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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: Application for Reconsideration and Variance
of Order G-26-13, dated February 25, 2013
on the FortisBC Energy Utilities' Common Rates,
Amalgamation, and Rate Design Application**

In accordance with the Amended Regulatory Timetable set for this proceeding by Letter L-58-13, we enclose for filing the electronic version of the Reply Argument of the FortisBC Energy Utilities.

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.

**Application for Reconsideration and Variance
of Commission Order G-26-13
on the FortisBC Energy Utilities' Common Rates,
Amalgamation, and Rate Design Application**

**REPLY ARGUMENT
OF THE FORTISBC ENERGY UTILITIES**

November 13, 2013

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I. **Introduction**

1. Pursuant to section 99 of the *Utilities Commission Act* (the “UCA”), on April 26, 2013, the FortisBC Energy Utilities (the “FEU”), consisting of FortisBC Energy Inc. (“FEI”), FortisBC Energy (Vancouver Island) Inc. (“FEVI”) and FortisBC Energy (Whistler) Inc. (“FEW”), filed an *Application for Reconsideration and Variance of Commission Order No. G-26-13 on the FortisBC Energy Utilities’ Common Rates, Amalgamation, and Rate Design Application* (the “Reconsideration Application”). The FEU are seeking reconsideration of Commission Order No. G-26-13 and the accompanying Decision, dated February 25, 2013 (the “Decision”) which denied the FEU’s *Common Rates, Amalgamation and Rate Design Application* to amalgamate the FEU and implement postage stamp rates across the Amalgamated Entity (the “original Application”). In accordance with the regulatory timetable set by the Commission for the reconsideration proceeding, the FEU filed their Final Submission on October 26, 2013.
2. The Commercial Energy Consumers of British Columbia (the “CEC”) also filed separately for reconsideration of the Decision. The CEC filed its Final Submission on October 26, 2013.
3. Final Submissions have been filed by the following intervenors:
 - (a) Fort Nelson & District Chamber of Commerce;
 - (b) Ministry of Energy and Mines (the “Ministry”);
 - (c) Mr. Randy Robinson;
 - (d) British Columbia Pensioners and Seniors Organization et al. (“BCPSO”); and
 - (e) Association of Vancouver Island and Coastal Communities (“AVICC”).
4. The Fort Nelson & District Chamber of Commerce has taken no position on the reconsideration applications since the FEU and CEC are not seeking reconsideration of the Decision to the extent that it denied postage stamp rates for the Fort Nelson service area.

5. The Ministry, BCPSO and AVICC support amalgamation and common rates. Mr. Robinson is the only intervenor to oppose the reconsideration applications of the CEC and the FEU.

6. In this submission, the FEU reply to the submissions of Mr. Robinson. In addition, while the CEC, BCPSO and AVICC support amalgamation and postage stamp rates, the FEU respond to comments of AVICC, CEC and BCPSO with respect to the exclusion of Fort Nelson, the appropriate legal test and other matters related to the implementation of the common rates, particularly for FEW.

II. **Reply to Mr. Robinson**

7. The FEU have responded to Mr. Robinson's positions in their rebuttal evidence in the original proceeding and in this proceeding, as well as their Final and Reply arguments in the original proceeding. In this submission, the FEU will limit its reply to points not fully addressed elsewhere.

8. Mr. Robinson refers to the policy of the Ministry expressed in its submission to the BCUC as "simply a policy position" and states that it "does not have much weight".¹ The statements of the Ministry supporting postage stamp rates for the FEU are highly relevant to the issue before the Commission, representing the policy of the government of this Province. This policy is consistent with the trend towards consolidation of utility services and the predominance of postage stamp rates in the Province. The Ministry's policy statement and rationale in favour of postage stamp rates for the FEU is significant and should be given appropriate weight.²

9. Mr. Robinson submits that not amalgamating could lead to a "downward spiral which can have a negative effect on the value of the business due to negative growth."³ Mr. Robinson goes on to state: "Should FEU find itself such [SIC] a position it might consider a sell off FEVI segment [SIC] of its holdings at a discounted price. This is in keeping with the risk to the shareholders mentioned above."⁴ The suggestion of Mr. Robinson appears to be that the Commission should refuse to amalgamate FEVI so that the shareholder would ultimately be forced to sell the utility at a loss. This suggestion is not in the public interest and would be an illegal basis on which to make a Decision. In accordance with the regulatory compact, the object of the UCA is to protect both ratepayers and the utility's investor,⁵ which would not be fulfilled by Mr. Robinson's suggested course of action. Mr. Robinson's suggestion would be contrary to the interests of ratepayers who would face continued rate increases and uncertainty in

¹ Mr. Robinson Final Submission, pp. 5 and 8, respectively.

² See Exhibits C3-1 and C3-2.

³ Mr. Robinson Final Submission, p. 9.

⁴ Mr. Robinson Final Submission, p. 9.

⁵ *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4, at para. 64. Online at: <http://scc-csc.lexum.com/decisia-scc-csc/scc-csc/scc-csc/en/item/17/index.do>

continuity of service. Mr. Robinson's suggestion would also be contrary to the duty of the Commission to ensure that the utility has an opportunity to earn a fair return on its investment.⁶ In short, Mr. Robinson's suggestion would serve no one's interest and should be rejected.

10. Mr. Robinson sets out the various rates of the FEU and, noting the differences, states that the "FEU by allowing each utility to have a different rate schedule does not support the public interest" and that "[w]here there is currently an opportunity to support the public interest from the point of view of understandability the FEU is not achieving it."⁷ As discussed in the FEU's original Application, the current rates reflect the separate legal identity of the different utilities, as the FEU cannot have common rate schedules without amalgamation.⁸ The FEU have proposed common rates as a way to reduce the complexity and differences amongst the rate schedules of the FEU.⁹ The improvement in customer understanding that would result from common rates is a benefit of the FEU's proposal.
11. Mr. Robinson's arguments at pages 11 and 12 of his Final Submission based on "currently available accounting techniques" are not relevant to this proceeding. The methodologies for allocating shared and corporate services costs amongst the FEU have been approved by the Commission. With amalgamation and postage stamp rates, it will no longer be necessary to allocate corporate and shared costs amongst the FEU by way of formula.¹⁰
12. Mr. Robinson states that "the public interest is best served when the actual defined cost is known and all stakeholders make their decision based on the best information."¹¹ The FEU have presented the best information available on the costs of the utilities and have responded to all requests for further information.

⁶ *Hemlock Valley Electrical Services Ltd. v. British Columbia Utilities Commission et al.*, [1992] 12 B.C.A.C. 1 at 20-21 (C.A.). Included in Exhibit B-9, Attachment 59.1 in the original proceeding.

⁷ Mr. Robinson Final Submission, p. 10.

⁸ Original Application, Exhibit B-3, pp. 71 and 116.

⁹ Original Application, Exhibit B-3, Section 4.

¹⁰ See the FEU's Final Submission, pp. 56 to 58.

¹¹ Mr. Robinson Final Submission, p. 12.

13. Mr. Robinson states that “[m]issing from FEU’s conclusion in support of their appeal is the argument that the efficiencies of amalgamating the three utilities will serve the public interest.”¹² As the FEU have demonstrated in the original proceeding and this reconsideration proceeding, amalgamation and postage stamp rates will result in cost savings and regulatory and other efficiencies that will serve the public interest.¹³ The FEU’s Final Submission in this proceeding has discussed the various factors that support the conclusion that amalgamation and postage stamp rates are in the public interest.
14. The FEU submit that Mr. Robinson’s submissions are without merit and should be rejected.

¹² Mr. Robinson Final Submission, p. 12.

¹³ In the original proceeding: Exhibit B-3, p. 123; Exhibit B-9, BCUC IR 1.5.11; Exhibit B-15, BCUC IR 2.1.2; a working excel spreadsheet supporting the NPV analysis was provided in Attachment 2.1 to Exhibit B-15 (as referred to in response to BCUC IR 2.2.1).

III. **Reply to AVICC regarding Exclusion of Fort Nelson**

15. AVICC states that “FEU’s arguments to exclude Fort Nelson customers seem to contradict many of the arguments FEU made in support of postage stamp rates.”¹⁴ The FEU have not made any arguments to exclude Fort Nelson. The Commission in its Decision denied amalgamation and postage stamp rates for all of the FEU, including postage stamp rates for Fort Nelson. The FEU have sought reconsideration of that Decision except to the extent that it denied postage stamp rates for Fort Nelson. As the FEU indicated in the Reconsideration Application, the legal basis for reconsideration is based in part on the public interest determination for amalgamation which is not applicable to Fort Nelson. Consequently, the FEU have not requested reconsideration of the Decision insofar as it relates to postage stamp rates for Fort Nelson.

¹⁴ AVICC Final Submission, p. 9.

IV. **Reply to BCPSO and AVICC regarding the Appropriate Legal Test**

16. BCPSO and AVICC make submission on the appropriate legal approach. While there appears to be some disagreement as to the proper way to describe the legal approach, the FEU submit that all parties appear to agree that the Commission must assess amalgamation first and that the benefits of postage stamp rates must be included in the public interest assessment for amalgamation made under section 53 of the UCA.
17. BCPSO states that the correct approach is “to analyze the public interest in amalgamation and common rates under s. 53 and then to analyze the ratepayer interest in amalgamation and common rates under ss. 59-61.”¹⁵ The FEU submit that it is not correct to divide the public interest and ratepayer interest in the way suggested and that this approach could lead to legal error in two respects.
- (a) First, the public interest is broad.¹⁶ Ratepayers are a part of the public and their interests must be considered as part of the public interest, as is done by the Commission when making decisions on certificates of public convenience and necessity, for example. BCPSO acknowledges this where it states that it ‘might add “ratepayer interests” to this list as one component of the public interest’.¹⁷ In a similar vein, BCPSO submits that “the BCUC decision artificially and incorrectly separates amalgamation from common rates.”¹⁸ The FEU submit that it would be a legal error for the Commission to exclude ratepayer interests when considering the public interest.
- (b) Second, amalgamation is approved under section 53 of the UCA and cannot be considered under sections 59 to 61 as BCPSO appears to suggest.¹⁹ Given that the public interest includes ratepayer interests, the ratepayer interest in amalgamation is appropriately considered under section 53. If amalgamation for the purpose of implementing common rates is approved, then rates must be set for

¹⁵ BCPSO Final Submission, p. 2.

¹⁶ FEU Final Submission, paragraphs 38 to 42.

¹⁷ BCPSO Final Submission, p. 4.

¹⁸ BCPSO Final Submission, p. 7.

¹⁹ BCPSO Final Submission, p. 2.

the Amalgamated Entity pursuant to sections 59 to 61 of the UCA in accordance with the just and reasonable standard. The FEU's original Application has set out a postage stamp rate design for approval that meets this standard.

18. AVICC submits that the CEC's approach is more correct in that it considers amalgamation first and then postage stamp rates.²⁰ The FEU submit that this apparent disagreement is more form over substance as both AVICC and CEC have included the benefits of postage stamp rates in their consideration of the public interest of amalgamation. As the FEU have explained on page 5 of their Final Submission, the key point is that it would be a legal error to exclude the benefits of postage stamp rates from the assessment of the public interest.
19. With respect to the "hierarchy of decision making" referenced by AVICC, the FEU agree that once the determination on amalgamation is made, a further decision is required to approve rates for the Amalgamated Entity.²¹ However, the FEU do not believe it would be appropriate for the Commission to conclude that amalgamation, including postage stamp rates, is in the public interest under section 53, and then deny postage stamp rates under sections 59 to 61. In the FEU's submission, the legal effect of a positive determination under section 53 must be that it is in the public interest to amalgamate and adopt postage stamp rates. The remaining task under sections 59 to 61 is then to approve the postage stamp rates for the Amalgamated Entity. As reflected in Sections 7 to 9 of the FEU's original Application, this decision involves consideration of the appropriate rate schedules, revenue to cost ratios and other details of rate design.
20. In summary, the FEU submit that the Commission must consider whether amalgamation is in the public interest pursuant to section 53 of the UCA, which includes consideration of the benefits of postage stamp rates. If amalgamation is approved, then the Commission must then consider the proposed rates for the Amalgamated Entity under sections 59 to 61, and make a determination that is consistent with the determination on the public interest under section 53.

²⁰ AVICC Final Submission, p. 3.

²¹ See FEU Final Submission, p. 7, paragraph 15.

V. **Reply to BCPSO regarding Existing Rates a Reflection of Corporate History**

21. BCPSO states that it “has come to question FEU’s assertion that the existing rate differences are merely a reflection of corporate history.”²² The FEU’s position is not a mere assertion, but is supported by the evidence of the history of the utilities.²³ Moreover, it is a fact that, until now, there has been no formal consideration of whether FEVI or FEW should be amalgamated with FEI which already serves the vast majority of the rest of the Province. BCPSO speculates without any basis in evidence that FEI’s service territory does not include Vancouver Island and Whistler because it was uneconomic to build a natural gas distribution system that included those areas.²⁴ There is, however, a history of gas service on Vancouver Island by separate corporate entities, and the system on Vancouver Island was only converted to natural gas when the gas pipeline to the Island was created. There is similarly a history of propane service in Whistler by a separate corporate entity, which was relatively recently converted to natural gas.²⁵ As the utility services in Vancouver Island and Whistler were owned by separate legal entities and grew with their respective communities, it does not make sense to think of the historical Vancouver Island or Whistler utilities as a potential extension of FEI’s historical predecessor. The FEU submit that the BCPSO’s view is therefore inconsistent with the corporate history of the utilities and should be rejected.

²² BCPSO Final Submission, p. 8.

²³ Original Application, Exhibit B-3, section 3.

²⁴ BCPSO Final Submission, p. 8.

²⁵ Original Application, Exhibit B-3, section 3.

VI. **Reply to BCPSO and CEC on Amalgamation and Postage Stamp Rates with FEW**

22. This part of the FEU's Reply Submission responds to BCPSO and CEC on amalgamation and postage stamp rates for FEW. The FEU address the public interest in amalgamating FEW and the reasons why no contribution is required from FEW.

A. ***The Public Interest in Amalgamating FEW***

23. The FEU submit that the CEC has introduced an incorrect concept by comparing the weight of the public interest of amalgamating FEVI to that of FEW, and then tying that judgment to the length of the phase-in of postage stamp rates.²⁶ Under section 53 of the UCA, an amalgamation must be found to be in the public interest or not. It is a binary distinction: amalgamation is either in the public interest or it is not. It is therefore inconsequential whether amalgamation of FEVI is "more" in the public interest than amalgamation of FEW.

24. In addition, as the FEU have submitted in their Final Submission, there is no logical connection between the "extent" of the public interest and the length of a phase-in of common rates. If amalgamation is in the public interest, then it should be implemented immediately *because it is in the public interest*. The rationale for a phase-in of postage stamp rates is to mitigate rate impacts or to require a contribution (which the FEU do not agree is required), in which case the phase-in should be designed to meet that purpose. As AVICC states:²⁷

"Typically a rate rider is established on a short-term basis only - otherwise a regulator would build whatever it was attempting to collect into the base rates of a utility. AVICC submits that the proposed rider established for a seven year period is unreasonable, while a 21 year period is patently so."

25. Another error in the CEC's and BCPSO's approach is that they appear to attribute negative weights to factors that support FEVI, but in their judgment do not support amalgamation of FEW. The CEC states, for instance, that "FEW is negatively affected

²⁶ See, e.g., CEC Final Submission, p. 24.

²⁷ AVICC Final Submission, p. 10.

by a lack of the more positive public interest consideration such as the RSDA...²⁸ There is, however, no logical reason why amalgamation of FEW should be negatively affected by a factor that is relevant to FEVI and not FEW. Similarly, if, in their estimation, a given factor is more significant for FEVI than it is for FEW (such as environmental and health impacts), this does not mean that that factor is not a factor in favour of amalgamation and postage stamp rates for FEW. For example, postage stamps rates in FEW will still encourage switching to natural gas from higher emitting GHG fuels, even if there may be less opportunity for this to occur in FEW than FEVI. The Commission may therefore give such a factor less weight than it does in the case of FEVI, but this does not “negatively affect” the case for FEW.

26. BCPSO concludes that the public interest factors of the policy in favour of equality of investment and job creation opportunities and the desirability of sending efficient price signals between available energy options are in favour of amalgamation and postage stamp rates with FEW.²⁹ However, BCPSO excludes economic development opportunities and environmental and health benefits. The CEC similarly excludes economic development, economic opportunity, environment and health benefits.³⁰ The FEU reply as follows:

(a) It is incorrect to exclude economic development opportunities from the public interest factors weighing in favour of amalgamation and postage stamp rates for FEW. The fact that specific economic opportunities have not been identified within this proceeding does not mean that there are no such opportunities within the FEW service territory. The BCPSO is speculating when it states that the “type of development likely to occur in Whistler (hotels, etc.) will not be significantly driven or impacted by natural gas delivery costs.”³¹ In addition, and significantly, the Ministry has articulated a policy in favour of postage stamp rates and economic development that applies to the entire Province including Whistler.³²

²⁸ CEC Final Submission, p. 23.

²⁹ BCPSO Final Submission, p. 6.

³⁰ CEC Final Submission, p. 24.

³¹ BCPSO Final Submission, p. 5.

³² Exhibit C3-1 and C3-2.

The public policy is to ensure a level playing field for natural gas delivery costs to foster economic opportunities throughout the Province. This policy applies equally to Whistler.

- (b) It is also incorrect to exclude environmental and health benefits from the public interest considerations in favour of amalgamation and postage stamp rates with FEW. Even if there were fewer opportunities in FEW than in FEVI for conversion to natural gas from higher GHG emitting fuel sources, it is still a positive factor for FEW. Lower and more stable rates for FEW will in fact encourage switching from propane and higher GHG fuels to natural gas, which will benefit the environment and reduce air pollution.³³ BCPSO states that for Whistler this “can more readily be accomplished through a municipal bylaw than it would be possible for Vancouver Island.”³⁴ This is speculation without any evidentiary basis. There is no evidence to suggest that the Municipality of Whistler can or would force residents to switch to natural gas by way of a municipal bylaw. The FEU submit that this submission of BCPSO’s should be disregarded. The ability to encourage switching to natural gas from higher GHG emitting fuels (environment and health benefits as identified by CEC and BCPSO) is a public interest factor in favour of amalgamation and postage stamp rates with FEW.
27. The FEU recognize that the particular benefits of the RSDA and the taxation benefits put forward by the CEC are not applicable to the FEW. However, these factors are clearly unique to the case of FEVI; the lack of these factors does not negatively impact the public interest case for FEW.
28. The FEU submit that all the other factors identified weigh in favour of amalgamation and postage stamp rates with FEW, with the exception of the rate impacts. These factors include the Bonbright principles used by the Commission in its Decision. In this respect, the FEU note the rate stability and challenges facing FEW due to its higher delivery charges, as discussed in section 4 of the original Application.

³³ See, e.g., the Original Application, section 6.7, pp. 127 to 129.

³⁴ BCPSO Final Submission, p. 5.

29. Further, in the case of FEW, the rate impacts are immaterial for FEI customers. This fact is not taken into account by the CEC or BCPSO. Rather, the CEC's quantitative analysis attributes a higher percentage weight to cost impacts to FEW than it does to FEVI and the CEC assigns twice as great a weighted score to FEW (-6) than FEVI (-3) under the cost impact category.³⁵ As explained in their Final Submission,³⁶ the FEU submits that there is no evidentiary basis for the scores and submits that they should be disregarded.
30. The CEC submits that "it would be inappropriate to allow a 'halo' effect to sweep up less economic utilities because of their small impact..."³⁷ Contrary to the suggestion of the CEC, the public interest case for amalgamating FEW stands on its own merits. Amongst other factors, amalgamation and postage stamp rates for FEW are supported by public policy, would support economic opportunities in Whistler and the conversion to natural gas from higher GHG emitting fuels, would resolve the challenges faced by FEW due to its smaller customer base, would result in cost and regulatory efficiencies and is consistent with regulatory practice and rate design principles. The benefits of amalgamation and postage stamp rates can also be achieved with a small rate impact to FEI customers. The FEU submit that the benefits outweigh the rate impacts to FEI and that amalgamation and postage stamp rates for FEW are in the public interest.

B. *FEW Contribution is Not Required*

31. BCPSO incorrectly refers to FEU's "proposed" FEW contribution.³⁸ The FEU reiterate their consistent position that a contribution from FEW is not required. Specifically, the FEU submit that no contribution is required to recover either conversion costs or any portion of the costs of the Whistler Pipeline.
32. The Whistler conversion and pipeline is no different than any other localized project within the FEU and there is no reason to treat it differently. An example is the Kooteney River Crossing (Shoreacres) project. Although constructed to serve the approximately 5,200 customers located in the City of Nelson and its surrounding area, the project costs

³⁵ CEC Final Submission, p. 24.

³⁶ FEU Final Submission, pp. 67 to 72.

³⁷ CEC Final Submission, p. 39.

³⁸ BCPSO, p. 9.

will be spread across the entire FEI Mainland customer base.³⁹ Another example is FortisBC Inc.'s Big White Supply Project built to serve Big White Village. In its Decision, the Commission concluded that the costs of the Big White Supply Project should be rolled into rates rather than being charged to the community of Big White in particular. The Commission noted in the Decision that this treatment was consistent with its approval of other project costs, including an electric transmission project to serve Whistler.⁴⁰ The FEU submit that there is no principled basis on which to treat the Whistler conversion project differently than past projects.

33. In addition, conversion costs have been rolled into postage stamp rates in the past. The conversion costs that FEI incurred for interior municipalities, such as Nelson, were rolled into rates with the consolidation of the Lower Mainland, Inland and Columbia service areas.⁴¹ A natural gas conversion project undertaken in 1991 in the Squamish area was later integrated into FEI. The FEU also have a long-standing program offering incentives to customers to switch from fuel oil to natural gas, in which the incentive payments are recovered in rates for all customers.⁴²
34. With respect to the Whistler Pipeline in particular, the FEU note that it was approved by BCUC Order C-03-06 and is an FEVI asset.⁴³ Including the costs of the Whistler Pipeline within postage stamp rates is consistent with how FEI manages and uses the transmission system holistically to optimize the least cost of midstream gas costs and to complete the delivery of gas from various receipt points to customers.⁴⁴ Consistent with the level of integration of the system, assets have not been assigned only to locally connected customers. For example, Interior Transmission System costs are not isolated to the Inland Division customers and the Coastal Transmission system costs have not

³⁹ Original Application, Exhibit B-3, p. 76.

⁴⁰ BCUC Order G-87-07, dated August 7, 2007, Appendix A, p. 15 of 18, at Tab 2 of the FEU's Book of Authorities in the original proceeding.

⁴¹ Exhibit B-15 in the original proceeding, BCUC IR 2.38.1.1.

⁴² Exhibit B-9 in the original proceeding, BCUC IR 1.77.1.1.

⁴³ BCUC, In the Matter of Terasen Gas (Whistler) Inc. 2005 Resource Plan Update and Certificate of Public Convenience and Necessity for the Whistler Natural Gas Project and Terasen Gas (Vancouver Island) Inc. Certificate of Public Convenience and Necessity for the Squamish to Whistler Intermediate Pressure Pipeline, Decision, dated May 18, 2006. Online at: http://www.bcuc.com/Documents/Decisions/2006/DOC_11642_TGW-TGVI%20Decision-Final.pdf.

⁴⁴ Exhibit B-15 in the original proceeding, BCUC IR 2.11.2.

been isolated only to Lower Mainland customers post the 1993 Phase B Decision. Under postage stamp rates, the transmission system assets would properly be treated as an integrated whole used to serve all customers.

35. For all of these reasons, the FEU submit that no contribution is necessary from FEW in order to implement amalgamation and postage stamp rates.
36. Despite the FEU's position, in their Final Submission, the FEU set out the principles that should be applied to setting a contribution from FEW if the Commission were to conclude one is necessary. This was in part in response to the unreasonably long phase-in periods suggested by the CEC, which are not based on sound principles and undermine the public interest in amalgamation and postage stamp rates.⁴⁵ As part of its analysis, the FEU suggested that the upper limit of any contribution would be the balance in the conversion costs and pipeline contribution deferral accounts.
37. BCPSO suggests that FEW's contribution could possibly include additional costs,⁴⁶ to which the FEU reply as follows:
 - (a) BCPSO states that it "does not seem possible" that the balance remaining in the conversion deferral account could be \$13 million.⁴⁷ There were no information requests questioning this amount in this reconsideration proceeding or in the original proceeding. The FEU can confirm that the amounts reported in the original Application, section 3.4.1.3, are the correct 2013 balances. Any difference from other reported amounts are due to depreciation. The current balance in the accounts will be lower than those presented in the original Application due to continued depreciation.
 - (b) BCPSO also suggests that an FEW contribution could include the remaining net book value of the FEVI pipeline, based on the fact that FEW would be obligated to pay that amount if it terminated the transportation agreement.⁴⁸ This is not a

⁴⁵ FEU Final Submission, pp. 67-72.

⁴⁶ BCPSO Final Submission, p. 9.

⁴⁷ BCPSO Final Submission, p. 9.

⁴⁸ BCPSO Final Submission, p. 9.

correct interpretation of the transportation agreement. In its Decision accompanying Order G-53-06 approving the Whistler Pipeline, the Commission determined an appropriate capital contribution to be made by FEW to FEVI for the costs of the pipeline.⁴⁹ There is no basis to revisit that Decision in this proceeding. FEW's obligation to pay the remaining net book value of the pipeline if it cancelled the transportation agreement is to minimize "stranded assets", if FEW elected to terminate the transportation agreement and the pipeline was subsequently determined not to be used and useful.⁵⁰ With amalgamation and postage stamp rates, the pipeline would continue to be used to serve the current FEW service area as originally intended as if the transportation agreement were in place. Therefore, the obligation to pay net book value of the pipeline is not triggered. Further, under amalgamation and postage stamp rates, current FEW customers would still be contributing to not only the FEVI pipeline costs, but for *all* pipeline costs. BCPSO's suggestion would unfairly burden FEW customers with particular pipeline costs, while all other pipeline costs are spread across the amalgamated customer base.

- (c) BCPSO also suggests that the remaining netbook value of the propane system could be added to the contribution. As the FEU have submitted above, the FEU do not believe that any contribution is required by FEW, including an amount to offset the amount of the propane system remaining in rate base. This asset should be treated like all other assets under postage stamp rates.

38. The FEU maintain that a contribution from FEW is neither necessary nor appropriate. The FEU submit that there are no fair or reasonable grounds on which to single out the community of Whistler for different treatment than that accorded to all the communities currently served by FEI.

⁴⁹ BCUC, In the Matter of Terasen Gas (Whistler) Inc. 2005 Resource Plan Update and Certificate of Public Convenience and Necessity for the Whistler Natural Gas Project and Terasen Gas (Vancouver Island) Inc. Certificate of Public Convenience and Necessity for the Squamish to Whistler Intermediate Pressure Pipeline, Decision, dated May 18, 2006, at pages 70-71. Online at: http://www.bcuc.com/Documents/Decisions/2006/DOC_11642_TGW-TGVI%20Decision-Final.pdf.

⁵⁰ Ibid, at page 64.

VII. Reply to CEC on Phase-in Periods

39. The FEU submit that if amalgamation and postage stamp rates are found to be in the public interest then the default position is that they should be implemented immediately because they are in the public interest. Because of the need to mitigate rate impacts to FEI customers, the FEU have proposed a three-year period during which time the balance in the RSDA would be used to phase-in the rate impacts to FEI customers. This proposal sufficiently mitigates the rate impacts to FEI customers, so that there is no need to seek further solutions. The FEU note the connection between the purpose of the proposed phase-in and its length.
40. The CEC has, however, proposed a 7 and 21-year phase-in for FEVI and FEW, respectively, which the FEU submit is not based on any sound principle or analysis, and undermines the public interest in amalgamation and postage stamp rates. As the FEU have set out in their Final Submission, the CEC's phase-in depends on the CEC's quantitative analysis, which is fundamentally flawed and arbitrary. The FEU note for instance that the present values for the cost impacts⁵¹ and the weighted scores are not substantiated. There is also no rational connection between the strength of the public interest determination and the lengths of the phase-in proposed. In addition, the CEC has not taken into account the benefits of amalgamation and postage stamp rates that would be delayed and the regulatory complexity and impact that results from a long phase-in period.
41. In short, and for the reasons described more fully in their Final Submission,⁵² the FEU submit that CEC has not provided a reasonable basis for its proposed phase-in lengths. The FEU therefore submit that the CEC's proposed phase-ins should be rejected.

⁵¹ See CEC Final Submission, p. 19.

⁵² See FEU Final Submission, pp. 67-72.

VIII. Conclusion

42. The FEU respectfully request that the Commission reconsider and vary Order G-26-13 based on a full assessment of the range of public interest considerations, including the public policy in favour of postage stamp rates as articulated by the Ministry, and conclude that amalgamation and postage stamp rates are in the public interest.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

Dated: November 13, 2013

[original signed by Christopher Bystrom]

Christopher Bystrom
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