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July 11, 2016

Access Gas Services Inc.
201 – 800 Carleton Court
Delta, B.C.
V3M 6Y6

Attention: Mr. Thomas B.F. Dixon, CFA

Dear Mr. Dixon:

Re: FortisBC Energy Inc. (FEI)

Project No. 3698874

Customer Choice Program Cost Recovery Application (the Application)

Response to Access Gas Services Inc. (Access Gas) Information Request (IR) No. 1

On April 14, 2016, FEI filed the Application referenced above. In accordance with Commission Order A-5-16 setting out the amended Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to Access Gas IR No. 1.

If further information is required, please contact Scott Webb, Manager Customer Programs and Research, at 604-592-7649.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc: Commission Secretary
Registered Parties

1. In 2006 FortisBC (formerly Terasen Gas Inc.) stated in their Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2006 that the expected ongoing average net operating cost per eligible customer per month for 2011-2015 would be $0.46 or $5.48 annually (net of Gas Marketer recoveries). How has this compared to the actual cost per customer (net of Gas Marketer recoveries) incurred over the 2011-2015 period? One could infer that, at that time, $5.48 was a reasonable point estimate for the annual option value for access to Customer Choice. What does FortisBC see as a fair annual option value per eligible customer for access to Customer Choice today? Please explain how FortisBC arrived at today's option value.

Response:

The following table provides the historic net Program cost per eligible customer over 2011 to 2015.

Year	2011	2012	2013	2014	2015
Program Eligible Customers	841,000	831,000	837,000	847,000	967,000
Gross costs	$ 1,054,977	$ 1,291,166	$ 1,057,501	$ 1,051,163	$ 989,339
Marketer recoveries	1,264,267	1,166,334	803,711	548,926	422,705
Net costs	-209,290	124,832	253,790	502,237	566,634
Cost per customer	$ (0.25)	$ 0.15	$ 0.30	$ 0.59	$ 0.59

This table shows that the average annual cost per eligible customer is currently $0.59 per year, which is much lower than originally proposed. However, the original 2006 CPCN included a $3 million annual allocation for customer communications. The fact this ongoing Program expense was not approved by the Commission should be considered when evaluating the ongoing contributions from non-bypass customers. In addition, the inclusion of Vancouver Island and Whistler into the Program's eligible areas has served to dampen the cost per customer and this was not accounted for when the CPCN was filed in 2006. Adjusting for these two factors results in a cost to non-bypass customers of $4.18[1], an amount closer to the $5.48 reference made in the CPCN.

Given the extensive changes that have occurred since the Program was formed in 2006, FEI has recommended adjusting the fee structure to (1) better align with the principle of cost causation; (2) recognize the Company's shift to its in-house customer service solution; and (3) account for the availability of actual current costs versus costs established a decade ago. The costs and recoveries presented in 2006 were forecasts. FEI did not believe that Program costs would never be reviewed, and indeed the annual regulatory reporting and AGM process is

[1] Adjusting for the originally proposed $3 million communication expenditure, and excluding Vancouver Island and Whistler customers lowers Program eligible customers to 853,000. This results in an adjusted cost per $4.18 (i.e., (3,000,000 + 566,634)/853,000 customers).

evidence that aspects of the Program continue to be refined. Therefore, it is not unreasonable to expect that Gas Marketers may eventually contribute a higher percentage of Program costs than they did in the past.

2. Was the 2015 *"preliminary review of the Customer Choice Program's (the Program) existing Gas Marketer fee structure in preparation for the Annual General Meeting (AGM)"* (not this Application) referenced in "Section 1. Introduction and Approval Sought" a FortisBC initiative or was FortisBC directed to complete the review by the Commission?

Response:

FEI submitted to the Commission, as a discussion item for the 2014 Annual General Meeting (AGM), a review of transaction fees charged to Gas Marketers.[2] In this submission, FEI requested a discussion of, "…potential fee adjustments to the customer billing and confirmation letter charges…as these fees have not been adjusted since Program inception in 2007[3]." As a result of the discussion at the AGM, the Commission directed FEI, "…to submit an application to the Commission regarding the Customer Choice program fee structure by March 31, 2016, after conducting a comprehensive review of the program's transaction fees…"[4]

3. In "Section 1. Introduction and Approval Sought" FortisBC states *"Customer participation in the Program has declined significantly since 2012. Marketer Fees, currently charged on a per enrolled customer basis, are increasingly unable to cover essentially flat Program costs."* When the Customer Choice Program was introduced, was it the intent of FortisBC, the Commission and participants that Gas Marketer recoveries would fully cover Program costs? Please explain why or why not?

Response:

The principle for recovery of the Program's annual operating costs from Gas Marketers extends back to the original launch of Commercial Unbundling in 2004. This principle was set out by the Commission in Letter No. L-25-03, Appendix A, page 3:

[2] FEI Submission of Issues for the Annual General Meeting, March 27, 2015.
[3] FEI Submission of Issues for the Annual General Meeting, March 27, 2015, p.2.
[4] 2014 Customer Choice Seventh Annual General Meeting, BCUC Decision, September 29, 2015, p.4.

> 12. Program Cost Recovery
>
> The implementation and maintenance costs will be recovered from customers in those rate classes that are eligible for the service. **Annual operating costs (transactional related costs) should be recovered, to the extent possible, from marketers**. Terasen Gas shareholders will not be at risk for the costs of implementing and maintaining the service, or for any assets stranded by unbundling. [emphasis added]

FEI interprets Order L-25-03 as providing the following guidance:

1. Program implementation and maintenance costs were to be recovered from customers in the rate classes that are eligible for service;
2. Fixed and transactional costs should be generally recovered from Gas Marketers; and
3. There was a common understanding amongst stakeholders, including Gas Marketers about cost allocations and recoveries.

Program implementation costs have been recovered from commercial and residential customers through a deferral account and midstream rate rider that ended in 2011. The vast majority of Program costs incurred today, including maintenance related costs, are fixed. As such, FEI has interpreted what constitutes an appropriate cost allocation given the spirit of this original direction. To help inform FEI's recommendation the Company relied upon the driving principle used to originally evaluate costs, namely cost causality.

FEI recommends that existing costs should be shared between Gas Marketers and all non-bypass customers. The Company believes its recommended approach achieves this objective.

4. In 2006 FortisBC (formerly Terasen Gas Inc.) stated in their Commodity Unbundling Project for Residential Customers CPCN Application dated April 13, 2006 that the total O&M Costs for 2010 were expected to be $899,100 with $275,600 recovered from marketers and that net annual operating costs would continue at $600,000 following implementation (excluding Annual Customer Education Costs). This $600,000 figure can also be referenced in the Commission's Commodity Unbundling Project for Residential Customers Certificate of Public Convenience and Necessity Application Decision dated August 14, 2006. Specifically that *"Approximately $0.6 million in operation costs will be incurred annually once the program is operational. This amount is net of estimated recoveries from gas marketers. Costs that are expected to be incurred include labour costs for two full time equivalents ("FTE") required by Terasen Gas to help administer the program..."* Between 2007 and 2015 the net operating costs incurred by eligible FortisBC customers have been:

	2007	2008	2009	2010	2011	2012	2013	2014	2015
O&M	500,54	971,73	1,182,	1,228,	820,91	980,73	762,15	784,14	725,44
GM	399,68	1,103,	1,306,	1,425,	1,264,	1,166,	803,71	548,92	422,70
Net O&M	**100,86**	**-**	**-**	**-**	**-**	**-**	**-**	**235,21**	**302,74**

Source: Table 1: Customer Choice Program Costs and Recoveries 2007-2015 from FEI exhibit B-1-3 dated May 20, 2016

FortisBC states in this Application that they have *"Reviewed the current transaction fees*[3] *and determined they no longer sufficiently recover Program costs."* and reference the CPCN dated April 13, 2006. Given the average net O&M costs since 2007 allocated to eligible customers has been -$53,615 (a net benefit) and that net O&M costs have never exceeded the $600K budgeted by FortisBC and approved by the Commission, is this application to amend program fees premature? If not, why not?

<u>Response:</u>

No, FEI does not believe this Application to amend Program fees is premature. The Company did not foresee the $600 thousand alluded to above as a permanent Program contribution to be paid by non-bypass customers. Since 2012, Customer Choice has operated as an FEI cost centre, with annual operating variances rolling up to divisional and corporate accounts. The pertinent accounting focus is to ensure that Customer Choice department O&M variances are appropriately managed. FEI seeks an efficient method by which to address and limit both favourable and unfavourable variances that may arise over time due to either changing costs, or recoveries generated from Gas Marketer fees.

To date, FEI has over-recovered by about $480 thousand in fees versus costs incurred. The Company anticipates that once the new fees are implemented, approximately the same amount will have been under-recovered. Therefore, FEI believes now is the right time to be determining a sustainable funding solution for the Program.

5. In 2010 FortisBC terminated the unbundling deferral account and rate rider to gain administrative efficiencies. FortisBC was able to do so because of lower than expected costs of the program due to the large recoveries from Gas Marketers. Did FortisBC prematurely terminate the unbundling deferral account and rate rider? If not, why not? Should FortisBC re-open the unbundling deferral account and rate rider? Please explain why or why not.

Response:

No, the deferral account and rate rider treatment applicable at Program launch were not terminated prematurely. When the unbundled products were established, both capital and O&M costs were captured in the Residential Commodity Unbundling Capital and O&M deferral accounts, and in the Commercial Commodity Unbundling Capital and O&M deferral accounts. Accumulated amounts were recovered from customers via a midstream rate rider. Over the years, the capital amounts were paid off and the annual O&M costs were offset by the Gas Marketer transaction fee recoveries. The rate riders were set to zero and removed at the end of 2011. The immaterial residual balances in the last remaining commodity unbundling deferral accounts (e.g. the Residential and Commercial O&M deferral accounts) at December 31, 2011 were closed out to the Residual Delivery Rate Riders account.

Deferral and rate rider treatment are no longer practical given that anticipated Program cost/recovery variances are immaterial relative to FEI's broader operation (i.e., cannot practicably be billed because amounts are too small when allocated across all non-bypass customers).

6. All of the fee structures proposed appear to be punitive to one or more marketers that have continued to participate following the initial enrollment blitz in 2007-2008. Given Gas Marketers cannot change the rate that has been contracted with our customers, should FortisBC defer any material change to fees until expiry of all of the existing Customer Choice agreements? Please explain in detail why or why not?

Response:

No, FEI does not believe fee changes should be deferred. The Company notes that there was never any stipulation when the Program was established that fees would remain fixed. FEI has previously commented that Program fees should be reviewed on a regular basis and expects that Gas Marketers have generally understood that rates could increase.

7. FortisBC is suggesting models for program cost recovery where our cost per enrolled customer changes annually based on other gas marketer participation levels and the marketing success rate of our competitors. Under each of the proposed recovery models our costs will be dependent on either the participation and/or activity of our competition.

a. Does FortisBC have any plans to provide daily enrollment and expiry profiles to gas marketers for all of the customers participating in the Customer Choice program? Why or why not? If not, when offering a five year product to our customers, how should gas marketers budget for costs under each of the proposed recovery options where cost per customer may change materially year-over-year?

Response:

No, FEI has no plans to adjust Customer Choice reporting at this time. The Company believes that Gas Marketers appropriately bear the risk of certain program costs changing when they choose to participate in the Program. Gas Marketers are ultimately responsible for managing their business and deciding how best to address changing operating costs.

b. Does FortisBC agree that material uncertainty in cost structure would likely lead to an increase in the margin required by Gas Marketers which would subsequently have a negative impact on competition, sales and enrollments? If not, why not?

Response:

FEI has no insight into the cost structures of typical Gas Marketer operations or whether the proposed changes are material. The proposed changes in recoveries better recover program costs and more accurately reflect cost causation. FEI cannot definitively ascertain how this change may affect specific retailers.

8. For each of the four (4) proposed recovery options:

a. What would the 2015 fees have been for the remaining marketers if the two largest marketers had exited under a default on December 31, 2014?

Response:

The tables below show the impact on the four options presented in the Application, if the two marketers with the largest customer base had exited the Program on December 31 2014, and assuming the customers belonging to these Gas Marketers return to FEI gas supply and are not absorbed by the remaining Gas Marketers.

Fixed and variable fees would increase in all four options in comparison to those initially presented in the Application; however FEI is of the belief that Option 4 still provides the most balanced proposal to the remaining Gas Marketers. As stated in Section 5.6.5 of the Application, "Option 4 does a better job than other options of fairly allocating Program costs in a way consistent with the principle of cost causation. Costs are shouldered by the Marketers most often using Program services and infrastructure, but the fixed fee ensures that all Marketers are charged for continued access to the Program benefits…."[5]

Table 1: Quantitative assessment of Option 1 – 6 Smallest Marketers Remaining

Option 1 - Equal Fixed Fee per Marketer

FIXED FEE CALCULATION	A	B Number of Marketers	D = A/B Annual Fee per Marketer	E = D/12 Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	6	$ 80,825	$ 6,735

Gas Marketer	F Active Customers	G 2015 Actual Recoveries	H = D Proposed Recovery	I = H - G Impact on Marketer ($'s)	J = H/G - 1 Impact on Marketer (%)
Company A	-	$ -	$ 80,825	$ 80,825	-
Company B	51	11,457	80,825	69,367	**605%**
Company C	68	17,599	80,825	63,226	**359%**
Company D	735	14,951	80,825	65,873	**441%**
Company E	2,673	39,229	80,825	41,596	**106%**
Company F	3,996	113,736	80,825	(32,911)	**-29%**
Total Customers	**7,523**	**$ 196,972**	**$ 484,947**		

[5] Exhibit B-1, Section 5.6.5 Assessment of Option 4: Combination Fee, page 37.

Table 2: Quantitative assessment of Option 2 – 6 Smallest Marketers Remaining

Option 2 - Proportional Fixed Fee per Marketer

Gas Marketer	A Active Customers	B = A *Marketer* / A *Total* Market Share (%)	C 2015 Actual Recoveries	D = B x $484,947 Proposed Recovery	E = D - C Impact on Marketer ($'s)	F = D/C -1 Impact on Marketer (%)
Company A	-	0.0%	$ -	$ -	$ -	-
Company B	51	0.7%	11,457	$ 3,288	$ (8,170)	**-71%**
Company C	68	0.9%	17,599	$ 4,383	$ (13,215)	**-75%**
Company D	735	9.8%	14,951	$ 47,380	$ 32,428	**217%**
Company E	2,673	35.5%	39,229	$ 172,307	$ 133,078	**339%**
Company F	3,996	53.1%	113,736	$ 257,590	$ 143,854	**126%**
Total Customers	**7,523**	**100%**	**$ 196,972**	**$ 484,947**		

Table 3: Quantitative assessment of Option 3 – 6 Smallest Marketers Remaining

Option 3 - Variable Fee per Customer

VARIBLE FEE CALCULATION	A **Proposed Gas Marketer Cost Allocation**	B **Total Customers**	C = A/B **Variable Fee per Customer (annual)**		D = C/12 **Variable Fee per Customer (monthly)**	
Infrastructure Support	$ 175,769	7,523	$ 23.36	per customer	$ 1.95	D1
Program Administration	$ 309,178	7,523	$ 41.10	per customer	$ 3.42	D2
Total Marketer Recovery	$ 484,947					

Gas Marketer	E Active Customers	F 2015 Actual Recoveries	G = E x (D1 + D2) x 12 Proposed Recovery	H = G - F Impact on Marketer ($'s)	I = G/F - 1 Impact on Marketer (%)
Company A	-	$ -	$ -	$ -	-
Company B	51	11,457	3,288	(8,170)	**-71%**
Company C	68	17,599	4,383	(13,215)	**-75%**
Company D	735	14,951	47,380	32,428	**217%**
Company E	2,673	39,229	172,307	133,078	**339%**
Company F	3,996	113,736	257,590	143,854	**126%**
Total Customers	**7,523**	**$ 196,972**	**$ 484,947**		

Table 4: Quantitative assessment of Option 4 – 6 Smallest Marketers Remaining

Option 4 - Combination Fee

FIXED FEE CALCULATION	A	B Number of Marketers	C Percentage to be Recovered with Fixed Fee	D = A/B x C Annual Fee per Marketer	E = D/12 Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	6	40%	$ 32,330	$ 2,694
Total Fixed Allocation	$ 193,979				

VARIABLE FEE CALCULATION	F Proposed Gas Marketer Cost Allocation	G Total Customers	H = F/G Variable Fee per Customer (annual)		I = H/12 Variable Fee per Customer (monthly)	
Infrastructure Support	$ 105,461	7,523	$ 14.02	per customer	$ 1.17	I1
Program Administration	$ 185,507	7,523	$ 24.66	per customer	$ 2.05	I2
Total Variable Allocation	$ 290,968					

Gas Marketer	J Active Customers	K 2015 Actual Recoveries	L = D Proposed Fixed Fee	M = J x (I1 +I2) x 12 Proposed Variable Fee	N = L + M Total Proposed Recovery	O = N - K Impact on Marketer ($'s)	P = N/K - 1 Impact on Marketer (%)
Company A	-	$ -	$ 32,330	$ -	$ 32,330	$ 32,330	-
Company B	51	11,457	32,330	1,973	34,302	22,845	**199%**
Company C	68	17,599	32,330	2,630	34,960	17,361	**99%**
Company D	735	14,951	32,330	28,428	60,758	45,806	**306%**
Company E	2,673	39,229	32,330	103,384	135,714	96,485	**246%**
Company F	3,996	113,736	32,330	154,554	186,884	73,148	**64%**
Total Customers	**7,523**	**$ 196,972**	**$ 193,979**	**$ 290,968**	**$ 484,947**		

b. What would 2015 fees have been for the remaining marketers if the two smallest marketers exited under a default on December 31, 2014?

Response:

The tables below show the impact on the four options presented in the Application, if the two marketers with the smallest customer base had exited the Program on December 31 2014, and assuming the customers belonging to these Gas Marketers return to FEI gas supply and are not absorbed by the remaining Gas Marketers.

Fixed and variable fees would increase in all four options in comparison to those initially presented in the Application, but the proportional increase is less than those presented above in FEI response to Access IR 1.8.a where the scenario has the two largest marketers exiting the Program. As indicated in the Application and in response to Access IR 1.8.a, FEI is of the belief that Option 4 in this scenario still provides the most balanced proposal to the remaining Gas Marketers. As stated in Section 5.6.5 of the Application, "Option 4 does a better job than other options of fairly allocating Program costs in a way consistent with the principle of cost causation. Costs are shouldered by the Marketers most often using Program services and infrastructure, but the fixed fee ensures that all Marketers are charged for continued access to the Program benefits…."[6]

Table 1: Quantitative assessment of Option 1 – 6 Largest Marketers Remaining

Option 1 - Equal Fixed Fee per Marketer

FIXED FEE CALCULATION	A	B Number of Marketers	D = A/B Annual Fee per Marketer	E = D/12 Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	6	$ 80,825	$ 6,735

Gas Marketer	F Active Customers	G 2015 Actual Recoveries	H = D Proposed Recovery	I = H - G Impact on Marketer ($'s)	J = H/G - 1 Impact on Marketer (%)
Company C	68	17,599	80,825	63,226	**359%**
Company D	735	14,951	80,825	65,873	**441%**
Company E	2,673	39,229	80,825	41,596	**106%**
Company F	3,996	113,736	80,825	(32,911)	**-29%**
Company G	6,707	77,577	80,825	3,247	**4%**
Company H	17,834	144,537	80,825	(63,712)	**-44%**
Total Customers	**32,013**	**$ 407,629**	**$ 484,947**		

[6] Exhibit B-1, Section 5.6.5 Assessment of Option 4: Combination Fee, page 37.

Table 2: Quantitative assessment of Option 2 – 6 Largest Marketers Remaining

Option 2 - Proportional Fixed Fee per Marketer

Gas Marketer	A Active Customers	B = A *Marketer* / A *Total* Market Share (%)	C 2015 Actual Recoveries	D = B x $484,947 Proposed Recovery	E = D - C Impact on Marketer ($'s)	F = D/C -1 Impact on Marketer (%)
Company C	68	0.2%	17,599	$ 1,030	$ (16,569)	**-94%**
Company D	735	2.3%	14,951	$ 11,134	$ (3,817)	**-26%**
Company E	2,673	8.3%	39,229	$ 40,492	$ 1,263	**3%**
Company F	3,996	12.5%	113,736	$ 60,533	$ (53,203)	**-47%**
Company G	6,707	21.0%	77,577	$ 101,601	$ 24,023	**31%**
Company H	17,834	55.7%	144,537	$ 270,157	$ 125,621	**87%**
Total Customers	**32,013**	**100%**	**$ 407,629**	**$ 484,947**		

Table 3: Quantitative assessment of Option 3 – 6 Largest Marketers Remaining

Option 3 - Variable Fee per Customer

VARIBLE FEE CALCULATION	A **Proposed Gas Marketer Cost Allocation**	B **Total Customers**	C = A/B **Variable Fee per Customer (annual)**		D = C/12 **Variable Fee per Customer (monthly)**
Infrastructure Support	$ 175,769	32,013	$ 5.49	per customer	$ 0.46
Program Administration	$ 309,178	32,013	$ 9.66	per customer	$ 0.80
Total Marketer Recovery	$ 484,947				

Gas Marketer	E Active Customers	F 2015 Actual Recoveries	G = E x (D1 + D2) x 12 Proposed Recovery	H = G - F Impact on Marketer ($'s)	I = G/F - 1 Impact on Marketer (%)
Company C	68	17,599	1,030	(16,569)	**-94%**
Company D	735	14,951	11,134	(3,817)	**-26%**
Company E	2,673	39,229	40,492	1,263	**3%**
Company F	3,996	113,736	60,533	(53,203)	**-47%**
Company G	6,707	77,577	101,601	24,023	**31%**
Company H	17,834	144,537	270,157	125,621	**87%**
Total Customers	**32,013**	**$ 407,629**	**$ 484,947**		

Table 4: Quantitative assessment of Option 4 – 6 Largest Marketers Remaining

Option 4 - Combination Fee

FIXED FEE CALCULATION	A	B Number of Marketers	C Percentage to be Recovered with Fixed Fee	D = A/B x C Annual Fee per Marketer	E = D/12 Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	6	40%	$ 32,330	$ 2,694
Total Fixed Allocation	$ 193,979				

VARIABLE FEE CALCULATION	F Proposed Gas Marketer Cost Allocation	G Total Customers	H = F/G Variable Fee per Customer (annual)		I = H/12 Variable Fee per Customer (monthly)	
Infrastructure Support	$ 105,461	32,013	$ 3.29	per customer	$ 0.27	I1
Program Administration	$ 185,507	32,013	$ 5.79	per customer	$ 0.48	I2
Total Variable Allocation	$ 290,968					

Gas Marketer	J Active Customers	K 2015 Actual Recoveries	L = D Proposed Fixed Fee	M = J x (I1 +I2) x 12 Proposed Variable Fee	N = L + M Total Proposed Recovery	O = N - K Impact on Marketer ($'s)	P = N/K - 1 Impact on Marketer (%)
Company C	68	17,599	32,330	618	32,948	15,349	**87%**
Company D	735	14,951	32,330	6,680	39,010	24,059	**161%**
Company E	2,673	39,229	32,330	24,295	56,625	17,396	**44%**
Company F	3,996	113,736	32,330	36,320	68,650	(45,086)	**-40%**
Company G	6,707	77,577	32,330	60,960	93,290	15,713	**20%**
Company H	17,834	144,537	32,330	162,094	194,424	49,888	**35%**
Total Customers	**32,013**	**$ 407,629**	**$ 193,979**	**$ 290,968**	**$ 484,947**		

c. If the enrollment trend experienced over the prior five years were to continue for the next five years (for simplicity, assume the same average annual decline across all marketers), what would fees look like for each marketer for each of the next five years?

Response:

FEI does not anticipate the past five year enrolment trend to be reflective of future enrolment trends. The year 2012 experienced an exceptionally high departure from the program when almost half of the program's customer base that had enrolled at program inception in 2007 chose not to renew their gas marketer contracts. FEI does not anticipate such a large percentage decrease in future years.

For the purposes of responding to this IR, FEI has used forecasted enrolment figures as per the forecasting methodology described in response to BCOAPO IR 1.3.1. Table 1 below shows FEI's forecasted Customer Choice participation figures. The table displays forecast information through to October 31 2018 only, as any projections beyond this time frame would be unreliable and possibly misleading.

Table 1: Customer Choice Forecasted Program Participation

Year	Forecasted Active Customers
2016	30,251
2017	27,785
2018	21,632

For simplicity of presentation of these scenarios, Program costs were held constant, based on the 2015 actual program expenses of $484,947 presented in the Application. In the forecasted scenarios below, the recoveries per marketer appear to be static year to year as the total marketer recovery required does not change from $484,947. The forecasted scenarios highlight the changes to the variable fees from year to year. Fixed fees do not change, as they are based on the number of marketers in the program, not customer enrolments.

Table 2 below shows the annual equal fixed fee to marketers for forecasted years 2017 through 2019. The annual fee per marketer in Option 1 does not change year to year as this option is based on total number of marketers in the Program, not customer enrolments.

Table 2: Option 1 Equal Fixed Fee per Marketer, Forecast Years 2017 – 2019

Option 1 - Equal Fixed Fee per Marketer

Forecasted recovery for 2017 - 2019

FIXED FEE CALCULATION	A	B Number of Marketers	D = A/B Annual Fee per Marketer	E = D/12 Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	8	$ 60,618	$ 5,052

Tables 3 to 5 below show the proportional fixed fee to marketers for forecasted years 2017 through 2019. In this scenario, the only change is in each marketer's forecasted number of actual customers. These numbers are reduced by proportionally the same amount for each marketer, therefore each marketer's percentage of marketer share does not change, and the proposed recovery amount per marketer does not change year to year.

Table 3: Option 2 Proportional Fixed Fee per Marketer, 2017 Forecast

Option 2 - Proportional Fixed Fee per Marketer

Forecasted recovery for 2017

	A	B = A *Marketer* / A *Total*	C	D = B x $484,947	E = D - C	F = D/C -1
Gas Marketer	**Forecasted Customers Dec 31 2016**	**Market Share (%)**	**2015 Actual Recoveries**	**Proposed Recovery**	**Impact on Marketer ($'s)**	**Impact on Marketer (%)**
Company A	-	0.0%	$ -	$ -	$ -	-
Company B	48	0.2%	11,457	$ 771	$ (10,686)	**-93%**
Company C	64	0.2%	17,599	$ 1,028	$ (16,570)	**-94%**
Company D	693	2.3%	14,951	$ 11,116	$ (3,835)	**-26%**
Company E	2,522	8.3%	39,229	$ 40,427	$ 1,199	**3%**
Company F	3,770	12.5%	113,736	$ 60,437	$ (53,299)	**-47%**
Company G	6,328	20.9%	77,577	$ 101,439	$ 23,862	**31%**
Company H	16,826	55.6%	144,537	$ 269,728	$ 125,191	**87%**
Total Customers	**30,251**	**100%**	**$ 419,086**	**$ 484,947**		

Table 4: Option 2 Proportional Fixed Fee per Marketer, 2018 Forecast

Option 2 - Proportional Fixed Fee per Marketer

Forecasted recovery for 2018

	A	B = A *Marketer* / A *Total*	C	D = B x $484,947	E = D - C	F = D/C -1
Gas Marketer	**Forecasted Customers Dec 31 2017**	**Market Share (%)**	**2015 Actual Recoveries**	**Proposed Recovery**	**Impact on Marketer ($'s)**	**Impact on Marketer (%)**
Company A	-	0.0%	$ -	$ -	$ -	-
Company B	44	0.2%	11,457	$ 771	$ (10,686)	**-93%**
Company C	59	0.2%	17,599	$ 1,028	$ (16,570)	**-94%**
Company D	637	2.3%	14,951	$ 11,116	$ (3,835)	**-26%**
Company E	2,316	8.3%	39,229	$ 40,427	$ 1,199	**3%**
Company F	3,463	12.5%	113,736	$ 60,437	$ (53,299)	**-47%**
Company G	5,812	20.9%	77,577	$ 101,439	$ 23,862	**31%**
Company H	15,454	55.6%	144,537	$ 269,728	$ 125,191	**87%**
Total Customers	**27,785**	**100%**	**$ 419,086**	**$ 484,947**		

Table 5: Option 2 Proportional Fixed Fee per Marketer, 2019 Forecast

Option 2 - Proportional Fixed Fee per Marketer

Forecasted recovery for 2019

	A	B = A *Marketer / A Total*	C	D = B x $484,947	E = D - C	F = D/C -1
Gas Marketer	**Forecasted Customers Oct 31 2018**	**Market Share (%)**	**2015 Actual Recoveries**	**Proposed Recovery**	**Impact on Marketer ($'s)**	**Impact on Marketer (%)**
Company A	-	0.0%	$ -	$ -	$ -	-
Company B	34	0.2%	11,457	$ 771	$ (10,686)	**-93%**
Company C	46	0.2%	17,599	$ 1,028	$ (16,570)	**-94%**
Company D	496	2.3%	14,951	$ 11,116	$ (3,835)	**-26%**
Company E	1,803	8.3%	39,229	$ 40,427	$ 1,199	**3%**
Company F	2,696	12.5%	113,736	$ 60,437	$ (53,299)	**-47%**
Company G	4,525	20.9%	77,577	$ 101,439	$ 23,862	**31%**
Company H	12,032	55.6%	144,537	$ 269,728	$ 125,191	**87%**
Total Customers	**21,632**	**100%**	**$ 419,086**	**$ 484,947**		

Tables 6 to 8 below show the changes to Option 3's variable fee per customer for forecasted years 2017 through 2019. With the forecasted reduction in total customer Program participation from year to year, the sum of the two variable fees per customer are forecast to increase annually from $16.03 in 2017, to $17.46 in 2018, to $22.42 in 2019. The area boxed in a red border shows the changes to the total customer count and the variable fees in each scenario presented. Again, in this scenario, the proposed recovery amounts for each marketer does not change year to year as the total marketer recovery amount has remained static for purposes of this scenario.

Table 6: Option 3 Variable Fee per Customer, 2017 Forecast

Option 3 - Variable Fee per Customer

Forecasted recovery for 2017

VARIBLE FEE CALCULATION	A Proposed Gas Marketer Cost Allocation	B Total Customers	C = A/B Variable Fee per Customer (annual)		D = C/12 Variable Fee per Customer (monthly)	
Infrastructure Support	$ 175,769	30,251	$ 5.81	per customer	$ 0.48	D1
Program Administration	$ 309,178	30,251	$ 10.22	per customer	$ 0.85	D2
Total Marketer Recovery	$ 484,947					

Gas Marketer	E Forecasted Customers Dec 31 2016	F 2015 Actual Recoveries	G = E x (D1 + D2) x 12 Proposed Recovery	H = G - F Impact on Marketer ($'s)	I = G/F - 1 Impact on Marketer (%)
Company A	-	$ -	$ -	$ -	-
Company B	48	11,457	771	(10,686)	-93%
Company C	64	17,599	1,028	(16,570)	-94%
Company D	693	14,951	11,116	(3,835)	-26%
Company E	2,522	39,229	40,427	1,199	3%
Company F	3,770	113,736	60,437	(53,299)	-47%
Company G	6,328	77,577	101,439	23,862	31%
Company H	16,826	144,537	269,728	125,191	87%
Total Customers	**30,251**	**$ 419,086**	**$ 484,947**		

Table 7: Option 3 Variable Fee per Customer, 2018 Forecast

Option 3 - Variable Fee per Customer

Forecasted recovery for 2018

VARIBLE FEE CALCULATION	A Proposed Gas Marketer Cost Allocation	B Total Customers	C = A/B Variable Fee per Customer (annual)		D = C/12 Variable Fee per Customer (monthly)	
Infrastructure Support	$ 175,769	27,785	$ 6.33	per customer	$ 0.53	D1
Program Administration	$ 309,178	27,785	$ 11.13	per customer	$ 0.93	D2
Total Marketer Recovery	$ 484,947					

Gas Marketer	E Forecasted Customers Dec 31 2017	F 2015 Actual Recoveries	G = E x (D1 + D2) x 12 Proposed Recovery	H = G - F Impact on Marketer ($'s)	I = G/F - 1 Impact on Marketer (%)
Company A	-	$ -	$ -	$ -	-
Company B	44	11,457	771	(10,686)	**-93%**
Company C	59	17,599	1,028	(16,570)	**-94%**
Company D	637	14,951	11,116	(3,835)	**-26%**
Company E	2,316	39,229	40,427	1,199	**3%**
Company F	3,463	113,736	60,437	(53,299)	**-47%**
Company G	5,812	77,577	101,439	23,862	**31%**
Company H	15,454	144,537	269,728	125,191	**87%**
Total Customers	**27,785**	**$ 419,086**	**$ 484,947**		

Table 8: Option 3 Variable Fee per Customer, 2019 Forecast

Option 3 - Variable Fee per Customer

Forecasted recovery for 2019

VARIBLE FEE CALCULATION	A	B	C = A/B		D = C/12	
	Proposed Gas Marketer Cost Allocation	Total Customers	Variable Fee per Customer (annual)		Variable Fee per Customer (monthly)	
Infrastructure Support	$ 175,769	21,632	$ 8.13	per customer	$ 0.68	D1
Program Administration	$ 309,178	21,632	$ 14.29	per customer	$ 1.19	D2
Total Marketer Recovery	$ 484,947					

Gas Marketer	E Forecasted Customers Oct 31 2018	F 2015 Actual Recoveries	G = E x (D1 + D2) x 12 Proposed Recovery	H = G - F Impact on Marketer ($'s)	I = G/F - 1 Impact on Marketer (%)
Company A	-	$ -	$ -	$ -	-
Company B	34	11,457	771	(10,686)	-93%
Company C	46	17,599	1,028	(16,570)	-94%
Company D	496	14,951	11,116	(3,835)	-26%
Company E	1,803	39,229	40,427	1,199	3%
Company F	2,696	113,736	60,437	(53,299)	-47%
Company G	4,525	77,577	101,439	23,862	31%
Company H	12,032	144,537	269,728	125,191	87%
Total Customers	**21,632**	**$ 419,086**	**$ 484,947**		

Tables 9 to 11 below show the changes to Option 4's variable fee portion of the combination fee, for forecasted years 2017 through 2019. With the forecasted reduction in total customer Program participation from year to year, the sum of the two variable fees per customer are forecast to increase annually from $9.68 in 2017, to $10.54 in 2018, to $13.54 in 2019. The area boxed in a red border shows the changes to the total customer count and the variable fees in each scenario presented. The fixed annual fee would remain static at $24,000 annually per marketer, as this fee is based on the total fixed marketer allocation which has remained static for the purposes of this scenario. As well, the proposed recovery amounts for each marketer does not change year to year as the total marketer recovery amount has remained static for purposes of this scenario.

Table 9: Option 4 Combination Fee, 2017 Forecast

Option 4 - Combination Fee

Forecasted recovery for 2017

FIXED FEE CALCULATION	A	B	C	D = A/B x C	E = D/12
		Number of Marketers	Percentage to be Recovered with Fixed Fee	Annual Fee per Marketer	Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	8	40%	$ 24,000	$ 2,000
Total Fixed Allocation	$ 192,000				

VARIABLE FEE CALCULATION	F	G	H = F/G		I = H/12	
	Proposed Gas Marketer Cost Allocation	Total Customers	Variable Fee per Customer (annual)		Variable Fee per Customer (monthly)	
Infrastructure Support	$ 106,179	30,251	$ 3.51	per customer	$ 0.29	I1
Program Administration	$ 186,769	30,251	$ 6.17	per customer	$ 0.51	I2
Total Variable Allocation	$ 292,947					

Gas Marketer	J Forecasted Customers Dec 31 2016	K 2015 Actual Recoveries	L = D Proposed Fixed Fee	M = J x (I1 +I2) x 12 Proposed Variable Fee	N = L + M Total Proposed Recovery	O = N - K Impact on Marketer ($'s)	P = N/K - 1 Impact on Marketer (%)
Company A	-	$ -	$ 24,000	$ -	$ 24,000	$ 24,000	-
Company B	48	11,457	24,000	466	24,466	13,009	**114%**
Company C	64	17,599	24,000	621	24,621	7,022	**40%**
Company D	693	14,951	24,000	6,715	30,715	15,764	**105%**
Company E	2,522	39,229	24,000	24,421	48,421	9,193	**23%**
Company F	3,770	113,736	24,000	36,509	60,509	(53,227)	**-47%**
Company G	6,328	77,577	24,000	61,277	85,277	7,700	**10%**
Company H	16,826	144,537	24,000	162,937	186,937	42,401	**29%**
Total Customers	**30,251**	**$ 419,086**	**$ 192,000**	**$ 292,947**	**$ 484,947**		

Table 10: Option 4 Combination Fee, 2018 Forecast

Option 4 - Combination Fee

Forecasted recovery for 2018

FIXED FEE CALCULATION	A	B	C	D = A/B x C	E = D/12
		Number of Marketers	Percentage to be Recovered with Fixed Fee	Annual Fee per Marketer	Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	8	40%	$ 24,000	$ 2,000
Total Fixed Allocation	$ 192,000				

VARIABLE FEE CALCULATION	F	G	H = F/G		I = H/12	
	Proposed Gas Marketer Cost Allocation	Total Customers	Variable Fee per Customer (annual)		Variable Fee per Customer (monthly)	
Infrastructure Support	$ 106,179	27,785	$ 3.82	per customer	$ 0.32	I1
Program Administration	$ 186,769	27,785	$ 6.72	per customer	$ 0.56	I2
Total Variable Allocation	$ 292,947					

Gas Marketer	J Forecasted Customers Dec 31 2017	K 2015 Actual Recoveries	L = D Proposed Fixed Fee	M = J x (I1 +I2) x 12 Proposed Variable Fee	N = L + M Total Proposed Recovery	O = N - K Impact on Marketer ($'s)	P = N/K - 1 Impact on Marketer (%)
Company A	-	$ -	$ 24,000	$ -	$ 24,000	$ 24,000	-
Company B	44	11,457	24,000	466	24,466	13,009	**114%**
Company C	59	17,599	24,000	621	24,621	7,022	**40%**
Company D	637	14,951	24,000	6,715	30,715	15,764	**105%**
Company E	2,316	39,229	24,000	24,421	48,421	9,193	**23%**
Company F	3,463	113,736	24,000	36,509	60,509	(53,227)	**-47%**
Company G	5,812	77,577	24,000	61,277	85,277	7,700	**10%**
Company H	15,454	144,537	24,000	162,937	186,937	42,401	**29%**
Total Customers	**27,785**	**$ 419,086**	**$ 192,000**	**$ 292,947**	**$ 484,947**		

Table 11: Option 4 Combination Fee, 2019 Forecast

Option 4 - Combination Fee

Forecasted recovery for 2019

FIXED FEE CALCULATION	A	B	C	D = A/B x C	E = D/12
		Number of Marketers	Percentage to be Recovered with Fixed Fee	Annual Fee per Marketer	Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	8	40%	$ 24,000	$ 2,000
Total Fixed Allocation	$ 192,000				

VARIABLE FEE CALCULATION	F	G	H = F/G		I = H/12	
	Proposed Gas Marketer Cost Allocation	Total Customers	Variable Fee per Customer (annual)		Variable Fee per Customer (monthly)	
Infrastructure Support	$ 106,179	21,632	$ 4.91	per customer	$ 0.41	I1
Program Administration	$ 186,769	21,632	$ 8.63	per customer	$ 0.72	I2
Total Variable Allocation	$ 292,947					

Gas Marketer	J Forecasted Customers Oct 31 2018	K 2015 Actual Recoveries	L = D Proposed Fixed Fee	M = J x (I1 +I2) x 12 Proposed Variable Fee	N = L + M Total Proposed Recovery	O = N - K Impact on Marketer ($'s)	P = N/K - 1 Impact on Marketer (%)
Company A	-	$ -	$ 24,000	$ -	$ 24,000	$ 24,000	-
Company B	34	11,457	24,000	466	24,466	13,009	**114%**
Company C	46	17,599	24,000	621	24,621	7,022	**40%**
Company D	496	14,951	24,000	6,715	30,715	15,764	**105%**
Company E	1,803	39,229	24,000	24,421	48,421	9,193	**23%**
Company F	2,696	113,736	24,000	36,509	60,509	(53,227)	**-47%**
Company G	4,525	77,577	24,000	61,277	85,277	7,700	**10%**
Company H	12,032	144,537	24,000	162,937	186,937	42,401	**29%**
Total Customers	**21,632**	**$ 419,086**	**$ 192,000**	**$ 292,947**	**$ 484,947**		

d. What would the 2015 fee structure look like if there were only one marketer participating in the Customer Choice Program in 2014 actively marketing and enrolling one customer per month?

Response:

If there was only one marketer participating in the Customer Choice program, under each of the four proposed recovery options, the one marketer would bear the entire cost of the proposed Gas Marketer allocated recovery, regardless of the number of customers that were being enrolled.

9. Given Gas Marketers do not have any control over FortisBC contractors; is it fair for Gas Marketers to pay for the entire "Technology Sustainment" category when many of the duties stated in 3.1.1.2 could also be categorized as "Infrastructure Sustainment"? If so, why? FortisBC states that *"FEI would no longer incur these technology sustainment costs in the future if the Program no longer existed"* which can be said about all of the O&M costs. What portion of the work included in "Technology Sustainment" is required to provide continued access to the Customer Choice program for all FortisBC customers versus work that arises from specific Gas Marketers?

Response:

FEI acknowledges that some Program costs are challenging to categorize and allocate. The Company has endeavored to allocate costs fairly and in a way that is consistent with its stated allocation principles (i.e., the Application, page 12). FEI maintains that third party vendor work described as "technology sustainment," is undertaken solely to sustain the hardware and software applications specific to the Program, which includes the GEM application and the systems related to generating the marketer supply requirements (MSR). If the Customer Choice Program was dissolved, these costs would cease once necessary steps were taken to wind down the Program.

Please also refer to the response to BCUC IR 1.6.6 for further information.

10. Given Gas Marketers do not have any control over FortisBC employees or their compensation; is it fair for Gas Marketers to pay for the entire "Administration" category when fewer than 40% of duties stated in 3.1.3 relate to interactions with specific Gas Marketers? If so, why? Has the number of interactions with Gas Marketers increased or decreased over the past five years?

Response:

FEI acknowledges that the number of interactions our administrative staff have had with Gas Marketers has decreased since 2012, when the Company in-sourced its contact centre services. However, this information is not tracked so FEI cannot define the actual reduction of interactions per year.

The precedent for FEI recovering Program operating related costs from Gas Marketers extends back to the original launch of Commercial Unbundling in 2004. This principle was set out by the Commission in Letter No. L-25-03, Appendix A, page 3:

> 12. Program Cost Recovery
>
> The implementation and maintenance costs will be recovered from customers in those rate classes that are eligible for the service. **Annual operating costs (transactional related costs) should be recovered, to the extent possible, from marketers**. Terasen Gas shareholders will not be at risk for the costs of implementing and maintaining the service, or for any assets stranded by unbundling. [emphasis added]

FEI maintains that irrespective of the number of interactions that administrative staff have with Gas Marketers, the Administration costs are indeed fixed. Further, these costs would not exist if the Program was dissolved.

11 Does FortisBC have any statistical evidence on the success of its existing Customer education spend? Does FortisBC need to continue spending on Customer education?

Response:

With the exception of research conducted in 2015 when Customer Choice was launched on Vancouver Island and Whistler (see FEI response to BCOAPO IR 1.4.1), FEI has not conducted analysis on the effectiveness of the Customer Education Plan since the years immediately following the Program's launch. Going forward, the Company has recommended adjustments to the Education Plan as described in the response to BCUC IR 1.9.1.

12 How will Gas Marketers audit FortisBC's allocated expenditures and annual fee calculations? What granularity will be provided into FortisBC expenditures? Will there be a dispute process? If not, why not?

Response:

FEI will submit to the Commission, a cost-reconciliation along with its Annual Program Statistics report each February. FEI is not anticipating costs to be reported at any greater granularity than is current practice, being mindful to not increase related Program costs by adding additional administrative reporting work. Neither does the Company anticipate a dispute process. Proposed fee adjustments may be subject to review, including a regulatory review process, to be initiated at the discretion of the Commission.

For further discussion on this matter, please refer to the response to BCUC IR 1.14.1.

13 FortisBC's Basic, Delivery and Storage & Transport charges vary by customer size and rate class. Has FortisBC considered a volumetric based model for Customer Choice Program cost recovery? Please explain in detail why or why not. Has FortisBC considered a rate class based model for Customer Choice Program cost recovery (i.e. differing charges for Rate 1, Rate 2 & Rate 3)? Please explain in detail why or why not.

Response:

A volumetric model for Customer Choice Program cost recovery is presented in Table 1 below. The table presents a modified version of FEI's recommended cost allocation alternative , Option 4 – Combination Fee. Instead of using the number of each retailer's enrolled customers to prorate variable fees, FEI has used the actual annual Gas Marketer GJ volumes for 2015, as per the Marketer Supply Requirement (MSR) reports.

FEI is not considering a rate class based model for Customer Choice Program cost recovery. A rate class based model is contrary to the principles of cost causation and administrative simplicity, which was a key focus when the Program was designed in consultation with Gas Marketers. FEI believes that a volumetric based model that also accounts for rate class will increase program administration costs.

Table 1: Volumetric Model for Customer Choice Program cost recovery

Option 4 - Combination Fee by Gas Volume Supplied

FIXED FEE CALCULATION	A	B Number of Marketers	C Percentage to be Recovered with Fixed Fee	D = A/B x C Annual Fee per Marketer	E = D/12 Monthly Fee per Marketer
Total Marketer Recovery	$ 484,947	8	40%	$ 24,000	$ 2,000
Total Fixed Allocation	$ 192,000				

VARIABLE FEE CALCULATION	F Proposed Gas Marketer Cost Allocation	G 2015 Total GJs	H = F/G Variable Fee per GJ (annual)		I = H/12 Variable Fee per GJ (monthly)	
Infrastructure Support	$ 106,179	5,133,041	$ 0.02	per GJ	$ 0.0017	I1
Program Administration	$ 186,769	5,133,041	$ 0.04	per GJ	$ 0.0030	I2
Total Variable Allocation	$ 292,947					

Gas Marketer	J 2015 GJs	K 2015 Actual Recoveries	L = D Proposed Fixed Fee	M = J x (I1 +I2) x 12 Proposed Variable Fee	N = L + M Total Proposed Recovery	O = N - K Impact on Marketer ($'s)	P = N/K - 1 Impact on Marketer (%)
Company A	-	$ -	$ 24,000	$ -	$ 24,000	$ 24,000	-
Company B	7,249	11,457	24,000	414	24,414	12,957	**113%**
Company C	31,743	17,599	24,000	1,812	25,812	8,213	**47%**
Company D	1,000,215	14,951	24,000	57,083	81,083	66,132	**442%**
Company E	361,468	39,229	24,000	20,629	44,629	5,401	**14%**
Company F	919,211	113,736	24,000	52,460	76,460	(37,276)	**-33%**
Company G	700,187	77,577	24,000	39,960	63,960	(13,617)	**-18%**
Company H	2,112,968	144,537	24,000	120,589	144,589	52	**0%**
Total	**5,133,041**	**$ 419,086**	**$ 192,000**	**$ 292,947**	**$ 484,947**		