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September 11, 2013

Via Email
Original via Mail

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Utilities (FEU)[1]

Applications for Reconsideration and Variance of Commission Order G-26-13 Common Rates, Amalgamation, and Rate Design Decision (the Reconsideration Applications) - Phase Two

Response to the British Columbia Utilities Commission (BCUC or the Commission) Information Request (IR) No. 2

In accordance with Commission Letter L-46-13 setting out the Amended Regulatory Timetable for the proceeding, the FEU respectfully submit the attached response to BCUC IR No. 2.

If further information is required, please contact the undersigned.

Sincerely,

on behalf of the FORTISBC ENERGY UTILITIES

Original signed:

Diane Roy

Attachments
cc (e-mail only):   Registered Parties

[1] Consisting of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.

1.0 Reference: Exhibit C1-3, BCUC IR 1.8.1;

Evidence Regarding Criteria for Accommodating Customers Below Threshold

CEC states: "In the case of an amalgamation decision being in the public interest and a decision to have the postage stamp rate setting as the fundamental context for rate setting for the amalgamated utility, a rate rider concept could be used in each of the FEVI and FEW cases to transition from the their independent utility rates to common rates. A transition rate rider could contain essentially formulaic steps from the regional independent utility rates toward the common rates over time."

1.1 Does FEU share CEC's view on this matter? Please explain your response.

<u>Response:</u>

This answer responds to BCUC IRs 2.1.1, 2.1.2, 2.1.3, 2.1.4 and 2.1.5.

The FEU continue to believe that it would be preferable for FEVI and FEW to move immediately to postage stamp rates for the reasons described in the response to BCUC IR 2.57.2.1 in the original proceeding. In the alternative, the transition rate rider approach that was described in the FEU's response to BCUC IR 2.57.2.2 in the original proceeding could be implemented.

The following is an excerpt from that BCUC IR 2.57.2.2 which explains the proposed transition to common rates:

"For the purposes of responding to this IR, the FEU believe that either a 3 year or a 5 year phase-in are appropriate implementation plans for FEVI and FEW customers upon approval of postage stamp rates.

FEU have expanded their Residential phase-in analysis from that shown in the response to BCUC IR 1.24.2 to include all rate schedules. This expansion results in a uniform transition to common rates for all customers, over both the three and five year periods. The FEU have calculated this phase-in approach on a total deficiency or surplus basis and then translated this to a delivery rate rider for each region. The FEU believe that it is appropriate to calculate the phase-in amount in this manner, rather than limiting the annual bill impacts to a certain percentage each year, because it reflects the revenue changes that are forecast upon transition to common rates, provides for a method of fairly allocating the transition amongst all customers, and takes away the potential for differences in the phase-in of the annual bill due to commodity fluctuations. As the delivery rate already reflects the common rate, this rider amount would be a credit on the bill for FEI customers (i.e. to reduce the bill) and a charge to FEVI and FEW customers (i.e. to increase the bill). The three year phase-in approach passes on one fourth of the *impact in the beginning year so that rates are phased-in over three years, achieving common rates at the start of the fourth year. Similarly, the five year phase-in approach passes on one sixth of the impact in the beginning year so that rates are phased-in over a five year period, achieving common rates at the start of the sixth year."*

The total deficiency or surplus balance referred to above is the difference between the existing and the amalgamated delivery rates for both FEVI and FEW. The amount calculated is then allocated by rate class based on its proportion of the total margin deficiency in the amalgamated entity. The amount for the rate class is then divided by the total volumes in the rate class to determine a rate rider amount. In addition, each year an equal and offsetting amount of this margin deficiency is allocated to FEI customers via a credit rider.

Essentially, by implementing amalgamated base delivery rates combined with a rate rider to phase in the impact over a fixed period of time, all entities will be gradually transitioned to amalgamated rates.

The FEU continue to believe that, in this scenario the RSDA balance should be provided to FEI customers as an additional credit rate rider in order to mitigate their rate impacts associated with Amalgamation.

The FEU believe that either a 3 or 5 year phase-in approach is a reasonable phase-in period. A 3 year phase-in could be implemented effective January 2015 and the last year would coincide with the end of FEI's proposed PBR period (2018) and, therefore, is preferable to the 5 year phase-in period. This also aligns with the FEU's proposal for the 3 year implementation of the RSDA rate rider to customers of the former FEI service territory. However, the FEU remain open to the 5 year phase-in option although any period longer than that would unreasonably delay the full realization of postage stamp rates.

In addition to the length of the phase-in period, the FEU believe that the approach to transition to common rates should remain consistent for both FEVI and FEW as discussed in the FEU's response to BCUC IR 1.89.2 in the original proceeding. However, please also see the FEU's response to BCUC IR 2.2.4 in this proceeding in which the FEU have described alternative approaches that could be taken.

The FEU note that the tables provided in response to BCUC IR 2.57.2.2 are for illustrative purposes only. The actual rate rider amounts and details of how they would be calculated cannot be determined until closer to January 1, 2015, once 2014 rates and projected RSDA balances are known. As a practical matter, the FEU recommend that the rate rider would be determined as part of FEI's 2014 Annual Review for the setting of 2015 delivery rates (assuming that a PBR is implemented for FEI).

1.2 If such a mechanism was to be adopted, please describe how it might be implemented. Specifically, provide detailed information about how the base (e.g. based on the revenue differential between regional and postage stamp rates for a specified time period) for such a transition rate rider might be determined in each of the FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) cases.

Response:

Please refer to the response to BCUC IR 2.1.1 above.

1.3 In the opinion of the FEU, what would constitute a practical specific timeframe (e.g. 5 years) to accommodate the transition to common rates through the use of a transition rate rider. Please discuss.

Response:

Please refer to the response to BCUC IR 2.1.1 above.

1.4 For all of the specific subject matter referred to in the preceding questions should the application thereof be the same or different for each of the FEVI and FEW cases? Please discuss.

Response:

Please refer to the response to BCUC IR 2.1.1 above.

1.5 If applied, How should the revenues collected from such a transition rate rider for each of the FEVI and FEW cases be treated in an amalgamated utility? For example, could one alternative take the form of a “credit transition rider” applied, for a specified time, to the utility bills for customers of the former FEI regional independent utility? Please discuss.

Response:

Please refer to the response to BCUC IR 2.1.1 above.

2.0 Reference: Exhibit C1-3, BCUC IR 1. 8.2

Evidence Regarding Criteria for Accommodating Customers Below Threshold

CEC states: "Yes, the RSDA balances is one of the public interest issues involved with FEVI and would appropriately be part of the Commission assessment of a balance of the public interests and could then be rolled into a single formulaic transition implementation in a rate rider."

2.1 Does FEU share CEC's view on this matter? Please explain your response.

Response:

The FEU shares CEC's view that the RSDA balance could be rolled into a transition implementation rate rider; and in fact this has always been the FEU's proposal for the transition of FEI customers. The FEU have proposed that FEVI and FEW would adopt amalgamated rates effective January 1, 2015, and that the RSDA would be used to transition existing FEI customers to amalgamated rates over a three-year period, being fully transitioned by 2018. The FEU believe this treatment provides existing FEI customers with a smoother transition to common rates. In this respect, the statement by CEC is supportive of the FEU's position on this matter.

2.2 If this approach was to be used, please provide detailed information regarding the process and specific steps that would be involved in rolling the Rate Stabilization Deferral Account (RSDA) balances into a single formulaic transition implementation in a rate rider.

Response:

The approach as recommended by the CEC involves a transition to amalgamated rates via a phase-in rider, although the FEU are not aware of how CEC envisions this occurring. The FEU's approach to implementing a phase-in rider is described in response to BCUC IR 2.1.1. Also, the FEU have recommended in both the original proceeding and the reconsideration proceeding that the RSDA balance be allocated to FEI customers via an RSDA credit rider. These two amounts, although currently separate riders, could be "rolled in" to a single formulaic transition rider as described below.

The transition phase-in rider as described in BCUC IR 2.1.1 is based upon transitioning existing FEVI and FEW customers to amalgamated rates over a fixed period of time. Each customer in the amalgamated entity would start from the same amalgamated base rate. However, by phasing in the difference between the amalgamated and stand alone FEVI and FEW rates via a debit rate rider, an annual surplus is collected from those customers. This annual surplus revenue could be added to the existing RSDA balance. Then, the total amount in the RSDA account (the original balance plus the credits collected from former FEVI and FEW customers) could be translated to a single formulaic credit rider to be allocated to existing FEI customers over the same period of time as the phase in rider. In all cases, this single rider could be called the “amalgamation transition” rider. In this way, there would be a gradual transition to the same amalgamated rates.

2.3 Does FEU believe that the above referenced “rolling in” involving RSDA balances affect the formulaic steps referred to in the CEC’s response to BCUC IR 1.8.1? If yes, please explain. If not, why not?

Response:

The “rolling in” methodology described in the response to BCUC IR 2.2.2 does not affect the formulaic steps referred to in CEC’s response to BCUC IR 1.8.1, but rather is implemented in conjunction with that approach. The “rolling in” methodology is described in the response to BCUC IR 2.2.2.

2.4 If the above approach was applied, should the above referenced “rolling in” involving RSDA balances apply to a single formulaic transition implementation in a rate rider for FEVI exclusively, or should the application also extend to FEW? In other words, should the RSDA balances be in effect, “shared”, or attributed only for the benefit of FEVI’s transition? Please discuss.

Response:

Based on how the FEU envision a transition to common rates under a single formulaic phase-in rider would occur, as set out in the response to BCUC IR 2.2.2, the RSDA balance would be used to transition the existing FEI customers to common rates in addition to surplus revenues from debit rate riders applied to the former FEVI and FEW customers. As discussed in the response to BCUC IR 1.89.2 in the original proceeding, the FEU’s position is that it is not necessary to require FEW to make a contribution to the transition to common rates similar to FEVI's RSDA balance.

If the Commission were to determine that a different treatment for FEVI and FEW customers was warranted, and since it is not practical to allocate the RSDA balance only to FEVI customers due to the resulting rate impacts, the Commission could consider alternatives that reflect a different approach for FEW, such as:

1. Move immediately to amalgamated rates for FEVI customers but phase in the amalgamated rates for FEW customers only; or
2. Require an "RSDA comparable" contribution from FEW customers (for example, the RSDA balance is forecast at approximately 50% of FEVI's annual revenue requirement; an equivalent contribution from FEW would be approximately $6 million) to be collected from FEW customers through a debit rider and allocated to FEI customers via a credit rate rider.

3.0 Reference: Other

Exhibit A2-2

In the August 21, 2012, FEU Application for Approval of Rate Treatment of Expenditures under the Greenhouse Gas Reductions (Clean Energy) Regulation, and Prudency Review of Incentives under the 2010 – 2011 Commercial NGV Demonstration Program, section 5.2.3, p. 19, FEU indicated the following:

> "Other significant benefits to non-bypass customers include a reduction in GHG emissions and air contaminants. GHG emissions from the transportation sector largely originate in the Lower Mainland and nearby regions, thus the cost recovery of Prescribed Undertaking 1 from non-bypass natural gas customers (within FEI) is reasonable. FEI's service territory includes the Lower Mainland and represents approximately 850,000 customers."

3.1 Please confirm that if amalgamation was approved, FEU would now propose to recover these costs from all ratepayers, not just FEI's ratepayers.

Response:

Confirmed.

3.2 Please explain why it is now appropriate to shift cost recovery to non-FEI ratepayers give the comments made above?

Response:

The FEU indicated in their August 2012 Application that "GHG emissions from the transportation sector largely originate in the Lower Mainland <u>and nearby regions</u>" [Emphasis added]. The FEU consider Vancouver Island and Whistler to be nearby regions. Pursuant to Order G-44-13, FEVI has also been afforded the same regulatory treatment as FEI for the recovery of Prescribed Undertaking 1 costs. If amalgamation were approved, the FEU would propose that incentives granted to FEVI NGT customers would be recovered from all customers as well. The FEU believe that it is appropriate to recover all Prescribed Undertaking 1 costs from all customers under amalgamation.

3.3 Would it still be most appropriate to recover these costs from FEI ratepayers? Please explain.

Response:

Please refer to the response to BCUC IR 2.3.2 above.