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October 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)<sup>1</sup>**

**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) Panel Information Request (IR) No. 1**

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In accordance with Commission Order L-58-13 setting out the Amended Regulatory Timetable for the proceeding, the FEU respectfully submit the attached response to BCUC Panel IR No. 1.

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

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<sup>1</sup> Consisting of FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.

FortisBC Energy Utilities (FEU or the Company) Application for Reconsideration and Variance of Commission Order G-26-13 Common Rates, Amalgamation, and Rate Design Application Phase 2 (the Application)	Submission Date: October 11, 2013
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1   **1.0   Reference:   Exhibit B-2, BCUC IR 1.11.14, item 5(a)**

2                           **Fairness and Avoidance of Undue Discrimination**

3           The FortisBC Energy Utilities (FEU) state: “...[t]he number of low consumption  
4           customers in FEVI, compared to FEI, should have been a factor in favour of postage  
5           stamp rates because postage stamp rates would provide more flexibility in addressing  
6           the issue and would allow all low-consumption customers in the FEU’s service areas to  
7           be treated the same.”

8           1.1    Please explain what is meant by “flexibility” in the above quote.

9

10   **Response:**

11   The FEU include below the full text from their Reconsideration Application paragraph 98 which  
12   explains what the FEU mean by “flexibility” in the above quote:

13                   *“Moreover, a postage stamp rate offers more flexibility. The proposed postage stamp*  
14                   *rates would lower delivery rates in the FEVI and FEW service territories, and therefore*  
15                   *could allow for a higher basic charge or other more suitable rate restructuring*  
16                   *alternatives without discouraging new customers or encouraging existing customer to*  
17                   *switch fuels. In the absence of postage stamp rates over all the FEU regions, the higher*  
18                   *basic charge would have the impact of raising the already high rates for low-*  
19                   *consumption FEVI and FEW customers, encouraging them to switch to other energy*  
20                   *sources such as electricity for which rates are postage stamped. This could lead to*  
21                   *inefficient energy choices and further exacerbate the challenges facing FEVI and FEW*  
22                   *as load would be reduced, further increasing rates, and so on.”*

23

24   In this context, the ability to adjust the rate structure of FEVI is limited due to competitive  
25   pressures such that higher basic charges, as an example, could have adverse impacts as  
26   described above. With postage stamping, and the greater differential to alternative forms of  
27   energy, there is more ability to change rate structures.

28   In addition, rate design in the context of an amalgamated entity with postage stamp rates allows  
29   for more flexibility since there are more customers that have common characteristics, and rates  
30   may be designed to accommodate those unique characteristics on a larger scale. Postage  
31   stamping allows the utility the scope of size to treat like customers the same regardless of  
32   location. For example, it may not be cost-effective to design and administer a new customer  
33   class for a small number of customers in FEVI or FEW, but may be cost-effective for all similar  
34   customers across the amalgamated entity.

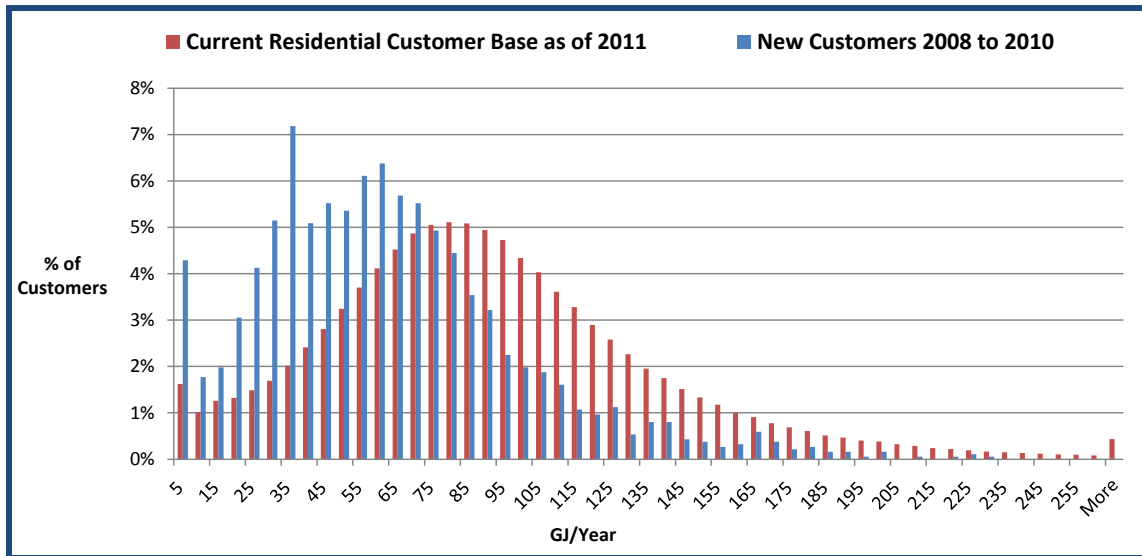
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1 The first step in achieving this flexibility for the FEU is through approval of amalgamation and  
 2 the adoption of postage stamp rates, which is the issue under consideration in this Application.  
 3 The second and later step will be a rate design that would occur in the context of the  
 4 amalgamated entity with postage stamp rates, and that can consider unique characteristics of  
 5 specific customer class segments, such as low consumption customers. At that time, the  
 6 amalgamated entity would be able to assess whether there is an issue that needs to be  
 7 addressed through rate design.

8 The existence of low consumption customers is not unique to Vancouver Island. In fact, as the  
 9 FEU have indicated previously, there are more low consumption customers in FEI than on  
 10 Vancouver Island. The figure below, which has been provided as evidence in Stage 1 of the  
 11 Generic Cost of Capital Proceeding (Exhibit B1-9-6 Appendix H), demonstrates clearly that low  
 12 consumption is not specific to a region. The figure shows that, although the average  
 13 consumption of FEI's existing customer base is approximately 90 GJs, the consumption of FEI's  
 14 new customers is much closer to that of FEVI's existing customer base.

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**Figure 1: FEI's Residential Frequency Distribution**



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19 The FEU stress that there is insufficient evidence and analysis in this proceeding to conclude  
 20 that there is any issue with low consumption customers, much less what any rate design  
 21 solution might look like. As the FEU indicated in the IR responses in the original proceeding  
 22 (BCUC IR 2.39 series), the necessary study and analysis has not been done to date. Such  
 23 analysis would instead need to be done and considered in a future rate design proceeding, at  
 24 which time the Commission would have the necessary evidence before it to make a  
 25 determination on such matters.



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1.1.1 Please explain why postage stamp rates provide more flexibility in addressing the issue of the number of low consumption customers in FortisBC Energy (Vancouver Island) Inc. (FEVI).

**Response:**

8 Although the IR response that is quoted in the preamble used the word “issue”, the FEU used  
9 this term because the Commission had identified low consumption customers as a characteristic  
10 that could be better addressed through a region-specific rate design. The FEU have not  
11 identified a specific issue with low consumption customers. FEU is aware of a perception that  
12 low consumption customers may be cross-subsidized by higher consumption customers.  
13 Without any evidence of revenue to cost ratios for these customer groups, or an understanding  
14 of the reasons why customers have varying consumption and how these characteristics are  
15 changing over time, it is not possible to draw a conclusion that there is an issue that needs to be  
16 addressed.

17 In the context of postage stamp rates, to the extent there is an issue that is later identified  
18 through a rate design application, the flexibility provided by postage stamp rates to address this  
19 issue would not be confined to addressing only customers of the former Vancouver Island utility.  
20 Based on the existence of low consumption customers throughout the FEU’s service area, this  
21 would be an issue that would cross regional boundaries, and any solution would require a  
22 broader consideration and balance of the many rate design principles and Government energy  
23 objectives.

24 It is more efficient and equitable to treat all of FEU’s low consumption customers in a consistent  
25 manner; this consistent treatment could be adopted with postage stamp rates if a rate design  
26 review was to reveal that a different rate treatment is appropriate.

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30 1.1.2 Please provide specific examples to demonstrate this flexibility and  
31 explain why these options are not feasible without postage stamp rates.

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33 **Response:**

34 Since the FEU have not undertaken an analysis of the low consumption customers and their  
35 characteristics, the FEU have not concluded that there is an issue that needs to be addressed,  
36 and further, what the solution to that issue might be. For the purpose of responding to this  
37 question, the FEU have, however, undertaken a high-level review of rate designs for low



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1 consumption customers in other jurisdictions, and understands that the rate designs, for the  
2 most part, involve variations in the fixed vs. variable components of customer rates. In addition,  
3 some jurisdictions employ inclining blocks, declining blocks, or different rates for customers that  
4 do not employ gas for space heating. Further, many jurisdictions do not employ rate designs for  
5 low consumption customers.

6 Rate designs must be specific to the jurisdictions in which they are employed, since in addition  
7 to meeting basic objectives such as recovering the utility's revenue requirements, they often  
8 seek to balance energy efficiency objectives, provincial energy policy objectives and, in some  
9 cases, social policy objectives (e.g. lifeline rates or lower rates for an essential service such as  
10 space heating). As well, rate designs seek to allocate costs appropriately to various customer  
11 classes and satisfy other rate design principles. In all cases, there is a balance to be struck  
12 among these often competing interests and rate design principles.

13 The FEU have not done sufficient analysis to determine which of the options discussed in the  
14 first paragraph above may be feasible without postage stamp rates. However, it is clear that  
15 these options cannot address the current challenges for Vancouver Island and Whistler  
16 customers and, as articulated in response to Panel IR 1.1.1, some of the options may  
17 exacerbate the problem.

18 As the FEU stated in response to BCUC IR 1.7.1.1, "While rate design and deferral mechanisms  
19 can potentially address competitive issues, these are not permanent or long term solutions as  
20 they do not address the underlying reasons for the competitive challenges."

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24 1.2 If postage stamp rates were approved by the Commission, please explain the  
25 following:

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27 1.2.1 What options have FEU considered to address the issue of low  
28 consumption customers in FEVI, FortisBC Energy Inc. and any  
29 amalgamated entity?  
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31 **Response:**

32 Please refer to the response to Panel IR 1.1.2.

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1.2.2 How do these options described in your response to 1.2.1 above align with the *Clean Energy Act*, including British Columbia's energy objectives?

**Response:**

The FEU would consider how potential rate design options would align with the *Clean Energy Act*, if it were determined that a rate design option to address low consumption customers was necessary. However, at this time, the FEU do not believe that the adoption of a particular rate design for low consumption customers would have any effect on how amalgamation and postage stamp rates for the FEU align with the *Clean Energy Act* or British Columbia's energy objectives.

How amalgamation and rate postage stamping align with provincial energy policy, including the *Clean Energy Act* and British Columbia's energy objectives was described in section 6.8 of the Common Rates, Amalgamation and Rate Design Application (Exhibit B-3, page 127, in the original proceeding). Further, the support of the BC Government in this Application clearly suggests that the government sees no conflict between the *Clean Energy Act*, British Columbia's energy objectives, and the adoption of common rates.

While a fundamental aspect of rate design pertains to apportioning costs among the different customer groups and recovery of the revenue requirements, future rate design development for particular customer classes of the FEU will also balance other rate design objectives, including giving due consideration to the provincial policy context. It is also important to take into account the existence of the carbon tax and that there are many options for complementary measures, such as demand-side management programs, that would assist in meeting energy policy and other policy objectives.

The FEU believe that the assessment of whether a rate design for a particular customer class aligns with energy and other policies should consider the broader context, including rate design objectives overall, the rate design and rate structures for other customer classes and the implications of complementary measures or programs mentioned above.

1.2.3 How do these options affect the potential treatment of FEVI's Rates Stabilization Deferral Account?



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1 **Response:**

2 This response addresses Panel IRs 1.2.3, 1.2.3.1 and 1.2.3.2.

3 The RSDA was built up by FEVI customers when rates were set above the cost of service.  
4 Rates are now set below the cost of service, and FEVI customers are drawing down the RSDA.  
5 The FEU's proposal is that the remaining RSDA will be returned to FEI's customers to phase in  
6 their rate increase. This has been done on the basis of a percentage to each rate class. If a  
7 new rate class is created in the Amalgamated Entity, a phase in rider percentage would be  
8 applied to that rate class as well. Therefore, the implementation of one of the options listed in  
9 response to these IRs should not affect the phase in of the RSDA.

10 The allocation of the RSDA balance to FEI's customers is considered fair since they will be  
11 realizing a rate increase from the amalgamation. Vancouver Island customers are benefiting  
12 from a rate decrease on amalgamation. The benefit of these lower rates to Vancouver Island  
13 customers will offset their RSDA contribution within two years. Therefore, it is appropriate that  
14 the RSDA be provided to FEI customers. Although there may be various ways in which the  
15 RSDA can be provided to FEI customers, the FEU do not believe there are better options than  
16 what has been proposed.

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20 1.2.3.1 Please explain the rationale and fairness of this treatment.

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22 **Response:**

23 Please refer to the response to Panel IR 1.2.3.

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27 1.2.3.2 Do FEU foresee any reasonable alternatives to this proposed  
28 treatment?

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30 **Response:**

31 Please refer to the response to Panel IR 1.2.3.

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