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July 11, 2016

Direct Energy Marketing Inc.
5700 Yonge St. Ste 1205
Toronto, ON
M2M 4K2

Attention: Ms. Karen Cooke, Senior Manager

Dear Ms. Cooke:

Re: FortisBC Energy Inc. (FEI)

Project No. 3698874

Customer Choice Program Cost Recovery Application (the Application)
Response to Direct Energy Marketing Ltd. (Direct Energy) 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 Direct Energy 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

DE #1.

Reference: Exhibit B-1, General

Please advise what steps FEI has taken in its detailed assessment of Program costs to review the associated activities, processes, systems, reports, etc., contributing to the Program costs, to determine the following:

a. If they are still required;

Response:

This response addresses Direct Energy IRs 1.1a, 1.1b, and 1.1c.

As a matter of course, and as noted in the response to BCUC IR 1.8.2, “FEI continually looks for operating efficiencies.” For example, this commitment was exhibited in 2015 when FEI eliminated a management position that was charging 50 percent of its salary to Customer Choice.

Further evidence of FEI’s continuous improvement is shown on page 2, Table 1, of Order A-3-16 Compliance Filing, May 20, 2016, (Exhibit B-1-3), which shows a strong record of declining system infrastructure costs since 2008.

b. If they are performing as efficiently as possible; and

Response:

Please refer to the response to Direct Energy IR 1.1a.

c. If there are opportunities to introduce process improvements/system enhancements that will lead to greater efficiencies and reduced costs for all FEI customers and Gas Marketers.

Response:

Please refer to the response to Direct Energy IR 1.1a.

I. Please advise if FEI has ever used six sigma or another process improvement methodology to review the activities and processes of the customer choice program in order to find improvement opportunities. Please detail the process improvement methodologies that have been used to assess the Program costs and when the methodologies were used.

Response:

FEI and its employees strive to improve productivity and realize efficiencies to help manage rates for customers, while staying focused on maintaining or improving service levels. As a general practice and across the Company, employees are encouraged to assess work and ensure that it is being performed as efficiently and productively as possible. When evaluating productivity opportunities, maintaining a customer focus remains a priority, helping strike a balance between lower costs while providing the appropriate level of service and quality.

Recent activities undertaken by FEI to drive efficiencies are well documented in Section 3, Productivity Focus, within the FEI 2014-2018 Multi –Year PBR Plan, Volume 1 – Application. Through the implementation of FEI's PBR Plan, the Company will continue this focus moving forward.

FEI has not used Six Sigma or other specific process improvement methodologies to review the activities and processes of the Customer Choice Program in order to find improvement opportunities. Customer Choice is a small and distinct business activity. As discussed in Section 3: Cost Assessment of the Application, the Program is overseen by two high-level analysts, with manager oversight as appropriate. For these analysts and FEI information systems employees, tasks and problem investigations can be complex and change day-to-day. Their responsibilities do not necessarily lend themselves to repetitive manufacturing or business process refinements using a Six Sigma approach.

Contact center staff deal with many types of calls. FEI focuses on first call resolution in order to improve customer satisfaction and avoid unnecessary follow-up calls or escalations. Customer service representatives are regularly coached to ensure call handling is of consistent high quality.

FEI has taken measures to reduce the technology sustainment costs associated with the Customer Choice Program. As indicated in Table 3 of the Supplementary Information filing (Exhibit B-1-3), technology sustainment costs have declined almost $70,000 from 2014 to 2015. The bulk of this reduction is a result of the decrease in Fujitsu Consulting fees charged to the

Program from $209,338 in 2014 to $147,799 in 2015. The service agreement with Fujitsu was restructured in 2015 to achieve these savings.

In 2015, FEI evaluated third party vendor costs. In an effort to ensure contracted vendors operate as efficiently as possible, a new reporting structure was established and contracted vendor work is now coordinated directly through an FEI information systems manager. Restructuring of the contracted vendor service agreement, which included the removal of one level of contracted management, along with fewer systems-related issues and no system enhancements resulted in technology sustainment costs declining almost $70,000 from 2014 to 2015, as indicated in Table 3 of the Supplementary Information filing (Exhibit B-1-3). As well, technology sustainment costs were further reduced this year with the termination of KnowledgeTech Consulting's (KTC) fixed monthly maintenance contract, which eliminated all monthly charges from KTC to Customer Choice at the beginning of 2016. KTC is currently used on an as-needed basis and bills the Customer Choice Program on an hourly basis for technology sustainment items. Technical support provided by KTC has begun transitioning to Fujitsu so that a single support vendor is required for the majority of systems work which will result in additional support savings.

FEI employees, including those in the Customer Choice area, will continue to focus and pursue productivity and efficiency opportunities, while continuing to deliver quality service to customers.

DE #2.

Reference: Exhibit B-1, Section 2.2, p.6 sub-section 1 – Marketer Price Group Fee

The details in line 16 suggest that the monthly amount due was inflated to incent Gas Marketers to keep the number of groups to a minimum and keep the Program simple and easy to maintain.

a. Please advise how much the monthly amount of $150 was inflated by;

<u>Response:</u>

Please refer to the response to CEC IR 1.4.1.

b. Please provide what the actual cost for this work was in 2006; and

Response:

Please refer to the response to CEC IR 1.4.1.

c. Please provide what the actual cost for this work was in 2015.

Response:

The activity necessary to complete marketer group related work is not tracked directly since it is a small portion of the infrastructure sustainment costs of $75,882[1] charged to the Program in 2015. Please also refer to the response to CEC IR 1.4.1.

DE #3.

Reference: Exhibit B-1, Section 2.4, p.10 – Deferral Account and Billing Rate Rider

a. Please advise if FEI considered re-introducing the deferral account and billing rate rider which had been in place and working well to address both the program's original investment, as well as any annual recovery/cost variances.

Response:

This response addresses Direct Energy IRs 1.3.a and 1.3.b.

As outlined in the Application, FEI is proposing an allocation methodology of a combination of a fixed fee and a variable fee to recover Program costs from Gas Marketers. As such, use of a deferral account and billing rate rider, which is a method used to recover costs from all non-bypass natural gas customers, is not applicable.

[1] FEI Application for Customer Choice Program Cost Recovery, April 14, 2016, page 21.

b. Please detail the pros and cons of re-introducing the deferral account to address these variances, given the unpredictable nature of the growth in Marketer customers.

Response:

Please refer to the response to Direct Energy IR 1.3a.

DE #4.

Reference: Exhibit B-1, Section 3.1.1.2 p.14 – Technology Sustainment

Please advise if the duties included within this component were not performed, would the systems and processes required to support the customer choice program be available and in good working order to support customer choice enrollments and why.

Response:

If the duties included within this component were not performed, the systems and processes required to support the Program would likely work for several days, or perhaps weeks without any intervention. However, at any given time there are typically existing issues that need attention and issues soon arise. The department still has issue management meetings at least monthly with Fujitsu and internal systems personnel to ensure items and possible impacts are suitably addressed. Technology sustainment activities are integral to ongoing Program maintenance and operation.

DE #5.

Reference: Exhibit B-1, Section 3.1.1.3 p.16 – Program Administration Costs

Please advise if the day-to-day and operational requirements identified were eliminated, if the Customer Choice Program would be available and in good working order to support customer choice enrollments and why.

Response:

FEI believes that the Program could continue to operate for days or possibly weeks without these costs being incurred. However, issues that invariably arise would mount and likely result in customer billing errors; problems with Gas Marketer enrolment, cancelations and drops; as well as potential errors in the Gas Marketers' monthly fuel supply requirement reports. The current costs FEI incurs to operate the Program are necessary and required.

The two program analysts ensure the Program is in good working order each day. The Program relies upon an infrastructure of different systems and data streams. Any change to either Customer Choice or customer contact systems for items like software patches, server upgrades, network adjustments, etc. can result in Program processing errors that need both prompt attention and resolution, through testing, implementation and in some cases communication to Gas Marketers. FEI discusses the specific responsibilities of the employees who contribute to program administration costs in BCUC IR series 1.8.1 through 1.8.3.

DE #6.

Reference: Exhibit B-1, Section 3.1.5 p.19 – Customer Education Costs

Would FEI agree that the consumer education efforts have not lead to an increase in customers enrolled in the program and that consumer protection can be effectively managed through the enforcement of the Code of Conduct Regulations only, and therefore there is an opportunity to reduce the customer education costs? Please fully explain the views of FEI on this matter.

Response:

FEI believes that customer education activities still have an important role to play in ensuring consumers have adequate information available to make an informed decision about whether to enroll in the Customer Choice Program. Importantly, educational expenditures have never been intended to promote customer enrolment in the Program.

Customer education should continue to supplement other Program safeguards, including the Code of Conduct.

Please also refer to the responses to BCUC IRs 1.8.1 through 1.8.3 for further discussion regarding FEI's recommended changes to Program communication expenditures.

DE #7.

Reference: Exhibit B-1, Section 5.4 p.28 – Program Cost Recovery

a. What has FEI done to move more of its costs to variable costs based on the fact that this is a variable market?

Response:

Program costs, such as program administration and infrastructure support, are primarily fixed in nature, and represent those costs that are required to administer the Program and make the program available. These costs necessarily exist, irrespective of market dynamics and/or the number of customers enrolled in the Program. The costs FEI is recommending to allocate to Gas Marketers are in fact fixed costs for the Program, despite the Company's proposal to recover these fixed costs through a combination of a fixed fee and variable fee. The proposed minor service fees explained on page 39 of the Application represent the only true variable costs for the Program with the program.

FEI has taken measures to reduce fixed costs for the Program and continually looks for operating efficiencies going forward. This is further discussed in the responses to BCUC IRs 1.6.7 and 1.8.2.

b. Based on the sharing of the recovery costs and with a fixed cost of $24,000/year per Marketer, please provide the financial impact of the exit of three of the current Marketers in the Program on the upcoming year's fixed costs for the Marketers who remain in the Program.

Response:

The financial impact of the potential exit of three Gas Marketers from the Program on 2017 fixed costs for Gas Marketers who remain in the Program is presented in Table 1 below. In this scenario of proposed Option 4, the three Gas Marketers with the smallest customer base were removed and the fixed and the variable fees were recalculated. The annual fixed fee would increase by $14,400 from $24,000 to $38,400 for the five remaining Gas Marketers, with variable fees rising $0.03 from $9.14 to $9.17 per active customer. The variable fee changes vary little once the three smallest Gas Marketers are removed as the active customer base falls by only 119 customers.

Table 5-6 on page 36 of the Application provides an additional scenario, where the fixed fee is static at $24,000 per year regardless of the number of marketers in the program, and only the variable fees change. In this case, the variable fees would rise by $2.28 from $9.14 to $11.42 per active customer.

Table 1: Quantitative Assessment of Option 4 – Combination Fee: 5 Marketers, 40% Fixed Fee Recovery

Option 4 - Combination Fee: 5 marketers, 40% fixed fee recovery

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	5	40%	$ 38,400	$ 3,200
Total Fixed Allocation	$ 192,000				

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	$ 106,179	31,945	$ 3.32	per customer	$ 0.28	I1
Program Administration	$ 186,769	31,945	$ 5.85	per customer	$ 0.49	I2
Total Variable Allocation	$ 292,947					

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 ($'s)	P = N/K - 1 Impact on Marketer (%)
Company D	735	14,951	38,400	6,740	45,140	30,189	**202%**
Company E	2,673	39,229	38,400	24,512	62,912	23,684	**60%**
Company F	3,996	113,736	38,400	36,645	75,045	(38,691)	**-34%**
Company G	6,707	77,577	38,400	61,506	99,906	22,328	**29%**
Company H	17,834	144,537	38,400	163,544	201,944	57,407	**40%**
Total Customers	**31,945**	**$ 419,086**	**$ 192,000**	**$ 292,947**	**$ 484,947**		

Table 2: Quantitative Assessment of Option 4 – Combination Fee: 5 Marketers, $24,000 Annual Fixed Fee Recovery

Option 4 - Combination Fee: 5 marketers, $24,000 annual fixed fee recovery

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	5	25%	$ 24,000	$ 2,000
Total Fixed Allocation	$ 120,000				

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	$ 132,275	31,945	$ 4.14	per customer	$ 0.35	I1
Program Administration	$ 232,672	31,945	$ 7.28	per customer	$ 0.61	I2
Total Variable Allocation	$ 364,947					

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 ($'s)	P = N/K - 1 Impact on Marketer (%)
Company D	735	14,951	24,000	8,397	32,397	17,445	**117%**
Company E	2,673	39,229	24,000	30,537	54,537	15,308	**39%**
Company F	3,996	113,736	24,000	45,651	69,651	(44,085)	**-39%**
Company G	6,707	77,577	24,000	76,622	100,622	23,045	**30%**
Company H	17,834	144,537	24,000	203,740	227,740	83,203	**58%**
Total Customers	**31,945**	**$ 419,086**	**$ 120,000**	**$ 364,947**	**$ 484,947**		

The decision to set the fixed $24,000/year fee was intended to reflect the high proportion of fixed costs associated with the Program. FEI is amenable to alternative fee structure proportions or strategies if Gas Marketers can achieve agreement on a suitable approach, and the Commission subsequently approves it. The Company is largely indifferent to fee structure as long as the fees paid facilitate full recovery of costs that are approved by the Commission to be allocated to Gas Marketers.

The Company acknowledges that the cost allocation to individual Gas Marketers will necessarily increase if several existing Marketers elect to withdraw from the Program. FEI believes that Gas Marketers choosing to offer consumer agreements should bear an appropriate cost allocation to help fund the Program's continued availability. As FEI has no insight into Gas Marketer cost structures and competitive position, the Company cannot definitely say what cost allocation would be considered fair and tenable by Gas Marketers. This dilemma was addressed in the original Customer Choice Program (Residential Unbundling) Application in 2006, and is presented below:

> In scoping the solution for Residential Unbundling, Terasen Gas specified system and process requirements to support the adoption of the cost-causality principle for program cost recovery. By having the necessary systems and processes in place, the solution for Residential Unbundling will support the Commission's decision on appropriate cost recovery. However, the Commission will need to determine which costs ought to be covered and how recovered costs are to be treated in the initial roll-out of the Residential Unbundling program. Terasen Gas recognizes the difficulty in determining an appropriate level of program implementation and operating costs and looks forward to the upcoming review process and feedback from the Commission and other stakeholders regarding the justification of the level of costs given the degree of interest by potential customers.[2]

The existing fee structure was informed through the original CPCN process. Circumstances have since changed. For example, current Program participation rates are about one quarter of the numbers encountered in 2007 when Customer Choice was launched, and FEI's customer service delivery model is now in-sourced so a much higher proportion of Program costs are fixed rather than variable. As such, FEI ultimately relies on the Commission for guidance and determination with respect to what it considers the most appropriate allocation and structure of cost recovery for the Program.

c. Please explain how this is fair.

Response:

Please refer to the response to Direct Energy IR 1.7b.

DE #8.

Reference: Exhibit B-1-3, Supplementary Information for Directive 1

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[2] FEI (then Terasen Gas) Commodity Unbundling Project for Residential Customers CPCN Application (Exhibit B-1), dated April 13, 2006, pages 27-28.

a. Please explain how FEI has come to the conclusion that 8% is still a reasonable estimate of the total annual work performed to carry out sustainment duties.

Response:

As discussed in the Supplemental Filing (Exhibit B-1-3) Page 5, "FEI does not track tasks performed by its staff at a granular level." FEI's assertion that the 8 percent is still a reasonable estimate of the total annual work performed to carry out sustainment duties was based on consultation with the managers who directly oversee the employees conducting Program support activities. Review of this allocation rate is also re-visited during FEI's annual budgeting process. A list of some of the sustainment activities typically included in sustaining the program was also provided in the Supplemental Filing on page 5.

b. Please advise if FEI has ever performed a time study of the activities, tasks, processes, etc., required to support the customer choice program.

Response:

This response addresses Direct Energy IRs 1.8a through 1.8bii.

No, FEI has never performed a time study of the activities, tasks and processes required to support the Customer Choice Program. Such a study would be costly to the Program, and would not likely result in any material benefit given that the workload associated with the day-to-day maintenance and administration of the Program has not changed significantly since the residential aspect of the Program was launched in 2007. Further, FEI does not anticipate that either further reductions or increases in overall Program participation will cause measurably different expenses than are currently incurred.

FEI's current support model recognizes the unique nature of Customer Choice, and ensures that FEI has sufficient and knowledgeable staff to respond to systems and maintenance requirements. Most importantly, it also ensures that there is sufficient institutional knowledge to efficiently address ongoing Regulatory requirements, which account for approximately 40 percent of the two analysts' workload[3].

For further discussion regarding the possible utility of conducting activities such as a time study of the "activities, tasks and processes etc." required to support the Customer Choice Program, please refer to Direct Energy IR 1.1a.

[3] FEI Application for Customer Choice Program Cost Recovery, Supplemental Filing (Exhibit B-1-3), page 8.

I. If FEI has, please advise when the last time study occurred.

Response:

Please refer to the response to Direct Energy IR 1.8b.

II. If FEI has not, please advise why FEI has not taken this valuable step.

Response:

Please refer to the response to Direct Energy IR 1.8b.

DE #9.

Reference: Exhibit B-1-3, Section 5.6.5 p. 36 – Assessment Of Option 4: Combination Fee

a. Please explain the logic behind a 47% decrease for the largest Marketer and a 114% increase for the smallest Marketer.

Response:

FEI believes that Gas Marketers, even small ones, should share in the costs that support the delivery of the Program to consumers. FEI is ultimately focused on the recovery of costs allocated to Gas Marketers as a whole, and believes that the proposed mechanism more accurately reflects cost causation.

b. Please explain why the largest retailer deserves this discount.

Response:

While a discount may be interpreted when considering costs as a percentage, the largest retailer would still be paying more than it does today. FEI believes the recommended allocation methodology does a better job of allocating costs on a causation basis than the existing fee structure.

c. Please explain how the 114% increase is fair to the smallest Marketer.

Response:

Please refer to the response to Direct Energy IR 1.9a.

d. Please explain how a flat fee of $24,000.00/year is not a barrier to entry for potential Marketers and an inhibitor of competition.

Response:

FEI acknowledges that the fee may be a barrier to entry for some potential marketers. However, the Company believes that all Gas Marketers should share in the costs to offer the Program to customers. Moreover, the Company does not expect that $24,000/year should pose meaningful difficulty to an entrant given the potential business opportunity.

e. Please fully detail the impact on FEI if a Marketer exits from the Program.

Response:

Assuming the Gas Marketer continues to meet its contractual obligations and delivers natural gas to FEI as required, the exiting Gas Marketer typically sells their existing consumer agreements to one of the remaining retail participants. FEI's Program administration staff then ensures any necessary adjustments are made to systems and reports. Alternatively, if the Gas Marketer decides to withdraw without selling its consumer agreements, their customers are notified of the situation. Consumers can either select an alternative fixed rate product with one of the remaining retailers, or choose to return to the FEI default commodity rate.

Please also refer to the response to BCUC IR 1.13.1.