to other capital costs, including past conversion costs.

6.0 INTERIM COST OF CAPITAL

24. The BCPSO and CEC oppose the FEU proposed 12 basis point risk premium.[42] The following will reply to the submissions of the CEC and BCPSO.

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[38] BCPSO Submission, p. 5.

[39] BCPSO Submission, p. 5.

[40] Exhibit B-9, BCUC IR 1.157.1.1 and 1.157.1.2.

[41] Exhibit B-3-1, Appendix H-7, Schedule 7, line 3, Sales Volume (TJ).

[42] BCP SO Submission, pp. 6 to 9; CEC Submission, pp. 16 to 19.

6.1 Relevance of Customer Impact

25. The CEC begins its discussion of cost of capital by suggesting that an increase to FEI's cost of capital would be inappropriate as it would lead to rate increases.[43] The Courts have made it clear that rate impacts are not a lawful consideration when determining the appropriate cost of capital.[44] As such, the FEU submit that the Commission should give no weight to the CEC's submission in this regard.

6.2 Size of Utility

26. The CEC suggests that the size of FEI Amalco should lead to a lower cost of capital.[45] The evidence of Ms. McShane considers the effect of size and has concluded that the addition of FEVI and FEW does not change FEI's risk in this regard as FEI is already a large cap utility and would not be perceived as materially larger in size by the capital markets.[46] The CEC has presented no contrary evidence or reasoning that changes this conclusion.

6.3 Transfer of Business Risks

27. On page 17 of its submission, the CEC objects to the suggestion that the larger FEI Amalco would be more risky to the shareholder than the smaller stand-alone utilities. The CEC has misconstrued the FEU's evidence. There is no suggestion that FEI Amalco is more risky than the smaller stand-alone utilities. If that were the FEU's position, it would be asking for a capital structure for FEI Amalco containing at least 45% common equity and an equity risk premium relative to the benchmark of at least 0.50% (i.e., equal to the stand-alone capital structure and equity risk premiums for FEVI and FEW set out in Appendix C-2 to the application).

28. With respect to business risk, the BCPSO incorrectly characterizes Ms. McShane's approach as assuming "a direct correlation of relative risk pre- and post-

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[43] CEC Submission, p. 16.

[44] *Transcanada Pipelines Ltd v. Canada (National Energy Board),* 2004 FCA 149.

[45] CEC Submission, p. 17.

[46] Exhibit B-3-1, Application, Appendix C-4, Opinion of Ms. McShane, pp. 3-5.

amalgamation".[47] Ms. McShane does not assume any direct correlation, but reaches her conclusion by analyzing how the amalgamation of the FEU would affect the cost of capital of FEI post amalgamation compared to FEI pre-amalgamation.[48] The FEU refer to section 10.4 of its Final Submission for a summary of Ms. McShane's approach regarding the risk premium for FEI Amalco.

29. BCPSO argues that the business risk of FEVI related to the loss of the royalty revenues and ultimate risk of a death spiral of FEVI is removed by the amalgamation and postage stamp rates and that this risk therefore does not transfer to FEI Amalco.[49] The CEC similarly argues that amalgamation and postage stamp rates lowers overall risk as it resolves issues related to the loss of the royalty revenues and the competitive risk of FEVI.[50] The evidence on which Ms. McShane's opinion is based, however, is that the competitive risk is mitigated in the former FEVI service area, but that FEI will experience a small rate increase and thus a marginal increase in competitive risk for FEI Amalco compared to FEI pre-amalgamation.[51] The FEU therefore agree that there will be a mitigation of competitive risk in the FEVI service area; but neither the BCPSO nor the CEC address the evidence of the marginal increase in competitive risk to FEI.

30. BCPSO also argues that the tourism risk of FEW does not transfer to FEI Amalco.[52] While FEI is not as tourism dependent as FEW, tourism is a major contributor to the B.C. economy generally. The amalgamation of FEW and FEI increases FEI Amalco's exposure to the tourism industry compared to FEI pre-amalgamation. The evidence of Ms. McShane is that "Amalgamation of FEW, whose exposure to the tourism industry is significantly higher than pre-amalgamation FEI's, will tend to increase FEI's exposure to negative events in the tourism industry."[53] Further, this is only one of the considerations that lead Ms. McShane to conclude that the transfer of certain business risks indicate that

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[47] BCPSO Submission

[48] Exhibit B-3-1, Application, Appendix C-4, Opinion of Ms. McShane.

[49] BCPSO Submission, pp. 7-8.

[50] CEC Submission, p. 14.

[51] Exhibit B-3-1, Application, Appendix C-4, Opinion of Ms. McShane, pp. 8-11.

[52] BCPSO Submission, pp. 7-8.

[53] Exhibit B-9, BCUC IR 1.67.6.1.

FEI's cost of capital post amalgamation will be marginally higher compared to the benchmark, i.e., FEI pre-amalgamation.[54] The FEU submit that this is a reasonable conclusion based on the evidence.

31. The BCPSO states at paragraph 23 of its submission: "Combining Whistler with Fort Nelson, for example, greatly diversifies the customer base of both areas and makes both more resilient to industry specific disruptions." This is incorrect as combining FEW and FEFN has no bearing on FEW's resiliency to disruptions in the tourism industry. BCPSO also misses the point, because the FEU are proposing to combine FEI pre-amalgamation, FEFN, FEVI and FEW to come up with FEI Amalco. The question is whether FEI Amalco is more diversified than FEI pre-amalgamation. The evidence of Ms. McShane concludes no.

32. The CEC recites various risks of FEVI and FEW that are being addressed by amalgamation and postage stamp rates.[55] As FEVI and FEW will no longer be stand-alone entities upon amalgamation, the relevant question in determining the risk of FEI Amalco is what risks of FEVI and FEW will transfer to FEI Amalco. The FEU's evidence is that there will be some transfer of risk, resulting in a minimal increase in business risk compared to the benchmark, FEI pre-amalgamation.[56]

33. The CEC argues that there may actually be a reduction in risk, stating:[57]

> The CEC submits that even the transfer of the supply risk to the FEI Amalco will likely lead to reduced risk because the FEI Amalco will now have the opportunity to amalgamate these risks and respond with alternatives to the single pipeline supply. For instance FEI already has North Vancouver & West Vancouver dependent upon a single pipeline across a bridge. This and the FEVI situation and other potential emergency response to risk issues may lead to a relatively cost effective LNG supply back up option via barge and for Whistler via truck. This may well fit into the NGT strategy of the company and provide increased security at reasonable costs.

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[54] Exhibit B-3-1, Application, Appendix C-4, Opinion of Ms. McShane, pp. 8-11.

[55] CEC Submission, p. 18.

[56] Exhibit B-3-1, Application, Appendix C-4, Opinion of Ms. McShane, pp. 8-11.

[57] CEC Submission, p. 18.

34. The options described by the CEC are options that are available today or, if feasible, could be developed with the facilities in place and contractual arrangements. Amalgamation and postage stamp rates would not change the situation and would not change the supply risk. The FEU submit that there is no evidence to support a reduction in risk in the manner suggested by the CEC.

6.4 Effect of Harmonized Rates

35. Regarding the effect of harmonized rates on competitive pressures, the CEC submit that Ms. McShane's evidence should be given reduced weight because she "is mistaken because of the non-linear nature of risk as competitive pressures get closer to a customer's decision threshold."[58] The FEU submit that the CEC's position does not take into account the many factors affecting the competitiveness of natural gas. Thus, even if price gets more competitive, there are other factors that will influence customer decisions.[59] Ms. McShane's evidence is that the 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. Overall, the slightly higher post-amalgamation price competitive risks of FEI Amalco indicate, directionally, a marginally higher cost of capital for FEI Amalco compared to FEI pre-amalgamation.[60]

6.5 Correlation of Debt Financing

36. BCPSO submits that FEI is not expected to see a credit rating downgrade due to amalgamation and therefore FEI Amalco does not need an increased ROE in order to attract equity financing.[61] However, just because there will not be a downgrade does not mean that an equity risk premium is not warranted. Further, the BCPSO's submissions do not address the evidentiary basis set out by the FEU for the proposed risk premium.

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[58] CEC Submission, p. 18-19.

[59] Exhibit B-3, Application, section 4, pp. 128-129; Exhibit B-3-1, Appendix G-17; Exhibit B-9, BCUC IR 1.58.2; Exhibit B-15, BCUC IR 2.19.3 and 2.19.4.

[60] Exhibit B-3-1, Appendix C-4, Opinion of Ms. McShane, p. 10-11. Also see Exhibit B-9, BCUC IR 1.58.2.

[61] BCPSO Submission, p. 8.

Credit ratings reflect a firm's ability to repay its debt obligations. They do not address the determination of the fair ROE.

6.6 Extension of Rate Structure Argument

37. BCPSO argues that since FEI's rate structures, which BCPSO defines as General Terms and Conditions, rate schedules and MX Test, are being extended to the other service areas, the ROE should also be extended.[62] There is no nexus between the extension of FEI's rate structures to other service areas and the cost of equity for FEI pre-amalgamation and FEI Amalco. Therefore, this is not a relevant factor to the determination of the equity risk premium for FEI Amalco compared to the benchmark, FEI pre-amalgamation.

6.7 Expert Evidence

38. BCPSO states that the FEU is able to "produce uncontested expert evidence in support of whatever order they seek."[63] The FEU does not always provide independent expert evidence in support of its Applications. In the present Application, the FEU filed expert evidence in support of its cost of capital as this is a complex issue that is properly the subject of expert opinion. The FEU is not in control over whether the Commission or intervenors choose to file expert evidence of their own. Nonetheless, the Commission is being requested to set an interim cost of capital at this time and the FEU's uncontested expert evidence is the best and most persuasive evidence on this issue in the proceeding.

6.8 Conclusion on Risk Premium

39. The FEU submit that the evidence shows that its proposed equity risk premium most fairly compensates FEI Amalco for the risk on its investment.

7.0 RATE DESIGN

40. The BCPSO comments on two items related to the rate design for FEI Amalco, while the CEC comments on the FEU's application of a range of reasonableness, the fixed rate and

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[62] BCPSO Submission, p. 8.

[63] BCPSO Submission, p. 8.

the future rate design application for FEI Amalco. The FEU respond to these comments below.

7.1 Minimum System Study and Peak Load Carrying Capacity (PLCC) Adjustment

41. BCPSO questions, but accepts "for practical reasons," the FEU's proposed methodology for classifying Distribution Function Costs.[64] The FEU submit its Minimum System approach with PLCC Adjustment more closely matches the theoretical demand and customer components of the distribution system, and is important to consider with the increase in the Company's minimum installation size of mains to 2 inch.[65] The PLCC Adjustment fully addresses the concern of the BCPSO that the larger minimum pipe size allocates too much to customer-related costs.[66] The PLCC Adjustment is calculated based on the minimum pipe size and, as calculated, provides that the minimum size system would be able to provide 0.225 GJ/day/customer based on 2" mains.[67] This is very close to the average use for a residential customer of 0.234 GJ per day[68] The result is that FEU's approach is very similar to the zero-intercept approach favoured by the BCPSO, which assumes that there is a zero size main necessary to connect the customer to the system. The FEU did consider the zero-intercept approach, but the zero-intercept value could not be calculated. It is common for the zero-intercept calculations to provide inconclusive or irrational results.[69]

42. While the NARUC Electric Manual may list both the minimum system and zero-intercept method separately, the NARUC Gas Manual does not. The Gas Manual states "One argument for inclusion of distribution related items in the customer cost allocation is the "zero or minimum size main theory."[70] In any case, the FEU submit it is only a matter of semantics as to whether there are two separate methods or one method with two

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64 BCPSO Submission, pp. 9-12.

65 Appendix D-3, Minimum System and Peak Load Carrying Capability Studies, p. 4. Also see Exhibit B-3, Appendix D-1, Opinion of EES Consulting, pp. 13-15.

66 BCPSO Submission, pp. 9-12.

67 Appendix D-3, Minimum System and Peak Load Carrying Capability Studies, p.5.

68 Appendix I-1, Schedule 7 shows use on an amalgamated basis. For Rate 1 (residential class) the annual TJ is 74,862 and the number of customers is 877,036.

69 Exhibit B-9, BCUC IR 1.134.1.

70 Exhibit B-9, BCUC 1.135.6.

variations. The only difference in the two methods is whether the cost to calculate the minimum value is set at the cost of a 2-inch pipe or set at the cost of a theoretical 0-inch pipe.

43. The BCPSO request that the FEU be directed to more fully consider the zero-intercept method in its next rate design application.[71] The FEU submit that no direction is necessary as it will consider the approach in future rate designs (as it has in this one). However, if the results of the zero-intercept approach continue to produce results that do not show a correlation between size of pipe and cost per unit,[72] then the FEU will likely continue to use its minimum system approach as it has done in the past.

7.2 Functionalization, Classification and Allocation of the Tilbury and Mt. Hayes Storage Function

44. BCPSO indicates that its understanding is that "essentially firm service at increasing volumes" is being provided to Rate Schedule 16 customers from the Tilbury facility and that in the future the Mt. Hayes storage facility may also provide LNG service.[73] BCPSO states that it is concerned about whether the costs allocated to non-bypass customers are reasonable and whether increasing use by Rate Schedule 16 customers may compromise the service to non-bypass customers. The FEU submit that the BCPSO's concerns can only be addressed within the FEU's recent Rate Schedule 16 Application.

45. Currently, Rate Schedule 16 is only approved on a *pilot* basis under which a *limited* amount of *interruptible* service can be provided to CNG/LNG customers from the Tilbury facility.[74] The FEU have recently submitted an application to the Commission seeking changes to Rate Schedule 16, including that it be approved on a permanent basis.[75] The FEU address the cost allocation between Rate Schedule 16 customers and non by-pass customers in that Application. It is efficient, reasonable and most

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[71] BCPSO Submission, p. 11.
[72] Exhibit B-9, BCUC IR 1.134.1.
[73] BCPSO Submission, p. 12.
[74] Exhibit B-9, BCUC IR 1.52.2.
[75] FEU referenced this Rate Schedule 16 Application in Exhibit B-9, BCUC IR 1.45.4.

appropriate that the Commission Panel considering the future of Rate Schedule 16 also consider the cost-allocation issues that flow from that.

7.3 Revenue-to-Cost Ratios ("R:C Ratios") and Rebalancing

46. While the CEC does not support the use of any range of reasonableness, suggesting that rates should be set at unity,[76] the CEC states that "arguments about range of reasonableness are tangential to the main thrust of the application and issues" and that it "will reserve its positions with respect to the appropriate range of reasonableness until [a] future regulatory proceeding."[77] The FEU agree that it is an issue that is more appropriately considered in a future rate design.

47. The FEU have stressed that there are inherent uncertainties in the COSA study results.[78] Since the COSA results are not precise, it is standard industry practice to use a range of reasonableness to determine at which point rate re-balancing is necessary, as determined by whether the Revenue to Cost ratios fall within or outside of the prescribed range. Section 11.4.7 of the FEU's Final Submission considers this topic further.

48. The CEC submit that use of range of reasonableness is illogical, unfair, and discriminatory.[79] Use of a range of reasonableness, however, is standard industry practice and has been used by this Commission in past rate design proceedings. As discussed in the FEU's Final Submission, paragraphs 299 to 301, while the Commission set rates to unity in the BC Hydro Rate Design Decision, it indicated it would continue to apply a range of reasonableness in the future. In the FortisBC Inc. 2009 Rate Design Application Decision, the Commission concluded that unity is the appropriate target when rebalancing, but that "rebalancing should only be required when a customer class falls outside of the range of reasonableness."[80] Since the results of the COSA are inherently uncertain, the range of reasonableness is appropriate. Given the level of accuracy of the COSA, R:C ratios within the range of reasonableness are at unity and

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76 CEC Submission, p. 11.

77 CEC Submission, pp. 20-21.

78 Exhibit B-3, pp. 217-220; Exhibit B-3-1, Appendix C-4, Opinion of EES Consulting, p, 29-30.

79 CEC Submission, p. 11.

80 FortisBC Inc. 2009 Rate Design Application Decision, dated October 19, 2010, p. 78 (Order G-156-10).

customers within the range are not paying more or less than their fair share of costs. The FEU submit that the CEC has not provided any evidence or argument which should change the standard practice of using a range of reasonableness or a +/- 10% range for natural gas utilities.

49. The CEC also states that FEI "failed" to report R:C ratios since 2001.[81] There have been no directions from the Commission to report R:C ratios, so the FEU have not "failed" to report them.

7.4 Fixed Rate

50. The CEC suggest that the fixed charge is too low and propose a "phased in increase in the basic charge to rise toward $0.50/day as one of the mitigation steps."[82] The CEC have not put forward evidence to support the position that the fixed charge is too low at this time. In fact, on a marginal or variable basis, the cost per customer per day is approximately $0.427 for FEI.[83] This is closer to the current basic charge of $0.389/day,[84] than the CEC's proposed 50 cents. The FEU also note that the CEC support "conservation rates aimed at reducing peak demands and thereby costs for the FEI Amalco customers."[85] Increasing the fixed charge, however, would reduce the volumetric charge and thus reduce the conservation signals sent to customers.

51. The FEU have discussed in section 11.6 of its Final Submission why it is not appropriate to change the fixed charge at this time. The CEC submit that it "will be prepared to deal with this issue as well in a comprehensive future rate design proceeding."[86] The FEU agree that this is more appropriately considered in a future rate design.

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[81] CEC Submission, p. 11.

[82] CEC Submission, p. 9.

[83] Exhibit B-15, BCUC IR 2.39.5. FEI Mainland Customer Related Cost ($/customer/year) of $156 divided by 365 =$0.427.

[84] Exhibit B-3, Application, p. 71.

[85] CEC Submission, p. 19.

[86] CEC Submission, p. 21.

7.5 Future Rate Design Proceeding

52. The CEC submits that the Commission should provide a specific time for the FEI Amalco application on rate design "and provide direction that the submission should be made on the basis of moving the RC ratios toward 1 and on the basis of providing conservation rates aimed at reducing peak demands and thereby costs for the FEI Amalco customers."[87] The FEU submit that a specific time for filing is unnecessary as the FEU have stated that, if amalgamation is approved, FEI Amalco will be preparing to file a rate design in the later part of 2016.[88] This time frame should provide time for customers of FEVI, FEW and FEFN to settle into the new rate schedules available to them and provide FEI Amalco with time to conduct the appropriate studies and prepare its rate design proposals and application. For the reasons discussed in section 7.3 above, the FEU do not agree that it should be directed to move R:C ratios toward 1. The FEU also submit that it would be premature and that there is no evidentiary basis for a direction for the FEU to provide "conservation rates" as referred to by the CEC.

8.0 REPLY TO SUBMISSIONS OF MR. ROBINSON

53. Mr. Robinson provides in his submission additional new evidence regarding his experience and expertise.[89] Mr. Robinson states in his argument that his "department had an integral role in the determination of revenue requirements". This is in line with what the FEU have stated – that although he may have some experience in revenue requirements circa mid-1980s, he does not have any qualifications in utility rate design. He goes on to state his role in supporting the allocation of expenditures to the external auditors. Any cost allocations that would be of concern to external auditors would not be the same kind of cost allocations that are involved in a rate design proceeding. His assertion that he is "a practitioner in the science of accounting for cost and rate determination based on costs" is not relevant when applied to the utility rate design process. It is also not clear how his experience in instructing Public Works personnel is relevant to rate design for a public utility. While this evidence should have been tendered

[87] CEC Submission, p. 19.

[88] Exhibit B-3, p. 221; Exhibit B-15, BCUC IR 2.58.1.

[89] Submission of Mr. Robinson, pp. 3-4.

during the evidentiary phase of the proceeding, the new evidence does not change the FEU's submissions regarding Mr. Robinson's expertise.

54. The FEU believe that the main focus of Mr. Robinson's submission is on the challenges faced by FEVI and whether the proposed postage stamp rates are fair. The FEU will respond to this focus below and rely on their Rebuttal Evidence and Final Submission in response to other matters raised by Mr. Robinson in his submission.

55. Amalgamation and postage stamp rates will provide a lasting solution to the challenges facing FEVI. The FEU have also strived to make clear, however, that they are acting in a proactive manner. The FEU have not waited until the risks facing FEVI materialize; that is, FEVI is not currently in a state of financial distress or uneconomic.[90] FEVI has a short-term mechanism in place, i.e. the RSDA, to manage the cost pressures it faces. While one objective of FEU's proposed amalgamation and postage stamp rates is to resolve FEVI's challenges, the FEU also believe that the postage stamp rates it is proposing represent sound ratemaking and are just and reasonable.

56. The FEU have explained the particular challenges faced by FEVI in its Application, which include the cessation of the royalty revenues pursuant to the Vancouver Island Natural Gas Pipeline Agreement ("VINGPA"). There is, however, no evidentiary basis for Mr. Robinson's assertions at page 5 of his submission that FEVI's "transmission infrastructure has probably been built in excess of what the foreseeable future demand requires" and that "future load growth as estimated has a real possibility of being overstated."[91] Mr. Robinson comments that the Vancouver Island system would not have been built if the present situation was envisioned, and that declining demand volumes were not anticipated back when the VINGPA was created, are incorrect and speculative. The workshop presentation referenced by Mr. Robinson shows that FEVI demand volumes are flat to increasing.[92] Whether or not the system would have been built if the future were known at the time is irrelevant. Further, demand volumes are impacted by

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[90] FEU Final Submission, paragraph 220.

[91] Exhibit B-15, Rebuttal Evidence of the FEU, pp. 8-11.

[92] Exhibit B-5, Slide 16.

many factors, such as increasing energy efficiency and government policy. There is no basis to attribute fault to FEVI for the trends in gas use in the Province.

57. It is perhaps Mr. Robinson's incorrect belief that FEVI is currently in an uneconomic state that leads him to contend that the ability of FEVI to earn a fair return "has been spoiled by the management of FortisBC Holdings Inc. not taking corrective action sooner."[93] There is again no basis for this proposition. FEVI has in fact been managing its risks prudently for the past decade. FEVI paid down the balance in the RDDA sooner than anticipated and built a positive balance in the RSDA to mitigate the impact of the loss of the royalty revenues. Since 1996 the rates for FEVI have been governed by the Vancouver Island Natural Gas Pipeline Act ("VINGPA") and VINGPA Special Direction. As key elements of this framework have come to an end, the FEU submit that it is now the appropriate time to amalgamate and postage stamp FEVI's rates with FEI.[94] FEVI has not waited until the risks it faces have actually materialized. The FEU submit that this Application is a timely one to address the challenges facing FEVI.

58. Mr. Robinson states that "Not approving this application, would provide an incentive for FortisBC Holdings Inc. to find ways to restructure/reengineer the business models for the two smaller utilities to earn a fair return on a stand-alone basis, and until then, the shareholder should forgo the same rate of return as they presently earn."[95] The smaller utilities do earn a fair return on a stand-alone basis today. If the Commission denies this Application, FEVI will indeed be forced to seek some other solution to the challenges it faces. However, as the case law shows, it is not a lawful solution to FEVI's challenges to simply disallow the shareholder's fair return on its investment or simply reduce the rate base of FEVI.[96] Regardless of the law, this would also raise the cost of capital and potentially deter any further investment in utility assets.[97]

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93 Submission of Mr. Robinson, p. 5.

94 Exhibit B-3, Application, p. 13 and 38-39.

95 Submission of Mr. Robinson, p. 6.

96 FEU Final Submission, paragraphs 218 and 219.

97 Exhibit B-18, Rebuttal Testimony of Ms. McShane, p. 3.

59. Mr. Robinson concludes that "the Shareholder should be the one to bear the consequences of the decision to buy the Vancouver Island utility, not customers."[98] Mr. Robinson, however, is incorrect to think that it is the shareholder alone who will bear the consequences. In the absence of postage stamp rates, FEVI's customers will face rate increases and, if FEVI were to fail, it is service to FEVI's customers that would suffer. If natural gas service were to fail altogether, customers would be left with fewer energy choices, wasted investments in natural gas equipment and other energy sources would have to be used to take its place that may have higher GHG emissions (e.g. heating oil) or that could lead to increases in electricity rates for all BC Hydro customers. Thus, the customers of FEVI also have an interest in the service provided by FEVI, as their support for this Application shows.[99]

60. Mr. Robinson argues at page 4 of his submission that the FEU's proposed postage stamp rates are an unfair subsidization of FEVI. While the FEU's proposal to amalgamate and implement postage stamp rates is, amongst other things, seeking to address the issues facing FEVI, the FEU submits that they have also demonstrated that the proposed postage stamp rates are just and reasonable in accordance with the *UCA* and are not an unfair subsidization. The FEU have explained how the postage stamp rates are supported by rate design principles and provide broader benefits in addition to lower rates for FEVI and FEW. In particular, in section 4.1 of its Final Submission, the FEU have addressed why its proposed postage stamp rates are fair in terms of the allocation of costs based on cost causation. In addition, postage stamp rates are generally supported by government policy and have been found to be an acceptable approach in other jurisdictions despite cost differences between pre-existing regions. Mr. Robinson has not addressed these submissions.

9.0 REPLY TO FORT NELSON CHAMBER OF COMMERCE

61. The Fort Nelson Chamber of Commerce objects to extending postage stamp rates to FEFN, but takes no position on the proposal to postage stamp rates amongst FEI

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[98] Submission of Mr. Robinson, p. 6.

[99] See, e.g., Exhibit C9-2, Intervenor Evidence of AVICC and, generally, "E" Exhibits, Letters of Comment from FEVI customers.

Mainland, FEVI and FEW.[100] The FEU submit that the extension of postage stamp rates is reasonable, but that the exclusion of Fort Nelson from postage stamp rates should not be a barrier to proceeding with amalgamation and implementation of postage stamp rates over all of the other service areas of the FEU.[101] In the following subsections, the FEU respond to the main themes of the Fort Nelson Chamber of Commerce's submission, but have not attempted to respond to every statement with which it disagrees.

9.1 Rationale for Application and Other Matters

62. The Fort Nelson Chamber of Commerce speculates about the rationale of the FEU's Application and states that the extension of postage stamp rates to FEFN should not be a "by product of issues with FEVI and FEW."[102] The objectives of the FEU's Application, have been clearly set out in the Application[103] and there is no difference in the rationale for the present Application compared to the withdrawn November 2011 Application. While one of the FEU's objectives is to seek a lasting solution to the challenges facing FEVI, the FEU have also put forward postage stamp rates based on sound ratemaking that it submits are just and reasonable. FEFN was included in the FEU's proposal because it is more consistent with the postage stamp rates in the Province and keeping it as a separate rate base would continue the existing rate discrepancies and leave FEFN vulnerable to rate instability.[104]

63. The Fort Nelson Chamber of Commerce refer to a recital of the Resale and Restriction Agreement and argue that this reflects an intention of the Resale Restriction Agreement to maintain the independence of the FEFN.[105] The recital referenced does not refer to FEFN alone, but to each of the four service areas.[106] The fact that FEI's predecessor proposed consolidation of the 4 service areas approximately 4 years after the Resale and

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[100] Fort Nelson Chamber of Commerce Submission, p. 3.

[101] Exhibit B-9, BCUC IR 1.2.3.

[102] Fort Nelson Chamber of Commerce Submission, pp. 8-12.

[103] Exhibit B-3, Application, p. 80.

[104] Exhibit B-3, Application, p. 103.

[105] Fort Nelson Chamber of Commerce Submission, p. 8.

[106] Exhibit B-9-1, Attachment 19.1: "Inland intends that the customers of each of the Company [BC Gas Inc.], Inland, Columbia and Fort Nelson will, after the Reorganization, continue to be charged separate natural gas rates".

Restriction Agreement was signed[107] is good evidence that the intention was not to maintain separate rates for each of the four service areas forever.

64. The Fort Nelson Chamber of Commerce refers to "continuing" attempts to roll-in FEFN rates.[108] In fact, this is the first time that the proposal has been presented in 20 years. Even 20 years ago, the proposal was deferred by the Commission and then withdrawn.[109] Therefore, this is the first time that the Commission will have fully considered a proposal to postage stamp FEFN rates with the rest of FEI.

9.2 FEFN is Similar to other FEI Communities

65. The Fort Nelson Chamber of Commerce submits that FEFN is different than the other service areas.[110] In the FEU's submission, the Fort Nelson Chamber of Commerce has overstated the level of difference between FEFN and FEI. There are in fact many similarities as listed below:

(a) Nature of the Rate Base
   (i) The same system design standards, codes and regulations.[111]
   (ii) The same main extension policies.[112]
   (iii) The same policy regarding ownership of services & connections.[113]
   (iv) Similar current meter and service costs.[114]

(b) Customer Makeup
   (i) Similar heat sensitive load characteristics and load factors of residential & commercial customers.[115]
   (ii) Primary residential end use consumption is for home and water heating.[116]

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[107] Exhibit A2-1.

[108] Fort Nelson Chamber of Commerce Submission, p. 12.

[109] Exhibits A2-1 and A2-2.

[110] Fort Nelson Chamber of Commerce Submission, section C, pp. 14 to 23.

[111] Exhibit B-3, Application, p. 206, minimum size standard for distribution systems.

[112] Exhibit B-3, Application, pp. 136 to 141, continuance of FEI/FEVI's Main Extension Test.

[113] Exhibit B-9, BCUC IRs 1.38.2 and 1.151.3, and Exhibit B- 8, BCOAPO 1.6.1, the same service line cost allowance.

[114] Exhibit B-9, BCUC IR 1.148.1, average meter and service cost per residential customer.

[115] Exhibit B-9, BCUC IRs 1.150.1 and 1.153.2, load factors for existing service areas.

[116] Exhibit B-9, BCUC IR 1.158.1, review of end use consumption by service area.

(iii) The timing of the peak demand is similar in each delivery area.[117]

(iv) Each service area has similar load duration curves.[118]

(v) Each service area has similar opportunities to reduce consumption.[119]

(c) Gas Supply Administration

(i) The same gas supply purchase market area.[120]

(ii) Gas supply procurement and implementation is managed by the same gas supply group as part of the overall portfolio.[121]

(d) Operational Characteristics

(i) The same operations and maintenance standards.[122]

(ii) Administration and billing costs are not significantly different.[123]

(iii) Same Tariff General Terms and Conditions.[124]

(iv) The same regulator.

(v) Operational & administrative management is from one single management group.[125]

(vi) The same customer service call centres in Prince George and Burnaby.[126]

(vii) The same labour unions and similar collective agreements.[127]

(e) Overall Cost Structures

(i) Similar cost of gas[128]

(ii) The same Cost of Capital as FEI Mainland, despite the small size of FEFN.[129]

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[117] Exhibit B-9, BCUC IR 1.150.2

[118] Exhibit B-15, BCUC IR 2.33.2.

[119] Exhibit B-15, BCUC !R 2.8.3

[120] Exhibit B-9, BCUC IR 1.46.1.1 and Exhibit B-7, CEC IR 1.4.3.

[121] Exhibit B-9, BCUC IR 1.47.1.

[122] Exhibit B-3, Application p. 217, and Exhibit B-9, BCUC IR 1.63.1.

[123] Exhibit B-9, BCUC IR 1.149.1.

[124] Exhibit B-3, Application pp. 134 – 136.

[125] Exhibit B-3, Application pp. 1, 51, 144, 154, and BCUC IR 1.2.1, 1.2.6, 1.4.2, 1.5.7, 1.17.3, 1.20.2, 1.149.1, 2.10.1, 2.11.2, and 2.12.1.

[126] Exhibit B-17, BCUC IR 1.13.1 (corrected).

[127] Exhibit B-3, Application pp. 1, 51, 144, 154, and Exhibit B-9, BCUC IR 1.2.1, 1.2.6, 1.4.2, 1.5.7, 1.17.3, 1.20.2, 1.149.1, and Exhibit B-15, 2.10.1, 2.11.2, and 2.12.1.

[128] Exhibit B-3, Application, p. 71, Table 4-6; Exhibit B-9, BCUC IR 1.17.1, and 2.36.1.

(iii) The same accounting methodologies.[130]

(iv) Similar overall delivery cost profiles in that operating and maintenance, depreciation and amortization and interest expense form the largest components of the delivery margin.[131]

66. Moreover, the Fort Nelson Chamber of Commerce's submission misses the point that comparing FEFN and FEI at a service area level is a flawed exercise. FEI consists of approximately 850,000 customers in over 100 communities across the Province. FEFN is approximately 2,400 customers in the communities of Fort Nelson and Prophet River.[132] The fact is that the average FEI Mainland statistics – being an average – will not reflect all of the communities within FEI. Rather, there will be a range of different communities with different costs to serve based on a number of factors.

67. The Fort Nelson Chamber of Commerce points out that FEFN enjoys the advantage of being located close to a reliable source of natural gas.[133] While FEFN is indeed close, this is a matter of degree rather than a stark contrast between FEFN and every other community served by the FEU. With communities located all along the Spectra system and TransCanada System, some communities served by the FEU are very close to supply and others are further away.[134] While FEFN may be very close, no other community served by FEI is accorded the differential rate treatment currently enjoyed by FEFN due to their relative closeness to supply.

68. The Fort Nelson Chamber of Commerce state that the most pronounced difference between FEFN and the other FEU service areas is "the complete lack of physical integration or interconnection of the FEFN facilities with those in the other service

[129] The Capital Structure and Return on Equity of the FEU are shown in Table 5.7-4 of the 2012-2013 RRA, reproduced in Appendix C-10 of the Application, Exhibit B-3-1.

[130] Exhibit B-9, BCUC IR 1.60.2.

[131] Exhibit B-3, Application, pp. 28-29.

[132] Exhibit B-3, Application, pp. 22 and 26-27. The communities served are also listed at the beginning of the GT&Cs.

[133] Fort Nelson Chamber of Commerce Submission, p. 15.

[134] Exhibit B-15, Attachment 1.4.

areas."[135] A look at the map of the communities served by the FEU shows that many communities are physically integrated only through connection to the Spectra or TransCanada system. FEFN is similar to other northern communities connected to the northern end of the Spectra system in particular.[136] The FEFN has also become operationally integrated with the rest of the FEU.[137]

69. The Fort Nelson Chamber of Commerce claim that the lack of physical integration of FEFN is a "show stopper."[138] This is not true. Revelstoke, being served by propane, is not physically integrated with the FEU's system although postage stamp delivery rates are applied.[139] The electrical system serving Fort Nelson is not physically integrated with the rest of the BC Hydro integrated system even though postage stamp electric rates are applied.[140] The FEU submit that the principles of ratemaking are not as cut and dry as the Fort Nelson Chamber of Commerce suggests. Physical integration is not a requirement for postage stamp rates.

70. The NEB case cited by the Fort Nelson Chamber of Commerce for the criteria for applying postage stamp tolls relates to oil pipeline tolls.[141] Oil pipelines present different market dynamics than local distribution companies such as the FEU. Notably, the large oil pipelines tend to have fewer, but larger and more sophisticated, customers that tend to be at the wholesale level. In contrast, the FEU serve hundreds of thousands of customers, most of whom are individual residential customers spread across the Province. The resulting difference in circumstances affects how rate design principles are applied and the relative importance of certain factors. Thus, while the relevant rate design principles are similar, the FEU submit that different circumstances of oil pipelines are such that the

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[135] Fort Nelson Chamber of Commerce Submission, p. 16.

[136] Exhibit B-15, Attachment 1.4.

[137] Exhibit B-15, BCUC IR 2.10.1 and 2.11.2.

[138] Fort Nelson Chamber of Commerce Submission, p. 23.

[139] Exhibit B-3, Application, p. 23.

[140] Commission Order G-75-09, Appendix A, page 4 of 28: "BC Hydro describes the Fort Nelson region as being unique on its system in that it is not directly connected to BC Hydro's integrated system, but rather is electrically connected to the Alberta Interconnected Electric System ("AIES") by a 144kV transmission line connecting Rainbow Lake in Alberta to Fort Nelson, and is part of the Alberta Electric System Operator ("AESO") control area."

[141] Fort Nelson Chamber of Commerce Submission, para. 139, citing NEB RH-2-91 Reasons for Decision.

referenced NEB tolling considerations cannot be applied directly to the natural gas distribution context.

71. The Fort Nelson Chamber of Commerce points to FEFN's colder northern location as a distinguishing feature.[142] FEFN, however, does not have a monopoly on cold weather in this Province. FEI also serves communities such as Mackenzie, Hudson's Hope, Chetwynd, Nelson, Creston, Cranbrook and Fernie, amongst others that experience cold winters. The severity of the weather does, of course, vary across the Inland, Columbia and Lower Mainland service areas.

72. The Fort Nelson Chamber of Commerce points to FEFN's higher normalized average use rate for residential customers compared to FEI (Mainland), FEVI and FEW averages.[143] First, the average use rate does not reflect the actual use rate for all communities within FEI Mainland. Second, use rates are also a function of the housing stock, insulation, efficiency of appliances and other efficiency measures.

73. The Fort Nelson Chamber of Commerce states that FEFN has different gas costs and delivery costs when comparing FEFN to FEI Mainland, FEVI and FEW. The FEU submit the following in reply:

(a) FEFN's gas cost of \$3.920 is virtually the same as the gas costs of FEI and FEW of \$3.997.[144] What the Fort Nelson Chamber of Commerce refers to as "gas costs" at paragraph 57 of its submission appears to be the total cost to serve per GJ, not the actual gas cost.[145]

(b) The lower delivery cost per customer referenced by the Fort Nelson Chamber of Commerce[146] reflects FEFN's older, more depreciated system costs,[147] which result in the lower delivery rate currently enjoyed by the FEFN.

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142 Fort Nelson Chamber of Commerce Submission, p. 17.
143 Fort Nelson Chamber of Commerce Submission, pp. 17-18.
144 Exhibit B-3, Application, p. 71, Table 4-6.
145 The Fort Nelson Chamber of Commerce provides no citation, but see Exhibit B-18, FEU Rebuttal Evidence, p. 16.
146 Fort Nelson Chamber of Commerce Submission, p. 20.

(c) The table showing the cost per service line for the different service areas referenced by the Fort Nelson Chamber of Commerce[148] exaggerates the differences in the areas. This is because the SLCA limits the amount that is included in rates to $1,535 so that all the areas are much more similar in terms of rate impact than what the table shows.[149]

(d) The O&M per customer figure quoted by the Fort Nelson Chamber of Commerce is 35% higher than FEI,[150] showing that some higher costs are offset by lower ones.

74. In sum, the Fort Nelson Chamber of Commerce has simply pointed out that FEFN currently has a lower delivery rate and midstream component compared to the other service areas. However, as the FEU have pointed out, each sub-region, community, neighbourhood and individual may have a unique cost to serve. Some costs to serve will be higher and some lower than the average. On the spectrum of costs to serve, FEFN may currently be on the low end, but this is a matter of degree. While cost differences are indeed an important factor that must be weighed and considered by the Commission, they are not the only factor.

75. The FEU submit that the differences referred to by the Fort Nelson Chamber of Commerce, including the degree of physical interconnection and costs, are not "show stoppers" and that they must be balanced with other relevant factors. The provision of natural gas and electricity to customers is a public utility service and is used for essential purposes such as home heating. There is a public interest in allowing all communities to access such services at reasonable and stable rates. If a gas distribution system happens to consist of a collection of small, non-integrated parts, this should not mean that each community must be consigned to unstable and uncertain rates due to factors such as lumpy capital investments, the loss of a key industrial customer, or a swing in the local economy. There is a common interest for all customers to pool costs and enjoy the

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147 Exhibit B-9, BCUC IR 1.147.3.

148 Fort Nelson Chamber of Commerce Submission, p. 21.

149 Exhibit B-9, BCUC IR 1.151.3.

150 Fort Nelson Chamber of Commerce Submission, p. 18.

resulting stability regardless of any lack of integration or difference in cost to serve. In the FEU's submission, the extension of postage stamp rates to FEFN would be the most consistent with this Commission's own balancing of factors when setting rates for other customers in this Province.

9.3 Rate Design Principles

76. The Fort Nelson Chamber of Commerce states that "the rate design falls out of the application of rate principles."[151] The FEU submit that rate design principles are not prescriptive enough such that the rate design just "falls out." Rather, they point the regulator to the relevant factors to be considered which must be weighed and balanced.

77. The FEU's seven rate design principles are consistent with the rate design principles that it has used in past rate designs and which EES Consulting has endorsed.[152] The principles have been articulated to capture the relevant ratemaking factors in a succinct way. The FEU's list of Bonbright principles is very similar to the Bonbright principles that the Commission has endorsed in its Reasons for Decision for Order G-45-11.[153] The FEU's principles cover all of the 10 attributes listed in the Bonbright text, although some attributes have been combined into single principles. For instance, the FEU has one stability principle rather than Bonbright's revenue stability and rate stability attributes. Bonbright's undue discrimination attribute is captured in the FEU's fairness principle, which also captures cost causation. The paragraph that introduces the various principles in Bonbright's text states:[154]

> The list that follows is fairly typical, although we have derived it from a variety of sources, instead of relying on any one presentation. Of the ten proposed attributes enumerated in this section, the first three relate to the provision of adequate stable and predictable revenues and rates; the next five are based on cost, efficiency and equity considerations, and the remaining two deal with matters of practicality and acceptability. However, the sequence in which the ten attributes are presented is not meant to

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[151] Fort Nelson Chamber of Commerce, p. 15.
[152] Exhibit B-3, Application, p. 189.
[153] Exhibit B-9, BCUC IR 1.16.1.
[154] FEU Book of Authorities, Tab 11, pp. 382-383.

> suggest any order of importance. Moreover, there is, perforce, some inconsistency and redundancy in any such listing. We are simply trying to identify the desirable characteristics of utility performance that regulators should seek to compel through edict.

78. As indicated above, Bonbright acknowledges that there is some inconsistency and redundancy in the list of attributes. The important point is that the relevant issues are considered. The FEU submit that their formulation of the rate design principles reasonably captures the issues involved in ratemaking.

79. Although admitting not to be rate design experts, the Fort Nelson Chamber of Commerce states that all ratemaking principles are not made equal and rely on Bonbright for its emphasis on cost causation as a primary attribute.[155] The FEU are unaware of and have been unable to find any ranking of the Bonbright principles by the Commission. In the FortisBC Residential Inclining Block Decision, the Commission refers to a "balance" of the principles.[156] In any case, the FEU have stated that cost causation is the foundation of ratemaking[157] and the FEU have addressed how its postage stamp rates address the cost-causation principle in section 4.1 of its Final Submission. However, the principle of cost causation must be balanced by all the principles involved.[158] That is, cost causation is not a trump card that bests any other relevant principle, factor or consideration. If it were, then each individual would have an individual rate tailored to the individual's cost to serve. Thus, while cost causation is important and must always be considered, it is not a principle which must be slavishly adhered to in ratemaking. As stated by the Commission in Letter No. L-24-04:[159]

> Allocating the total cost of service among the different ratepayers so as to avoid arbitrariness and cross-subsidization is important, but not the only factor to be considered when determining the reasonableness of rates. Other important factors include administrative simplicity, understandability and stability of rates.

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155 Fort Nelson Chamber of Commerce Submission, p. 31.
156 Decision dated January 13, 2012 at p. 49.
157 Exhibit B-9, BCUC IR 1.10.3.
158 Exhibit B-9, BCUC IR 1.10.3.
159 FEU Book of Authorities, Tab 1.

80. The Fort Nelson Chamber of Commerce suggests that the FEU have given too much prominence to other factors. The relative weight given to the different factors, in the FEU's submission, will be driven by the circumstances and particular facts of any given case. The FEU have given attention to the Bonbright principles that are engaged by the particular circumstances of the FEU and the particular impacts of the proposed change in rates. The particular circumstances of the FEU include: the fact that the vast majority of customers are effectively under postage stamp rates already; the smaller service areas with their own rates are vulnerable to rate instability; FEVI will be facing a significant rate increase in the near future; the numerous different rate structures of the FEU are complex and administratively inefficient. There are other circumstances, such as the policy environment, which the FEU have addressed. Ultimately, it is the Commission that has the discretion to weigh the competing principles and factors at play and determine what rate design is just and reasonable in the circumstances.

81. The Fort Nelson Chamber of Commerce lists 4 tolling criteria from the NEB.[160] As discussed above, the NEB tolling criteria are similar to those applied in the natural gas distribution context, but the NEB's treatment is influenced by the different market dynamics at play with respect to pipelines. The Fort Nelson Chamber of Commerce does not recognize these differences at all and appears to suggest that NEB tolling principles and commentary can be applied in a straightforward fashion to natural gas distribution utilities. This is not the case.

82. The FEU therefore submit that the ranking provided by the Fort Nelson Chamber of Commerce is not appropriate. In addition to the factors referenced above, the Fort Nelson Chamber of Commerce mix the Bonbright attributes, FEU's Bonbright principles and four NEB tolling principles together with no attempt to rationalize. For example, the "No Unjust Discrimination," "User-Pay or Cost Causation," and "Fairness" principles, for instance, all appear to be aimed at the same underlying issue and yet are treated three times as primary criterion.

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[160] Fort Nelson Chamber of Commerce Submission, p. 33.

83. The FEU responds to the Fort Nelson Chamber of Commerce's application of rate design principles to FEFN below.

9.3.1 No Unjust Discrimination/User-Pay or Cost Causation/Fairness

84. The principles of "No Unjust Discrimination"; "User-Pay or Cost Causation"; and "Fairness". There is no material difference between these principles as applied by the Fort Nelson Chamber of Commerce. The relevant issues are captured by the FEU's Fairness principle as addressed in section 4.1 of the FEU's Final Submission.

85. The Fort Nelson Chamber of Commerce state that the rates for FEFN as an existing separate service area do not reflect any cross-subsidization.[161] However, given the benefits of FEFN being part of a larger utility, including favourable gas supply arrangements and its lower cost of capital,[162] and the costs to FEFN which are based on allocations from FEI,[163] the FEU submit that some cross-subsidization may occur.

86. The Fort Nelson Chamber of Commerce proclaim several times and in different ways that "failure to impose lower charges for services rendered at markedly lower costs, is unjustly discriminatory."[164] In reply, the principle of cost causation is not so strictly adhered to in rate design and there is no such rule. Postage stamp rates are routinely applied over large service areas. Even within FEFN, which has postage stamp rates, some customers would be closer to the gas supply than others and have different costs to serve. In this Province, postage stamp rates have been applied across wide areas, as is the case with most other natural gas distribution utilities across Canada and the United States. In section 3.2 of their Final Submission, the FEU have provided examples of regulators from across Canada making the decision to postage stamp rates despite differences in regional costs to serve. One can also observe that within any region costs will not only differ amongst communities at a point in time, but over time the costs to serve each community will likely change as lumpy capital investment are made, customers shift and so on. Based on the Fort Nelson Chamber of Commerce's view of the world, each

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[161] Fort Nelson Chamber of Commerce Submission, para. 99.
[162] Exhibit B-3, Application, p. 36.
[163] Exhibit B-15, BCUC IR 2.3.5.
[164] Fort Nelson Chamber of Commerce Submission, p. 34.

community – or perhaps each neighbourhood - should have its own rate base that swings up and down according to its cost to serve. This has not been the favoured rate design for natural gas distribution utilities in Canada or the U.S.[165]

9.3.2 Practicality, Stability and Simplicity

87. The Fort Nelson Chamber of Commerce submit that there are no practicality or simplicity concerns with continuing as a separate service area.[166] However, the FEFN cost of service as a separate service area is maintained by cost allocations made by FEI to FEFN. These cost allocations are not as practical or simple as it would be if postage stamp rates were extended. In addition, rates are simpler and easier to administer if all customers have the same rate schedules and services.

88. The Fort Nelson Chamber of Commerce also does not see rate stability as a problem.[167] The FEU's evidence is, however, that the stability enjoyed by FEFN in the past will not continue unchanged. In particular, rate increases are likely to occur related to here are increasing capital expenditures, the possible further loss of industrial customers and a need for rate rebalancing.[168] These risks are not speculative. Capital increases are exemplified by the Muskwa River Crossing. Some loss of industrial customers has already been experienced. The need for rebalancing is evident from the R:C ratios. These factors have more significant impacts given FEFN's small customer base.

89. The Fort Nelson Chamber of Commerce, in reviewing the impact of the Muskwa River Crossing on its rates, stated "Fort Nelson is unable to reconcile this response, received on March 28, 2012, with the previously quoted information in the Application which was filed some two weeks later on April 11, 2012."[169] The FEU clarify that the rate impact of 13.7% included in the Application was the impact on the delivery rate only (not the total rate) and was calculated comparing 2013 rates to 2011 rates. In contrast, the rate impact

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[165] FEU Final Submission, section 3.1.

[166] Fort Nelson Chamber of Commerce Submission, p. 41.

[167] Fort Nelson Chamber of Commerce Submission, pp. 53-58.

[168] FEU Final Submission, section 6.3.1.

[169] Fort Nelson Chamber of Commerce Submission, p. 56.

of 5.9% in the email response was the impact on the total bundled rate (in other words including the cost of gas), and was calculated comparing 2014 rates to 2011 rates.

9.3.3 Customer Impact

90. The Fort Nelson Chamber of Commerce recites the case of *TransCanada PipeLines Limited v. National Energy Board et al.* [2004] F.C.A. 149 and suggests that customer impacts may not be relevant for purposes of setting just and reasonable rates.[170] The FEU submit that the Fort Nelson Chamber of Commerce has misinterpreted the *TransCanada* case. As quoted by the Fort Nelson Chamber of Commerce, the case indicates that customer impacts are not relevant to setting the cost of capital. The FEU agree that the impact on customers or affordability is not a relevant issue when setting rates in the sense of allowing the utility to recover its costs, including a fair rate of return. However, when looking at the COSA and rate design amongst various customer groups, the level of the rate increases is nearly always a consideration in setting the appropriate rate levels through rebalancing of the classes relative to the range of reasonableness. The rate impact to customers, whether or not it constitutes rate shock, is a relevant consideration when looking at rate changes as between various customer classes.[171] The FEU's proposal to amalgamate and implement postage stamp rates, however, is not about limiting the revenue requirement or cost of capital of the FEU due to customer impacts. Rather, it is a rate design issue that involves rate changes amongst various customer classes and regions where it is appropriate to consider customer impacts. The Commission has considered customer impacts in previous rate design decisions. In the FortisBC Inc. Residential Inclining Block Rate Decision, dated January 13, 2012, the Commission found (at p. 33) that customer impact was an "important criterion."

[170] Fort Nelson Chamber of Commerce Submission, pp. 27-28.
[171] Exhibit B-9, BCUC IR 1.90.1.

9.3.4 Competitiveness

91. Increased rates in FEFN due to postage stamping would decrease the competitiveness of gas in FEFN all else equal. However, there are other factors that effect competitiveness and under postage stamp rates FEFN rates will remain competitive.[172]

9.4 Stakeholder Engagement

92. The FEU submit that the Fort Nelson Chamber of Commerce's submissions regarding the FEU's stakeholder engagement do not fairly represent the FEU's consultation process and should be rejected.

9.4.1 Fort Nelson Chamber of Commerce Involvement

93. The suggestion from the Fort Nelson Chamber of Commerce that it did not ask information requests or file expert evidence because of the FEU's consultation process is without merit. [173] The Fort Nelson Chamber of Commerce was in fact notified about the Application and the potential impacts on FEFN at an early stage and had the opportunity to ask questions and provide feedback.

94. The Fort Nelson Chamber of Commerce was sent a letter providing notice of and information on the FEU's Application in November 2011.[174] On November 16, 2011, Ms. Vandersteen sent an email to the FEU making inquiries about the Application and its impact to Fort Nelson. In December 2011, FEU staff responded, providing the requested information, including tables showing rate impacts, attaching sections of the Application describing the rate increases to Fort Nelson, and inviting Ms. Vandersteen to continue contact and provide further feedback.[175] Subsequently, Ms. Vandersteen had other email correspondence with FEU staff regarding the Application.[176]

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[172] Exhibit B-9, BCUC IR 1.81.2, 1.84.1 and 1.84.2.

[173] Fort Nelson Chamber of Commerce Submission, p. 70.

[174] Exhibit B-9, Attachment 107.1.

[175] Exhibit C2-3, Fort Nelson Chamber of Commerce Intervenor Evidence, Attachment C. Also, Exhibit B-9-1, Attachment 107.2, under the electronic bookmark "Ft Nelson Chamber".

[176] Exhibit C2-3, Fort Nelson Chamber of Commerce Intervenor Evidence, Attachments A and B.

95. The Fort Nelson Chamber of Commerce attended the open house in Fort Nelson,[177] where it had the opportunity to meet face to face with FEU staff, learn more about the proposal, ask questions and provide further feedback to the FEU. The Fort Nelson Chamber of Commerce intervened in the proceeding and filed two letters with the Commission in March 2012.[178] These letters indicate again that the Fort Nelson Chamber of Commerce was fully aware of the proposal, including rate impacts, well before the Application was filed in April 2012.

96. The FEU therefore categorically reject the suggestion that its consultation process has had any bearing on the scope of the Fort Nelson Chamber of Commerce's participation in this proceeding. To the contrary, the evidence is clear that Fort Nelson Chamber of Commerce was engaged early by the FEU and had every opportunity to communicate with the FEU regarding the details of its Application and its impact on Fort Nelson.

9.4.2 Objectives of the Stakeholder Engagement Plan

97. As set out in the Application, the objectives of the FEU's stakeholder engagement plan were to:

1. Inform stakeholders of the filing;
2. Provide information about the impact and benefits of common rates and amalgamation;
3. Communicate the proposed rate changes for the Amalgamated Entity; and
4. Provide opportunities for stakeholders to provide feedback which can then be considered and inform the Application prior to filing.

98. In the FEU's submission, these are appropriate objectives for a stakeholder engagement program and the FEU has succeeded in these objectives.

9.4.3 Timing of Consultation

99. The Fort Nelson Chamber of Commerce states that the FEU left consultation until the "post application" stage and states that the "Vision Critical customer surveys…were

[177] Exhibit C2-3, Fort Nelson Chamber of Commerce Intervenor Evidence, p. 4.
[178] Exhibit C2-1, C2-2 and C2-2-1.

conducted after filing the Application."[179] The Fort Nelson Chamber of Commerce incorrectly refers to the FEU's November 2011 Application as "the Application". The regulatory process established for the November 2011 Application was deferred[180] and the FEU formally withdrew the November 2011 Application.[181] The FEU filed a new Application in April 2012 in response to requests from Commission staff for further information, including further consultation. The Commission initiated a new regulatory procedure in response to the Application.[182] Section 10 of the FEU's Application includes a description of the stakeholder engagement process it undertook prior to filing.

100. The Fort Nelson Chamber of Commerce suggests the FEU should have reached out to Fort Nelson early, but did not.[183] In fact, the FEU identified the NRRM as a key stakeholder and did engage it in consultation early, with meetings held with the NRRM, including the Mayor and staff, in August and September of 2011.[184] The Application states: "Due to the impact that common rates will have on Fort Nelson and the complexity of some special customer contracts, three key stakeholders - Fort Nelson, BC Hydro and the VIGJV – were identified as stakeholders requiring additional consultation."[185]

101. The Fort Nelson Chamber of Commerce speculates that the FEU met with FEVI representatives earlier in March and May of 2011 because of a desire to deal with the problems of FEVI rather than FEFN.[186] The FEU submit there is no evidence or reason to believe that the timing of any meetings in any way undermined the FEU's consultation efforts or had any impact on this proceeding whatsoever.

[179] Fort Nelson Chamber of Commerce Submission, pp. 59 and 63.
[180] Exhibit A-2, Commission Letter Dated December 19, 2011.
[181] Exhibit B-3, Cover Letter.
[182] Exhibit A-3, Commission Order G-46-12.
[183] Fort Nelson Chamber of Commerce Submission, p. 65.
[184] Exhibit B-3, Application, p. 226.
[185] Exhibit B-3, Application, p. 225.
[186] Fort Nelson Chamber of Commerce Submission, p. 65.

9.4.4 Scope of Consultation

102. The Fort Nelson Chamber of Commerce makes the claim that "FortisBC undertook no engagement with respect to the core issue of moving to common rates or a common cost pool for FEFN."[187] Although purporting to be basing its views on a "fair review of the record," the Fort Nelson Chamber of Commerce selectively quotes from the Application and ignores almost all of the FEU's consultation efforts as described in section 10 of the Application. The sole basis for the Fort Nelson Chamber of Commerce's claim appears to be its view that the scope of the FEU's engagement with the NRRM was limited to phase-in options. The FEU's engagement with the NRRM was summarized in the section 10 of the Application.[188] As stated there: "Topics of discussion during the two meetings included the rationale behind the FEU's request, impact and benefits of amalgamation, and potential common rate implementation options." The FEU did discuss the core common rates proposal with the NRRM. As stated in section 10 of the Application, the FEU developed the alternative phase-in approaches at the request of the Mayor. These rate options were then presented in a subsequent meeting as shown in Appendix E-3 to the Application.

103. Furthermore, the FEU sought input and feedback on its core proposals through a variety of other means, including information sessions.[189] The feedback from Fort Nelson attendees of the open house, as summarized in the Application and as shown in their feedback forms, does not relate to phase-in options at all and is representative of the primary claims made by the Fort Nelson Chamber of Commerce in its submission.[190] The FEU also sent letters to various groups, including the Fort Nelson Chamber of Commerce, and engaged with the MLA for the area.[191] Feedback was also sought through the quantitative survey. The FEU sought to engage customer awareness through a variety of other means, including newspaper ads, radio, social media and its website.

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[187] Fort Nelson Chamber of Commerce Submission, p. 60.
[188] Exhibit B-3, Application, p. 226.
[189] Exhibit B-3-1, Application, Appendices E-10 and E-12.
[190] Exhibit B-3, Application, p. 237; Exhibit B-3-1, Application, Appendix E-11.
[191] Exhibit B-3-1, Appendix E-1.

9.4.5 Weighting of Customer Surveys was Appropriate

104. The Fort Nelson Chamber of Commerce complains about the customer weighting of Vision Critical's quantitative survey.[192] As explained in the Application,[193] the weighting was only used when looking at total results to estimate results representative of the entire FEU service area, which is entirely appropriate for that purpose. Weighting is not relevant to results within each service area. The Application reports on the results of the quantitative survey from Fort Nelson customers as follows: "Fort Nelson participants on the other hand, strongly opposed common rates, with only 19% of participants being somewhat supportive."[194] The FEU therefore submit that the quantitative survey was appropriately conducted and the weighting has had no impact on the consultation with FEFN.

9.4.6 Survey Questions were Reasonable and Appropriate

105. The FEU's surveys were designed and conducted by a leading third party research vendor, Vision Critical. The Fort Nelson Chamber of Commerce contends that Question 6 of the survey is "leading" and "could have influenced the results of the engagement process."[195] The FEU submit that this claim is baseless. Question 6 of the survey asked customers: "How much do you support or oppose the idea of paying the same rates for the following service, regardless of where you live?"[196] This is simply not a leading question.[197] The Canadian Oxford Dictionary (1998) defines "leading question" as follows: "a question that prompts the answer wanted." Question 6 asks if the customer supports or opposes the idea and does not suggest the proper or desired answer. Further, customers were given a range of options in response, including "neither support nor oppose".

106. Question 11 of the survey then asks the following question:[198]

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[192] Fort Nelson Chamber of Commerce Submission, p. 70.
[193] Exhibit B-3, Application, p. 233. Also see Exhibit B-9, BCUC IR 1.104.3.
[194] Exhibit B-3, Application, p. 237.
[195] Fort Nelson Chamber of Commerce Submission, p. 71-72
[196] Exhibit B-9-1, Attachment 104.1, p. 3.
[197] See Exhibit B-15, BCUC IR 2.44.3 for further discussion of the question.
[198] Exhibit B-9-1, Attachment 104.1, p. 6.

As we mentioned before, if the Common Rates application is approved, each customer in a given customer class will be charged the same rate for natural gas, regardless of where they live.

To give you more details, here are the approximate rate impact details per region.

Approximate impact of common rates on total annual bills for residential customers

Region	Total average change in rates*	Total change realized by year
Lower Mainland	4.5% increase	2015
Inland	4.3% increase	2015
Columbia	4.4% increase	2015
Fort Nelson	47.6% increase	2028
Vancouver Island	26.5% decrease	2013
Whistler	37.8% decrease	2013

**Percentage changes demonstrate impact of common rates on the proposed 2013 Revenue Requirement rates, based on gas costs held constant and average consumption by region.*

Given this information, how much do you support this Common Rates application?

107. Question 11 lays out the approximate rate impacts and customers were free to respond to the question as they saw fit. The Fort Nelson Chamber of Commerce offers no explanation or logical reasoning, let alone expert evidence, to support its theory that customers can be swayed to support common rates merely by the ordering of questions.

9.4.7 Bill Impacts were Communicated

108. The Fort Nelson Chamber of Commerce take issue with the fact that rate increases to Fort Nelson were not communicated in some initial communications.[199] As described in paragraph 311 of the FEU's Final Submission, however, rate impacts were in fact communicated in a variety of ways to FEFN, including through consultation with the NRRM, the information sessions, the FEU's website and the survey. In addition to the various forms of communication undertaken prior to filing, including newspaper ads, radio, social media, newsletters, surveys, etc., the FEU sent a bill insert to all of its customers as ordered by the Commission which described the bill impacts to all the service areas from its proposal. All customers were given five months to file comments or register as intervenors in this proceeding and many customers have taken the opportunity to do so. The FEU therefore submit that there can be no question that adequate notice has been provided to all stakeholders, and that all stakeholders have had the opportunity to provide comments and participate in the Commission's process.

[199] Fort Nelson Chamber of Commerce Submission, p. 65.

9.4.8 Conclusion on Stakeholder Engagement

109. The FEU conducted a comprehensive and broad-based stakeholder engagement program for this Application, which used a variety of mediums to communicate and consult with close to 1 million customers. The FEU submit that it has shown that its stakeholder engagement has been appropriate and that all customers have been provided adequate notice of the Application and opportunity to participate.

10.0 CONCLUSION

110. The FEU submit that the Commission should approve the FEU's Application as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: October 12, 2012

[original signed by Christopher Bystrom]
Christopher Bystrom
Fasken Martineau DuMoulin LLP
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