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July 11, 2016

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Energy Inc. (FEI)

Project No. 3698874

**Response to the Commercial Energy Consumers Association of British
Columbia (CEC) 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 CEC 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

FortisBC Energy Inc. (FEI or the Company) Customer Choice Program Cost Recovery Application (the Application)	Submission Date: July 11, 2016
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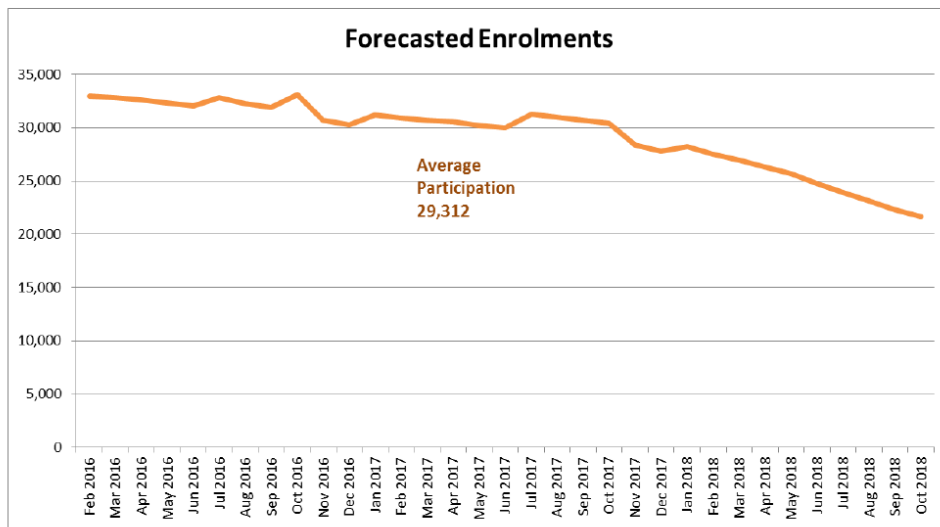
1 **1. Reference: Exhibit B-1, Page 2 and Page 23**

2. Reviewed the current transaction fees³ and determined they no longer sufficiently recover Program costs. Without adjustment to these fees and with no meaningful increase in participation rates, existing fees will consistently under-recover Program costs thereby burdening FEI's customers with extra cost;
3. Evaluated costs and recommended allocations in accordance with the principle of cost causality such that costs will be borne by those who cause them to be incurred;
4. Evaluated Gas Marketer recovery amounts experienced over the last several years, and projected the likely variances between the recoveries under the current fee structure in 2016 and future years; and
5. Considered various cost recovery mechanisms using both quantitative criteria (e.g., how much in costs would be allocated to each marketer), as well as qualitative considerations (e.g., Can the fee structure be efficiently changed to meet future recovery requirements s).

As a result, FEI recommends a mix of (1) flat monthly charges to better reflect the largely fixed cost nature of the infrastructure that supports Customer Choice; and (2) variable fees designed to recover operating costs from Gas Marketers based on their active, monthly customer count.

2

Figure 4-2: Forecasted Customer Choice Enrolments



3

- 4 1.1 Please provide FEI's historical and forecast customer numbers identifying
- 5 additions and attritions since inception and over the next 5 years, assuming ongoing low
- 6 natural gas prices and approval of the cost recoveries as proposed in this application.

7

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Response:

FEI stores the historical active customers by month based on the customers flowing on Gas Marketer contracts as of the December 1 entry date of each year. Annual customer additions are the net enrolments, reported yearly in the Customer Choice Program Statistics, representing gross customer enrolments into the Program, adjusted for 10-day cooling off drops and operation correction drops. The customer enrolment system does not differentiate between net new enrolments and re-enrolments so that information is not available. As such FEI cannot report at a more granular level to summarize both additions and attritions that occur each year.

Table 1 below identifies the historical Customer Choice Program participation from 2007 through to 2015. Forecasted customer enrolments are only provided for 2016 through 2018, as this information is gathered for the Company's energy supply department for planning purposes.

Table 1: Customer Choice Program Participation

Year	Annual Net Enrollments*	Year End Active Customers
2007	124,713	114,962
2008	48,656	140,301
2009	22,696	140,278
2010	11,306	129,641
2011	6,879	114,710
2012	14,937	60,460
2013	12,571	39,961
2014	9,443	34,720
2015	9,303	32,157
Forecast		
2016	9,024	30,251
2017	8,753	27,785
2018	8,490	21,632

**Net enrollments represent gross customer enrolments into the Program, adjusted for 10-day cooling off drops and operational correction drops.*

1.2 Please provide FEI's annual historical and forecast number of marketers and price groups, since inception and over the next 5 years, assuming ongoing low natural gas prices and approval of the cost recoveries as proposed in this application.

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Response:

The historical number of licensed Gas Marketers by year and the number of open Marketer Price Groups at December 31 of each year is provided in Table 1 below. FEI does not forecast the number of Gas Marketers expected to remain in the Customer Choice Program as FEI does not have insight into the intent of Gas Marketers to enter or exit the program.

Table 1: Historical Licensed Marketers and Marketer Price Groups

	2007	2008	2009	2010	2011	2012	2013	2014	2015
# of Licensed Marketers	19	15	13	13	14	12	10	9	8
# of Marketer Price Groups	164	238	280	324	322	326	261	166	108

The forecasted marketer price groups are provided in Table 2 below. The forecast is based on the average change in the number of marketer price groups from 2007 to 2015.

Table 2: Forecasted Marketer Price Groups

Year	Forecasted Marketer Price Groups¹
2016	106
2017	104
2018	102
2019	100
2020	98

¹ Calculation: Prior year actual Marketer Price Groups less factor of 2%
(Factor of 2% represents average decline in number of Marketer Price Groups from 2007 to 2015)

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1 2. **Reference: Exhibit B-1, Pages 5 and 6**

“Unbundling” was a term that described the splitting of commodity costs and delivery charges that was necessary on customer billing to facilitate the introduction of fixed rate products to customers. In 2007, references to Commercial and Residential Unbundling were discontinued in favour of the simpler name, “Customer Choice.” The Program made fixed-rate contracts available to Rate Schedule 1 Residential, and Rate Schedule 2 and 3 Commercial customers under a single name. Consistent with the principle of cost causation, it was intended for the

Program’s operating costs to be borne by Gas Marketers competing within the Program where possible.⁵

⁴ BCUC Order C-6-06, An Application by Terasen Gas Inc. for Approval of a Certificate of Public Convenience and Necessity for the Residential Commodity Unbundling Project, August 14, 2006, page 2.

2.1 Please provide FEI’s interpretation of ‘where possible’. Does this phrase refer to FEI’s ability to accurately allocate costs, the financial ability of Gas Marketers’ to absorb the cost, a meaningfulness threshold or something else?

Response:

This response also addresses CEC IR 1.2.1.1.

The term “where possible” originated during the launch of Commercial Unbundling in 2004 by Commission Letter No. L-25-03, which established the following principle related to Customer Choice Program Recover¹:

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.

Since then, the phrase, “where possible,” has been used by both FEI and Commission staff to refer to what to date have been indeterminate Program cost allocations. While over the long term FEI expected that Gas Marketers would generally fund Program costs less education, the Company anticipated that particular market or Program conditions may necessitate recovery flexibility. For example, when launched in 2007, a significant communications budget (i.e., \$5m) was allocated to the effort to help establish the Program. It was not anticipated that Gas Marketer fees would recover this original communication cost, so the specific amount expected to be recouped was indeterminate. Coming to an agreement with respect to what costs are allocated to either all non-bypass customers or Gas Marketers would clarify the reference to, “where possible.”

¹ Commission Letter No. L-25-03, Appendix A, page 3.

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1

2

3

4 2.1.1 If, in FEI's view, there is a quantitative consideration embedded in the
5 term, please provide FEI's view of what that is.

6

7 **Response:**

8 Please refer to the response to CEC IR 1.2.1.

9

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1 **3. Reference: Exhibit B-1, Page 6**

2 **2.2 PROGRAM FEES AS APPROVED IN 2006 CPCN**

FEI proposed four fees in the 2006 CPCN. Two of the fees already existed within Commercial Unbundling, including the Marketer Price Group Fee and the Customer Bill Fee. For the residential launch two additional fees were proposed: the Confirmation Letter Fee and the Dispute Resolution Fee. The four fees remain the same today with the exception of an adjustment to the Confirmation Letter Fee that is discussed further in Section 5. Each of the fees is described further below.

3
4 3.1 Why has FEI not adjusted three of the fees over the last decade?

5
6 **Response:**

7 In the Application, Figure 2-2, Customer Choice Program Costs and Recoveries 2007 to 2015,
8 Gas Marketer recoveries exceeded Program costs (excluding communication expenses) from
9 2008 through 2013. As such, FEI did not find it necessary to adjust fees until the 2014
10 Customer Choice Program Statistics were submitted on March 6, 2015, wherein FEI stated:

11 As Gas Marketer recoveries decline while Program Costs remain stable, FEI must
12 ensure that Program costs are recuperated by program fees. While the expansion to
13 Vancouver Island and Whistler will provide an extra infusion of program funds, FEI does
14 not believe it will be enough to cover the shortfall in Program funding in future years. The
15 Company will raise this issue and present the company's recommendations regarding
16 potential fee adjustments at the next Customer Choice Annual General Meeting².

17 In the subsequent Decision and Order A-12-15, the Commission made the following
18 determinations:

19 **The Panel approves FEI's request to increase the confirmation letter fee from**
20 **\$0.60 to \$1.02, retroactively to January 1, 2015.** The parties agree the confirmation
21 letter is clearly a gas marketer cost and no parties oppose the increase in the
22 confirmation letter fee to reflect increases in postage rates since 2006. **The Panel**
23 **approves FEI's proposal to charge gas marketers a one-time fee to recover the**
24 **difference between the previous confirmation letter fee and the revised**
25 **confirmation letter fee, from January 1, 2015 up to the time to change in fees is**
26 **implemented.**

27 **The Panel denies FEI's request to increase the customer bill fee at this time.** There
28 is disagreement among the parties as to whether the customer bill fee should be shared
29 and the appropriate division between gas marketers and FEI. The Panel is not
30 persuaded there is sufficient evidence on the record at this time to determine whether
31 the customer bill fee should be divided between FEI and gas marketers, and if so, a fair
32 and appropriate division of the costs. Therefore, **the Panel directs FEI to include an**

² Customer Choice Seventh Annual General Meeting proceeding, Exhibit B-1, pp. 19-20.

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1 **analysis and recommendation regarding the customer bill fee in its application on**
2 **the Customer Choice program fee structure.**³ [emphasis in original]

3

³ Commission Decision and Order A-12-15 in the 2014 Customer Choice Seventh Annual General Meeting, dated September 29, 2015, page 8.

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1 **4. Reference: Exhibit B-1, Page 6**

2 **1. Marketer Price Group Fee:**

3 The Marketer Price Group Fee is a \$150 monthly fee for Marketer Groups⁶ was based on
4 charges from FEI's outsourced billing provider to maintain each group. The fee was based
5 on an hourly charge-out rate for system support according to FEI's Client Services
6 Agreement with Accenture Business Services for Utilities; the third party FEI outsourced its
7 customer services to at that time. Gas Marketers may have as many Marketer Price Groups
8 as they require. However, the monthly amount due was intended to incent Gas Marketers to
9 keep the number of groups to a minimum and keep the Program simple and easy to
10 maintain.

2

3 4.1 What is the purpose of incenting Gas Marketers to keep the number of groups to
4 a minimum? Please explain to whom the value accrues from this incentive.

5

6 **Response:**

7 FEI had a Client Service Agreement in place with Accenture Business Services to deliver all
8 customer contact service from 2004 to 2011. At the time, the Marketer Price Group Fee was
9 intended to incent Marketers to keep the number of groups to a minimum. Marketers were
10 charged the monthly \$150 per price group fee, which was based on actual charges (not inflated)
11 from FEI's outsourced billing provider to maintain each group. These fees, based on that Client
12 Services Agreement, have not changed since the Commercial Unbundling Program launched in
13 2014⁴, and have been a direct flow-through to marketers .

14 With FEI's customer service now in-house, FEI incurs the cost of setting-up, maintaining and
15 closing marketer price groups and considers them insignificant. The Company has, therefore,
16 proposed in the Application (page 39) to change the Marketer Price Group Fee to a one time
17 set-up cost of \$125 because ongoing maintenance activities are minimal. With FEI's proposed
18 allocation methodology, Marketers can add new marketer groups as needed without impairing
19 overall Program costs.

20

⁴ FEI Commodity Unbundling and Customer Choice Phase 1 Cost Allocation Application, January 16, 2004, page 17.

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1 **5. Reference: Exhibit B-1, Page 7 and Page 39**

4. Dispute Resolution Fee:

To recover 50% of the estimated \$100,000 in dispute processing charges estimated at the time in 2006, both a fixed and variable dispute fee were approved. The fixed dispute fee was set at \$1,000 per Gas Marketer per year, while the variable fee was set at \$50 per dispute. Combined, it was estimated that the proposed dispute resolution fees would recover approximately \$50,000 in costs from Gas Marketers annually.

The Gas Marketer Dispute Resolution Fees were established based upon the following assumptions:

- Approximately 800 disputes per year;
- Six licensed Gas Marketers in the program;
- Annual operating costs for the dispute resolution process of \$100,000, primarily for Commission staff; and
- Goal to recover 50% of costs from Gas Marketers.

- **Dispute Fee:** This is a variable fee charged at the discretion of the BCUC, for customer-raised disputes where BCUC has ruled against the Marketer. FEI proposes to retain this fee unchanged in the new fee structure, at \$50 per ruled dispute.

 5.1 What was the rationale for recovering only 50% of the estimated dispute processing charges?

Response:

At Program inception, the intent was for the non-bypass customers to fund a large portion of the initial Program costs in order to make Customer Choice available to all non-bypass customers. The Program incurred substantial systems and communication costs in 2007 that Gas Marketer recoveries were not expected to cover.

Please refer to the response to BCUC IR 1.4.1 for further discussion on this topic.

 5.2 Please provide the percentage of dispute resolution costs anticipated to be recovered with the current proposed fee.

Response:

As per FEI Recommendation on page 19 of the Application: "Dispute resolution should be recovered entirely from the Gas Marketers as this expense is incurred in the course of

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1 Commission staff's administration of Gas Marketer activities. This accounts for approximately
2 20% of BCUC costs annually."

3 All four of the options proposed in the Application reflect 100 percent recovery from the Gas
4 Marketers for the Commission's charge for dispute resolution.

5 Please refer to the response to BCUC IR 1.4.3 for discussion pertaining to the \$50 dispute fee.

6

7

8

9 5.3 Would FEI consider adjusting this proportion? Please explain why or why not.

10

11 **Response:**

12 As noted in the response to CEC IR 1.5.2, FEI believes that 100 percent of the dispute
13 resolution costs should be borne by the Gas Marketers. Please also refer to the response to
14 BCUC IR 1.4.1.

15

16

17

18 5.4 If yes, what adjustment would FEI consider appropriate? Please explain why.

19

20 **Response:**

21 Please refer to the response to BCUC IR 1.4.1.

22

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1 **6. Reference: Exhibit B-1, Page 7**

Table 2-1: Description of Transactions Fees as Originally Approved in 2006⁸

Fee	Description	Cost Type	Introduced	Notes
Marketer Price Group Fee	\$150 per month for each active Marketer Price Group charged to Gas. Fee is designed to offset the cost to set up and maintain groups in the Customer Information System.	Operating cost recovery.	Commercial Unbundling, 2004	
Customer Bill Fee	\$0.40 per month charged to Gas Marketers based on the number of bills sent to customers. Fee is designed to offset the cost to produce and mail monthly bills.	Operating cost recovery.	Commercial Unbundling, 2004	
Confirmation Letter Fee	\$0.60 charged to Gas Marketers based on the number of enrolments that take place for a Gas Marketer. Fee is designed to recover cost to produce	Operating cost recovery.	Residential Unbundling, 2007	A request to adjust the fee to \$1.02 was approved in 2015.

2

Fee	Description	Cost Type	Introduced	Notes
	and mail confirmation letters.			
Dispute Resolution Fee	\$50 per dispute to be applied at discretion of BCUC.	Operating cost recovery.	Residential Unbundling, 2007	

3

1

4 6.1 Please provide a table indicating the revenues received from each of the fees
5 dating back to 2007.

6

7 **Response:**

8 Table 1 below shows the annual amounts billed to the Gas Marketers for each of the Program's
9 transaction fees from 2007 to 2015. Variances between the billed amounts shown below and
10 the recoveries reported in the annual Customer Choice Program Statistics are a result of
11 accruals.

12

Table 1: Customer Choice Program - Billed Transaction Fees

Year	Confirmation Letter Fee	Bill Fee	Dispute Fee	Marketer Price Group Fee	Yearly Total
2007	\$64,965	\$204,135	\$52,150	\$160,618	\$481,868
2008	\$35,909	\$572,586	\$120,461	\$353,700	\$1,082,655
2009	\$13,483	\$676,386	\$159,650	\$478,650	\$1,328,169
2010	\$10,357	\$639,131	\$116,550	\$547,650	\$1,313,688
2011	\$2,455	\$580,647	\$94,800	\$582,000	\$1,259,902

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Year	Confirmation Letter Fee	Bill Fee	Dispute Fee	Marketer Price Group Fee	Yearly Total
2012	\$9,618	\$487,402	\$64,350	\$617,550	\$1,178,920
2013	\$7,907	\$238,403	\$30,100	\$524,550	\$800,960
2014	\$6,180	\$177,019	\$8,150	\$357,300	\$548,649
2015	\$7,345	\$159,582	\$6,150	\$246,010	\$419,086

6.2 Please provide an annual forward projection for the fees FEI anticipates receiving from each of these fees for the next five years.

Response:

Table 1 below shows the forecasted recoveries from the Confirmation Letter and Customer Bill Fees. Forecasted Customer Choice participation figures are used to calculate these recoveries. The table displays forecast information through to October 31 2018 only, since forecasted customer enrolments are only available for 2016 through 2018, as this information is estimated for the Company's energy supply department for planning purposes. Any projections beyond this time frame would be unreliable and possibly misleading.

Table 1: Forecasted Confirmation Letter and Customer Bill Fee Recoveries

Year	Forecasted Annual Net Enrollments ¹	Confirmation Letter Fee Recovery (\$1.02/unit) ²	Forecasted Active Customers	Customer Bill Fee Recovery (\$0.40/unit) ³
2016	9,024	\$ 9,204	30,251	\$ 145,205
2017	8,753	\$ 8,928	27,785	\$ 133,368
2018	8,490	\$ 8,660	21,632	\$ 103,834

¹Net enrollments represent gross customer enrolments into the Program, adjusted for 10-day cooling off drops and operational correction drops.

²Calculation: Forecasted Annual Net Enrollment x \$1.02 current approved Confirmation Letter Fee rate

³Calculation: Forecasted Active Customers x \$0.40 current approved Customer Bill Fee rate x 12 months

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FEI generally does not forecast marketer price group fee recoveries, as these would be simple estimates and would not be reliably accurate since FEI does not have insight into when Gas Marketers would open or close Marketer Price Groups. However, an analysis of the number of Marketer Price Groups since 2007 indicate that the number of Marketer Price Groups have declined on average 2.0% each year. Applying this 2.0% factor to the total number of Marketer Price Groups in 2015 over the next 5 years yields the Marketer Price Group Recovery estimate for the next 5 years found in Table 2 below.

FEI also does not forecast recoveries from the Dispute Resolution Fee. This fee is charged at the discretion of the Commission, and therefore the Company has no insight on how they will apply the charges over the next 5 years (See response to BCUC IR 1.4.3 for further discussion on the Dispute Resolution fee). However, a review of the recoveries from the Dispute Resolution Fee since 2007 indicated that recoveries have declined on average by 8.0% per year. Applying this 8.0% factor to the 2015 Dispute Resolution Fee recoveries over the next 5 years yields the Dispute Resolution Fee recovery estimate for the next 5 years, also found in Table 2 below.

Table 2: Forecasted Marketer Price Group Fee and Dispute Resolution Fee Recoveries

Year	Forecasted Marketer Price Groups ⁴	Marketer Price Group Fee Recovery (\$150/unit/month)	Dispute Resolution Fee Recovery (\$50/unit) ⁵
2015 ⁶	108	\$ 246,010	\$ 6,150
2016	106	\$ 190,512	\$ 5,658
2017	104	\$ 186,702	\$ 5,205
2018	102	\$ 182,968	\$ 4,789
2019	100	\$ 179,308	\$ 4,406
2020	98	\$ 175,722	\$ 4,053

⁴Calculation: Prior year actual Marketer Price Groups less factor of 2% (factor of 2% represents average decline in number of Marketer Price Groups from 2007 to 2015)

⁵Calculation: Prior year actual Dispute Resolution Fee less factor of 8% (factor of 8% represents average decline in Dispute Resolution Fee recoveries from 2007 to 2015)

⁶2015 figures are actual numbers and recovery amounts

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1 **7. Reference: Exhibit B-1, Pages 8 and 9**

2 **2.3 PROGRAM FEES AND CURRENT FEE STRUCTURE**

Fees tied to participation rates as described in Table 2-1 above made sense when the Program launched because many costs were estimates. At the time, FEI outsourced customer service to Accenture and negotiated a service model that could expand or shrink based on enrolment levels. Since 2012 when FEI insourced this same service, the Company has found that many of the Program costs are largely fixed. For example, the Program relies upon two FEI administrative staff whether there are 30,000 or 130,000 participants. Similarly, the BCUC relies upon a dedicated Program manager to oversee disputes. Most Program costs do not increase or fall in direct relation to enrolments; however current fees are directly tied to enrolment levels. Participation rates have fallen so existing fees no longer cover Program costs.

3 **2.4 ISSUES WITH CURRENT FEE STRUCTURE**

FEI incurs approximately \$1 million in annual Program costs. With the exception of BCUC costs, total Program costs have been stable since 2011. As stated above, lower participation rates have resulted in reduced recoveries from fees. Contributing to lower recoveries, include: (1) decreasing dispute levels due in large part to the additional consumer protection measures put in place in 2011 (i.e., consolidated business rules for residential and commercial customers were adopted); and (2) Gas Marketers' efforts to reduce the number of price groups.¹⁰ Current recoveries from fees no longer cover the Program's costs, as illustrated in Figure 2-2 below. Customer Education fees, shown in light grey in Figure 2-2 have been allocated to all ratepayers since Customer Choice started in 2007, while the remaining operating costs were intended to be recovered from Gas Marketers where possible.

4 7.1 Please provide a brief description of the administrative staff duties.

5 **Response:**

6 Please refer to the response to BCUC IR 1.8.1.

7 7.2 Please provide the annual number of disputes that have occurred since the inception of the program.

8 **Response:**

9 The annual number of disputes that have been filed from 2007 to 2015 are presented in Table 1 below:

Table 1: Customer Choice Program Annual Disputes Filed

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Standard Disputes	8380	3479	3235	621	431	322	139	85	79
Cancellation Disputes	0	0	1347	2016	1742	1145	569	146	121
Total Disputes	8380	3479	4582	2637	2173	1467	708	231	200

7.3 Why has FEI been unable to allocate a portion of the Program manager costs to other activities if the disputes have fallen?

Response:

To clarify, the Program manager responsible for oversight of dispute related activities and associated costs is an employee of the Commission and not FEI.

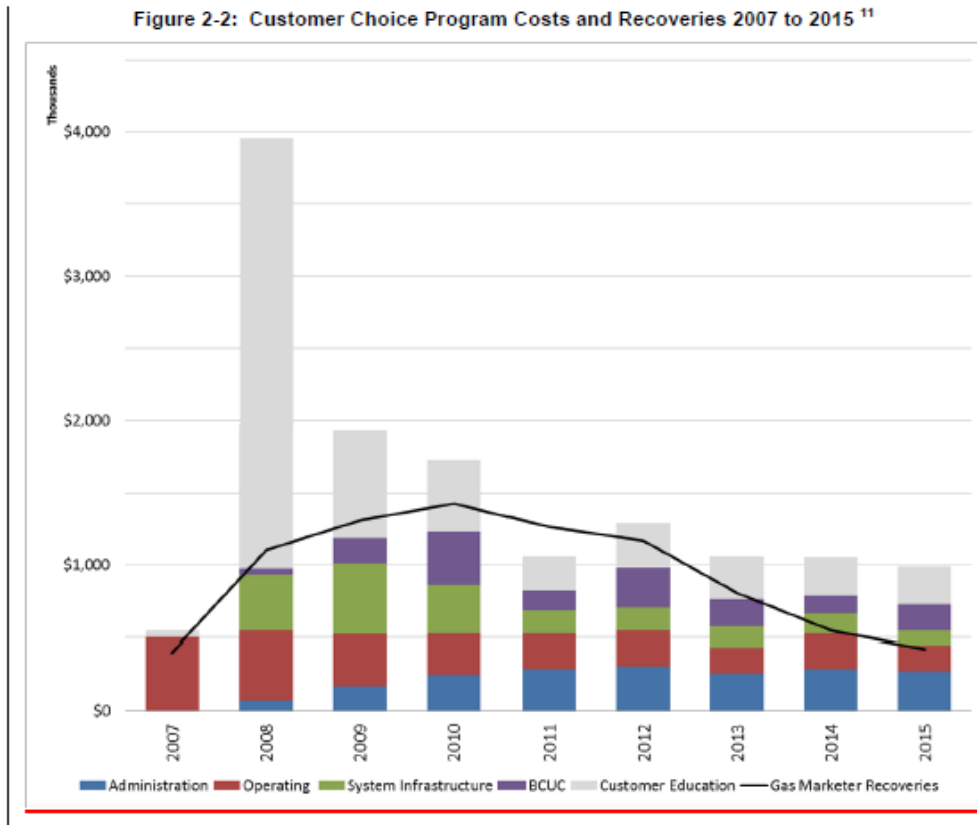
7.4 Could improved education and customer protection measures decrease the number and costs of disputes further? Please explain why or why not.

Response:

No, FEI does not believe that additional communications will drop the number of disputes and costs further. The number of disputes is now very low. In 2015, Gas Marketers only paid \$6,150 in dispute fees. However, FEI believes that its ongoing customer education activities have played an important part in reducing disputes to the low levels now seen.

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1 **8. Reference: Exhibit B-1-2, Page 10 and Exhibit B-1, Pages 5 and 6**



2 “Unbundling” was a term that described the splitting of commodity costs and delivery charges that was necessary on customer billing to facilitate the introduction of fixed rate products to customers. In 2007, references to Commercial and Residential Unbundling were discontinued in favour of the simpler name, “Customer Choice.” The Program made fixed-rate contracts available to Rate Schedule 1 Residential, and Rate Schedule 2 and 3 Commercial customers under a single name. Consistent with the principle of cost causation, it was intended for the

3 Program’s operating costs to be borne by Gas Marketers competing within the Program where possible.⁵

4 8.1 Is it FEI’s view that the Program’s operating costs to be borne by Gas Marketers where possible was a generic reference to all the program costs, or was it

5 explicitly referencing the ‘operating costs’?

6 **Response:**

7 FEI interpreted it as a generic reference to all the Program costs, with the exception of customer

8 education costs. In 2007, besides some minor communication expenditures, all costs were

9 characterized as “Operating.” This is evident in the graph, where it is shown that FEI only began

10 reporting Program costs in more granularity starting in 2008.

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During the years leading up to the Program's launch through 2009, much of the day-to-day administrative activities were fulfilled by M&E staff who coded their time as an operating expense. In 2011, the two MoveUP union positions were in place for the full year and charged their time as an administration expense. The cost structure has remained stable since that time.

8.2 Please explain how the Customer Choice program is treated under PBR.

Response:

The Customer Choice Program is treated the same as any other cost centre within the utility. Under the PBR, Customer Choice Program costs are included in the Base O&M approved by the Commission which is inflated by the formula O&M drivers each year. Variances, if any, in actual Total O&M costs compared to formula O&M are shared with customers on a 50/50 basis through an earnings sharing mechanism.

8.3 Please explain how Customer Choice unrecovered expenditures are treated under PBR.

Response:

Please refer to the response to CEC IR 1.8.2.

8.4 Please extend Figure 2-2 to 2025, or as far as FEI is able, to include FEI's forecasts of costs and recoveries based on its current proposal.

Response:

Figure 1 below shows the forecasts of costs and recoveries based on FEI's current proposal. The figure only displays forecast information through 2018. Any projections beyond the time frame presented would be unreliable and possibly misleading.

These forecasted numbers are based on the following assumptions:

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- Customer Education costs are budgeted at \$225,000 for all three forecast years (2016 through 2018);
- Administration, Operating , System Infrastructure, and BCUC costs have been projected using a trend line based on data from years 2011 through 2015;
- Gas Marketer Recoveries have been calculated using FEI's proposed allocations in Table 3-2 of the Application (Exhibit B-1). Tables 1 through 3 below provide the calculation of the Gas Marketer Recoveries from 2016 to 2018; and
- The lag in Gas Marketer Recoveries, depending upon an April 1st or November 1st timeline, as per BCUC's decision has not been incorporated in this analysis.

Figure 1: Customer Choice Program Costs and Recoveries, Forecast from 2016 to 2018

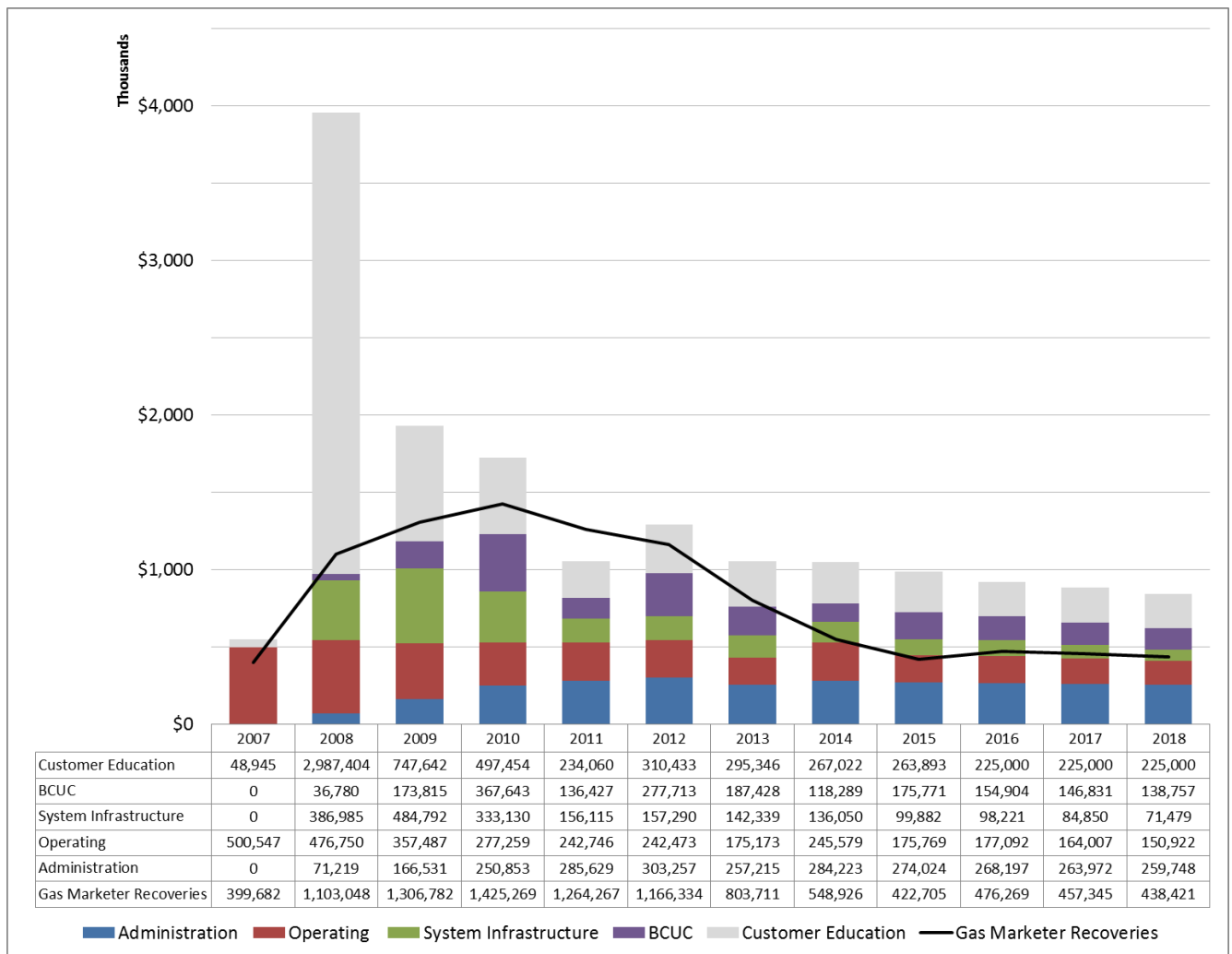


Table 1: 2016 Gas Marketer Recoveries (forecast)

Cost Description	2016 Forecasted Expenses	Allocation (%)		Allocation (\$'s)	
		Marketers	All Ratepayers	Marketers	All Ratepayers
Operating	\$ 177,092	100%	0%	\$ 177,092	\$ -
System Infrastructure	\$ 98,221	0%	100%	\$ -	\$ 98,221
Administration	\$ 268,197	100%	0%	\$ 268,197	\$ -
BCUC	\$ 154,904	20%	80%	\$ 30,981	\$ 123,924
Customer Education	\$ 225,000	0%	100%	\$ -	\$ 225,000
Total Expenses	\$ 923,414			\$ 476,269	\$ 447,145

Table 2: 2017 Gas Marketer Recoveries (forecast)

Cost Description	2017 Forecasted Expenses	Allocation (%)		Allocation (\$'s)	
		Marketers	All Ratepayers	Marketers	All Ratepayers
Operating	\$ 164,007	100%	0%	\$ 164,007	\$ -
System Infrastructure	\$ 84,850	0%	100%	\$ -	\$ 84,850
Administration	\$ 263,972	100%	0%	\$ 263,972	\$ -
BCUC	\$ 146,831	20%	80%	\$ 29,366	\$ 117,465
Customer Education	\$ 225,000	0%	100%	\$ -	\$ 225,000
Total Expenses	\$ 884,660			\$ 457,345	\$ 427,315

Table 3: 2018 Gas Marketer Recoveries (forecast)

Cost Description	2018 Forecasted Expenses	Allocation (%)		Allocation (\$'s)	
		Marketers	All Ratepayers	Marketers	All Ratepayers
Operating	\$ 150,922	100%	0%	\$ 150,922	\$ -
System Infrastructure	\$ 71,479	0%	100%	\$ -	\$ 71,479
Administration	\$ 259,748	100%	0%	\$ 259,748	\$ -
BCUC	\$ 138,757	20%	80%	\$ 27,751	\$ 111,006
Customer Education	\$ 225,000	0%	100%	\$ -	\$ 225,000
Total Expenses	\$ 845,906			\$ 438,421	\$ 407,485

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1 **9. Reference: Exhibit B-1, Pages 13 and 14**

2 The systems that support Customer Choice include a set of integrated systems that are integral within the broader set of systems and processes that facilitate customer account management and billing services. As the work associated with maintaining the Customer Choice Program support tasks are distributed amongst eight FEI employees' job duties, the Company would not attain any cost savings if the support was no longer necessary.

3 **FEI Recommendation:**

4 **Infrastructure sustainment expenses should be recovered 100% by ratepayers because it is unlikely that FEI would realize tangible savings if the Program was terminated.**

5 9.1 Please confirm or otherwise clarify that the employees responsible for the Customer Choice program support tasks are not dedicated to the Customer Choice program.

6 **Response:**

7 Confirmed, the infrastructure sustainment support team is involved with the maintenance and operations of many FEI systems and processes. None of the employees are dedicated they do not spend a major portion of their time focusing on Customer Choice systems.

8 9.2 Please confirm or otherwise explain that the costs allocated to the Customer Choice activities related to infrastructure sustainment are being used and useful to the Customer Choice program.

9 **Response:**

10 Confirmed. Please refer to the response to Direct Energy IR 1.4.

11 9.3 Please confirm that if the Customer Choice program was terminated that FEI would reallocate the resources being used for infrastructure sustainment for the customer choice program to some other program FEI would find beneficial.

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1 **Response:**

2 This response also addresses CEC IR 1.9.3.1.

3 Confirmed. If Customer Choice was terminated, FEI would reallocate the resources being used
4 for Program infrastructure sustainment to other activities that FEI would expect are beneficial for
5 customers. It is not anticipated that the elimination of the Program would result in any
6 headcount reductions.

7

8

9

10 9.3.1 If not confirmed, please explain why not.

11

12 **Response:**

13 Please refer to the response to CEC IR 1.9.3.

14

15

16

17 9.4 Please confirm that FEI's assessment that it would be unlikely to realize savings
18 would be related to FEI's choice to reallocate the resources.

19

20 **Response:**

21 FEI would unlikely be able to realize any savings because each employee in the department
22 only spends a small percentage of their annual effort working on Customer Choice related
23 activities. So although the time would be reallocated to other activities for efficiency, it would
24 not be feasible for FEI to leverage the Program's termination into a headcount reduction in the
25 infrastructure sustainment area.

26

10. Reference: Exhibit B-1, Page 17

3.1.4 BCUC Costs

The Commission charges for 2015 amounted to \$175,771. BCUC salary charges for work related to the Customer Choice Program are not billed by function, but rather to the Program as a whole. The BCUC provided the following breakdown of staff time based on an estimate of the average number of working hours spent on each of the three functions over the three year reporting period from 2012 to 2014:

- Program administration accounts for 65% of charges and includes:
 - Legal costs related to annual program administration
 - General administration costs (e.g. courier)

10.1 Please provide the annual legal costs for 2011 through to 2015.

Response:

The Commission has provided the following response:

The table below summarizes the Commission's annual legal costs associated with the Customer Choice Program billed to FEI. Note the Commission incurred other legal costs associated with the Program during this period; however, these costs are outside the scope of this proceeding as they were not billed to FEI. The Commission adopted a new financial IT system in 2012 and financial data at the level of detail requested for the years prior to the adoption of the new system is not readily accessible. As such, the Commission cannot provide the information requested for the year 2011.

Year	Costs
2012	\$12,729.08
2013	\$2,008.53
2014	\$2,869.91
2015	\$10,845.26

As outlined in the table above, the Commission's annual legal costs associated with the Customer Choice program billed to FEI did not exceed \$100 thousand during the years 2012 through to 2015.

10.2 Please provide an overview of the types of activities that resulted in legal costs of over \$100 thousand.

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1 **Response:**

2 Please refer to the response to CEC IR 1.10.1.

3

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1 **11. Reference: Exhibit B-1, Page 21 and Exhibit B-1-3, Page 2 and Page 8**

Table 3-2: Annual Program Expenses and Proposed Allocations

Cost Description	2015 Actuals	Allocation (%)		Allocation (\$'s)	
		Marketers	All Ratepayers	Marketers	All Ratepayers
Technology Sustainment	\$ 175,769	100%	0%	\$ 175,769	\$ -
Infrastructure Sustainment	75,882	0%	100%	-	75,882
Contact Centre	24,000	0%	100%	-	24,000
Program Administration	274,024	100%	0%	274,024	-
BCUC	175,771	20%	80%	35,154	140,617
Customer Education	263,893	0%	100%	-	263,893
Total Expenses	\$ 989,339			\$ 484,947	\$ 504,392

In Section 4, FEI's recent experience with respect to Gas Marketer Recoveries is summarized.

1. The information contained in Figure 2-2 on page 10 of the Application in table format for ease of review and understanding.

Response:

For ease of reference, the information contained in Figure 2-2 found on page 10 of the Application has been tabulated in Table 1 below.

Table 1: Customer Choice Program Costs and Recoveries 2007 to 2015

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	-	71,219	166,531	250,853	285,629	303,257	257,215	284,223	274,024
Operating	500,547	476,750	357,487	277,259	242,746	242,473	175,173	245,579	175,769
System Infrastructure	-	386,985	484,792	333,130	156,115	157,290	142,339	136,050	99,882
BCUC	-	36,780	173,815	367,643	136,427	277,713	187,428	118,289	175,771
Customer Education	48,945	2,987,404	747,642	497,454	234,060	310,433	295,346	267,022	263,893
Total Program Costs	549,492	3,959,138	1,930,267	1,726,339	1,054,977	1,291,166	1,057,501	1,051,163	989,339
Gas Marketer Recoveries	399,682	1,103,048	1,306,782	1,425,269	1,264,267	1,166,334	803,711	548,926	422,705
Variance	149,810	2,856,090	623,485	301,070	-209,290	124,832	253,790	502,237	566,634

11.1 For each cost description item in Table 3-2 please identify whether the costs should be considered fixed, variable or semi-variable. For semi-variable costs, please provide an approximation of the proportion that could be considered fixed and that portion variable.

Response:

FEI defines all of the FEI costs as fixed with the exceptions of the confirmation letter, Marketer Price Group setup, and contact centre costs. These latter three costs, which FEI believes are variable in nature roll up to the system infrastructure line total. Confirmation letters are entirely dependent upon the number of enrolments. Marketer Price Group fees are related to the number of groups that FEI sets up for Gas Marketers. Likewise contact centre costs are dependent upon sales activity. FEI does not anticipate contact centre costs to change in the foreseeable future, but they likely will if Gas Marketer sales activities increase or decrease.

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1 The BCUC costs likely have a fixed component to look after administrative functions. FEI has no
2 further insight into BCUC costs other than what appears in Section 3.1.4 of the Application.

3
4
5
6 11.2 Please confirm that the cost items above are directly attributable to the Gas
7 Marketer program, regardless of whether or not they are allocated to all FEI
8 ratepayers.

9
10 **Response:**

11 Confirmed; the cost items in the table above are directly attributable to the Program.

12
13
14
15 11.3 Please confirm that there is no allocation of general FEI expenses included in
16 Gas Marketer costs.

17
18 **Response:**

19 This response also addresses CEC IR 1.11.3.1.

20 FEI confirms that there is no allocation of general FEI expenses included in the Gas Marketer
21 costs.

22
23
24
25 11.3.1 If not confirmed, please provide an overview with quantification of all the
26 costs that are allocated from FEI to Gas Marketers that are not directly
27 attributable to the Customer Choice program.

28
29 **Response:**

30 Please refer to the response to CEC IR 1.11.3.

31
32
33
34 11.4 Please confirm that recovery from 'all ratepayers' includes Customer Choice
35 customers in the ratepayer group.

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1

2 **Response:**

3 This response also addresses CEC IR 1.11.4.1.

4 Confirmed; recovery from, “All Ratepayers,” includes Customer Choice Program customers.

5

6

7

8 11.4.1 If not confirmed, please explain why not.

9

10 **Response:**

11 Please refer to the response to CEC IR 1.11.4.

12

13

14

15 11.5 Please confirm that customers of gas marketers are able to return to FEI service
16 according to the terms of their contracts with the Gas Marketers.

17

18 **Response:**

19 FEI confirms that customers on a Gas Marketer contract will return to FEI supply and FEI
20 variable rate in the following circumstances:

- 21 • once their contract expires, unless the customer has negotiated a new contract with their
22 current marketer or with a different marketer;
- 23 • customers may return to FEI service as a result of a dispute resolution; and
- 24 • Gas Marketers may also allow customers to cancel their contracts on anniversary dates.
25 However, Customers may be charged a penalty from their Gas Marketer for an
26 anniversary date cancellation, as determined by the terms of the agreement between the
27 customer and their Gas Marketer.

28

29

30

31 11.6 Do customers of Gas Marketers receive education or other services from FEI that
32 are not directly attributable to the Customer Choice program? Please explain.

33

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1 **Response:**

2 Customers of Gas Marketers still receive access to most other customer services available from
3 FEI. This includes the storage and transportation activities FEI engages in to manage gas
4 supply (i.e., midstream activities), the provision of educational material about rates and safety,
5 access to most payment options like the pre-authorized payment plan, emergency contact
6 centre services, Account Online, and of course FEI still sends customers their bill through the
7 mail or electronically each month.

8

9

10

11 11.7 Would it be appropriate to provide an allocation of general FEI overhead
12 expenses to the Customer Choice program? Please explain why or why not.

13

14 **Response:**

15 No. FEI's general overhead expenses are recovered from all customers in their delivery rates.
16 Therefore, it would not be appropriate to allocate any additional amounts of FEI's general
17 overhead expenses directly to the Customer Choice Program.

18

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12. **Reference: Exhibit B-1, Page 39 and Exhibit B-1-3, Page 2 and Page 8**

- **Program Administration Fee:** This fee covers FEI Program administration costs and BCUC costs. The sum of these costs, divided by the number of active customers, determines the per customer Program administration fee. For example, costs for 2015 of \$309,178 divided by 32,015 active customers, on a monthly basis would be \$0.80 per active customer per month.

1. The information contained in Figure 2-2 on page 10 of the Application in table format for ease of review and understanding.

Response:

For ease of reference, the information contained in Figure 2-2 found on page 10 of the Application has been tabulated in Table 1 below.

Table 1: Customer Choice Program Costs and Recoveries 2007 to 2015

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	-	71,219	166,531	250,853	285,629	303,257	257,215	284,223	274,024
Operating	500,547	476,750	357,487	277,259	242,746	242,473	175,173	245,579	175,769
System Infrastructure	-	386,985	484,792	333,130	156,115	157,290	142,339	136,050	99,882
BCUC	-	36,780	173,815	367,643	136,427	277,713	187,428	118,289	175,771
Customer Education	48,945	2,987,404	747,642	497,454	234,060	310,433	295,346	267,022	263,893
Total Program Costs	549,492	3,959,138	1,930,267	1,726,339	1,054,977	1,291,166	1,057,501	1,051,163	989,339
Gas Marketer Recoveries	399,682	1,103,048	1,306,782	1,425,269	1,264,267	1,166,334	803,711	548,926	422,705
Variance	149,810	2,856,090	623,485	301,070	-209,290	124,832	253,790	502,237	566,634

12.1 Please provide the rationale and supporting documentation for the \$309,178 which is identified as Administration and BCUC costs, which add to over \$450 thousand in Table 1.

Response:

The \$309,178 consists of the portion of administration and BCUC expenses allocated to the Gas Marketers only. This figure consists of 100 percent of Program administration costs (\$274,024) and 20 percent of BCUC costs (\$35,154). The 20 percent BCUC allocation covers BCUC's dispute resolution expenses. The remaining 80 percent is proposed to be covered by non-bypass ratepayers. The proposed allocations, presented in Table 3-2 of the Application (reproduced), are noted below:

Table 3-2: Annual Program Expenses and Proposed Allocations

Cost Description	2015 Actuals	Allocation (%)		Allocation (\$'s)	
		Marketers	All Ratepayers	Marketers	All Ratepayers
Technology Sustainment	\$ 175,769	100%	0%	\$ 175,769	\$ -
Infrastructure Sustainment	75,882	0%	100%	-	75,882
Contact Centre	24,000	0%	100%	-	24,000
Program Administration	274,024	100%	0%	274,024	-
BCUC	175,771	20%	80%	35,154	140,617
Customer Education	263,893	0%	100%	-	263,893
Total Expenses	\$ 989,339			\$ 484,947	\$ 504,392

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1 **13. Reference: Exhibit B-1, Page 39**

- **Program User Fee:** This is a fixed flat monthly fee that partially recovers the fixed costs of the Customer Choice Program. FEI recommends that \$24,000 annually per Marketer be recovered from participating Gas Marketers. A flat fee of \$2,000 per month would be charged to each Marketer, regardless of the number of active customers.

2
3 13.1 Please provide FEI's rationale and supporting calculations for selecting \$24,000
4 annually per Marketer for the Program user fee, describing what expenditures
5 and the portion thereof it is designed to recover.

6
7 **Response:**

8 The \$24,000 annual per Marketer Program fee recommendation is a part of the Combination
9 Fee option for program cost recovery (Option 4) that FEI considered in its Application. FEI's
10 rationale and supporting calculations for this option, including a description of what expenditures
11 and the portion the annual marketer fee is designed to recover can be found in Sections 5.4,
12 5.6.5, 5.6.6 and 5.7 of the Application.

13

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1 **14. Reference: Exhibit B-1, Page 39 and Exhibit B-1-3, Page 2 and Page 8**

Service Fees:

- **Marketer Price Group Set-up Fee:** This is a per-use, one-time fee to set-up a new Marketer price group. The effort required to set up a price group includes 0.5 hours configuration time at \$100 per resource hour, 0.5 hours testing time at \$50 per resource hour, and 0.5 hours approval time at \$100 per resource hour. The fee would be set at \$125 per setup request.
- **Confirmation Letter Fee:** This is an existing variable fee charged for each confirmation letter sent to a newly enrolled Customer Choice customer. FEI proposes to retain this fee. However, based on FEI's in-depth review of Program costs the fee should fall from the currently charged \$1.02 to \$0.87 per confirmation letter. Investigation concludes this charge is a direct flow-through cost from the external vendor of \$0.12 for printing and \$0.75 for postage.

2 *1. The information contained in Figure 2-2 on page 10 of the Application in table format for ease of review and understanding.*

Response:

For ease of reference, the information contained in Figure 2-2 found on page 10 of the Application has been tabulated in Table 1 below.

Table 1: Customer Choice Program Costs and Recoveries 2007 to 2015

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	-	71,219	166,531	250,853	285,629	303,257	257,215	284,223	274,024
Operating	500,547	476,750	357,487	277,259	242,746	242,473	175,173	245,579	175,769
System Infrastructure	-	386,985	484,792	333,130	156,115	157,290	142,339	136,050	99,882
BCUC	-	36,780	173,815	367,643	136,427	277,713	187,428	118,289	175,771
Customer Education	48,945	2,987,404	747,642	497,454	234,060	310,433	295,346	267,022	263,893
Total Program Costs	549,492	3,959,138	1,930,267	1,726,339	1,054,977	1,291,166	1,057,501	1,051,163	989,339
Gas Marketer Recoveries	399,682	1,103,048	1,306,782	1,425,269	1,264,267	1,166,334	803,711	548,926	422,705
Variance	149,810	2,856,090	623,485	301,070	-209,290	124,832	253,790	502,237	566,634

3
4
5 14.1 Please identify which program costs (i.e., admin, operating) the Marketer Price
6 Group set up fee and the Confirmation Letter fee are designed to capture.

7
8 **Response:**

9 The proposed service fee for Marketer Price Group Set-up and the existing service fee for
10 Confirmation Letters are per-use service fees that would be recovered and applied to the
11 System Infrastructure costs as these services occur within that group.

12
13
14
15 14.2 To the extent that the Customer Choice Program does not recover all its program
16 costs, would it be reasonable for the Confirmation Letter fee to remain at \$1.02
17 rather than being reduced to \$0.87? Please explain why or why not.
18

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1 **Response:**

2 The \$0.87 Confirmation Letter fee is set based on the actual flow-through cost incurred by the
3 Company for printing (\$0.12/Confirmation Letter) and postage (\$0.75/Confirmation Letter) and
4 as such, the Company believes the proposed reduction is appropriate.

5 To accommodate any occurrence of over recovery or under recovery in Program costs, FEI has
6 proposed to implement an annual reconciliation mechanism. Please refer to Section 6.1 of the
7 Application for a detailed explanation of the reconciliation mechanism proposed.

8

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1 **15. Reference: Exhibit B-1, Page 39 and Appendix A, Page 1 (not numbered)**

- **Dispute Fee:** This is a variable fee charged at the discretion of the BCUC, for customer-raised disputes where BCUC has ruled against the Marketer. FEI proposes to retain this fee unchanged in the new fee structure, at \$50 per ruled dispute.

During the 2009 Annual General Meeting process, an issue pertaining to the \$50 dispute resolution fee was raised by Gas Marketers. Gas Marketers suggested that the dispute resolution fee should be bilateral.¹ Specifically, they wanted to introduce a refundable \$50 fee paid by customers to lodge a price-related dispute in an effort to curtail what Gas Marketers perceived as frivolous disputes. British Columbia Public Interest Advocacy Centre, on behalf of British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre, *et al* (BCOAPO) and FortisBC Energy Inc. (FEI) did not agree with the recommendation. FEI suggested that the most efficient way to decrease the overall number of disputes was to enforce the Code of Conduct and increase the dispute fee to an amount more punitive than the \$50 charge.² British Columbia Utilities Commission (BCUC or the Commission) staff felt there was some merit with the Gas Marketers request but felt charging customers a dispute fee would contravene the Commission's consumer protection responsibilities. Further, Commission staff suggested that if Gas Marketers kept to the main objectives of ensuring consumers were making an informed choice and establishing a competitive marketplace, there would little or no need to stem price-related contract disputes.

15.1 Please provide FEI's rationale, with supporting calculations relating to the costs incurred for disputes, for retaining the dispute fee at \$50.

Response:

Please refer to the response to BCUC IR 1.4.3.

15.2 Please provide annual historical and forecast dispute resolution costs related to the Customer Choice program since inception to 2022.

Response:

Table 1 below summarizes the historical and forecasted annual costs billed by the Commission to the Customer Choice Program. The figures in Table 1 are sourced as follows:

- The historical BCUC costs are sourced from Table 1 of the Supplementary Information filing (Exhibit B-1-3).
- The dispute resolution costs for the years 2012 through 2014 are referenced in the Commission letter to FEI dated January 22, 2016 responding to FEI's request for Customer Choice Program cost data.

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- The figure for the 2015 dispute cost was calculated as 20 percent of the annual Commission costs to the Program for 2015, as per the following description provided in the attachment to the Commission's letter:

BCUC Salaries for work related to the Customer Choice program are not billed by function, but rather to the program as a whole. The following breakdown of staff time is based on an estimate of working hours spent on each of the three functions and is approximate and on average over the three year reporting period: 65% towards annual program administration; 20% towards annual dispute resolution; and 15% towards Annual General Meeting proceedings.⁵

- Historical dispute resolution costs for the years prior to 2012 are not available. The Commission adopted a new financial IT system in 2012 and financial data at the level of detail requested for the years prior to the adoption of the new system is not readily accessible.
- The forecasted costs are sourced from CEC IR 1.8.4, which forecasts BCUC costs and an allocation for dispute resolution. FEI has forecast information through 2018 only. Any projections beyond this time frame would be unreliable and possibly misleading.

Table 1: Historical and Forecasted BCUC Costs and Dispute Resolution Costs

Year	BCUC Total Costs	BCUC Dispute Resolution Costs
2007	\$ -	\$ -
2008	\$ 36,780	not provided
2009	\$ 173,815	not provided
2010	\$ 367,643	not provided
2011	\$ 136,427	not provided
2012	\$ 277,713	\$ 73,445
2013	\$ 187,428	\$ 35,578
2014	\$ 118,289	\$ 29,470
2015	\$ 175,771	\$ 35,154
FORECASTED COSTS		
2016	\$ 154,904	\$ 30,981
2017	\$ 146,831	\$ 29,366
2018	\$ 138,757	\$ 27,751

⁵ BCUC letter to FEI, RE: FortisBC Energy Inc. Request for BC Utilities Commission Customer Choice program cost data, Log No. 51038, Jan 22, 2016.