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August 3, 2016

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Laurel Ross, Acting Commission Secretary and Director

Dear Ms. Ross:

Re: FortisBC Energy Inc. (FEI)
Project No. 3698874
Customer Choice Program Cost Recovery Application (the Application)
Response to Staff Undertakings (Exhibit A2-1) from the Streamlined Review Process

On July 21, 2016, the British Columbia Utilities Commission (the Commission) held a Streamlined Review Process regarding the Application. On August 3, 2016, Commission Staff requested FEI breakdown its responses to Undertaking No. 1 filed on July 27, 2016 (Exhibit B-15) to correspond with the questions in Exhibit A2-1. FEI respectfully attaches its responses to Exhibit A2-1.

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

Attachment

cc: Registered Parties



FortisBC Energy Inc. (FEI or the Company) Customer Choice Program Cost Recovery Application (the Application)	Submission Date: August 3, 2016
Response to British Columbia Utilities Commission (BCUC or the Commission) Staff Information Request (IR) from the SRP (Exhibit A2-1)	Page 1

1 **TREATMENT OF CUSTOMER CHOICE COSTS UNDER THE PBR**

2 **Preamble:**

3 FEI stated in response to CEC IR 8.2 (Exhibit B-8) that:

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

9 FEI further stated in response to Just Energy IR #3 (Exhibit B-13) that the O&M amount that is
10 currently included in Base O&M for Customer Choice is \$300 thousand.

11 Table 1 of the Supplementary Information Filing (Exhibit B-1-3) provides a breakdown of the
12 Customer Choice Program costs and recoveries from 2007 through 2015.

13 **Questions:**

14 **Part I: How the Customer Choice Program Costs and Recoveries were accounted for**
15 **when establishing FEI's PBR Base O&M:**

- 16 1. With reference to the costs provided in Table 1 of the supplementary information filing,
17 please explain which cost category the \$300,000 referred to in FEI's response to Just
18 Energy IR #3 represents (i.e. Customer Education, Technology Sustainment, or a
19 combination of multiple cost categories?)
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21 **Response:**

22 In the 2013 Base O&M for PBR, there was \$300,000 included for Customer Choice Education
23 costs, which are recovered from non-bypass ratepayers through FEI's delivery rate. This was
24 the 2013 Approved amount; the actual amounts for 2013 did not affect the PBR Base O&M
25 since the Base O&M was set based on the Approved. Since 2013, this amount has escalated in
26 the formula O&M each year of the PBR and has been included in delivery rates as follows:
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	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Customer Choice O&M	\$ 300,000	\$ 301,863	\$ 304,326	\$ 307,488
Net Inflation Factor		100.621%	100.816%	101.039%

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30 Each year, actual Customer Choice Program Costs are incurred and Recoveries from Marketers
31 are realized. This was shown in Table 1 from Exhibit B-1-3, which is reproduced below.

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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

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When FEI prepares its Annual Report to the Commission, FEI calculates the difference between the \$300,000 (escalated by inflation) that has been recovered from non-bypass customers, and the net actual Customer Choice Program Costs, and removes this amount from regulated O&M, such that only the formula-calculated amount is recovered in delivery rates, and any variances from this amount are excluded from the earnings sharing mechanism. These amounts were \$200,374 in 2014 (\$502,237 - \$301,863) and \$262,308 in 2015 (\$566,634 - \$304,326). In this way, non-bypass ratepayers have not been affected by the under-recoveries of costs from Marketers in 2014 and 2015. The under-recoveries have been to the account of FEI's shareholder.

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With FEI's proposal in this Application, the amount to be recovered from non-bypass customers would increase to approximately \$500 thousand¹ from the current \$300 thousand. To accomplish this, FEI proposes that the O&M recovered under the PBR formula be increased by \$200 thousand, effective January 1, 2017². Any variances from this amount during the remaining years of the PBR (2017 through 2019) would be subject to the earnings sharing calculation. FEI has amended its approvals sought and attached a revised draft order to reflect this request.

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Another of FEI's proposals was to set the Marketer fees each year starting April 1, 2017, to reflect (1) the previous year's actuals for the components of the costs to be recovered from Marketers³; and (2) any annual variance experienced between the cost allocation and the actual recoveries for the prior year for these same components. To accomplish this, FEI will require a deferral account to ensure the Marketers-allocated costs are only recovered from Marketers. The deferral account will capture the actual Marketer-allocated costs and actual Marketer recoveries each year. Therefore, FEI has also amended the approvals sought in the revised

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¹ Per Table 3-1 of the Application, this consists of IT Infrastructure Support Costs, Contact Centre Costs, BCUC Costs for Program Administration and Regulatory Proceedings, and Customer Education Costs.
² If this request is approved, FEI will include this adjustment in an Evidentiary Update to its Annual Review for 2017 Delivery Rates.
³ Per Table 3-1 of the Application, this consists of IT Technology Sustainment Support Costs, Program Administration Costs, and BCUC Costs for Dispute Resolution.



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1 draft order to reflect the request for a deferral account. FEI proposes the creation of a non rate
2 base deferral account, attracting a weighted average cost of capital return.

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4 In summary, with FEI's proposals as amended, Marketer-allocated costs will only be recovered
5 from Marketers, and any variances between the costs recovered from non-bypass customers
6 and the actual costs incurred will be shared equally for the remainder of the PBR Term.

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10 2. Of the \$1,057,051 Total Program Costs provided in Table 1 of the supplementary
11 information filing, please separately provide the O&M amount which was approved to be
12 included in PBR Base O&M under the category of "Customer Choice" and the O&M
13 amount which was approved to be included in PBR Base O&M under other cost
14 categories.

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17 **Response:**
18 As stated in the response to question 1 above, \$300,000 was included in the PBR Base O&M
19 for Customer Education. This amount was included in Account 200-16 Customer Operations in
20 the Activity View of the New Code of Accounts. There is no "Customer Choice" category in the
21 New Code of Accounts. No other costs were included under any other categories.

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25 3. Of the \$803,711 Gas Marketer Recoveries provided in Table 1 of the supplementary
26 information filing, please explain how much was approved to be included in the
27 establishment of FEI's PBR Base O&M.

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29 **Response:**

30 None of the Gas Marketer Recoveries provided in Table 1 of the supplementary information
31 filing were included in the establishment of the PBR Base O&M.

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34 a. If there is no gas marketer recovery amount included in Base O&M please
35 explain how the recoveries are accounted for under the PBR Plan.

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1 **Response:**

2 Please refer to the response to question 1 above where FEI explains that the costs to be
3 recovered from gas marketers and the recoveries from gas marketers were excluded from the
4 Base O&M under the PBR Plan.

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8 4. How are the remaining customer choice program costs recorded within FEI's O&M?
9 Using 2013 as an example, please explain for each cost category how these costs have
10 been recorded within FEI's PBR Base O&M.

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12 **Response:**

13 Please refer to the response to questions 1, 2 and 3 above.

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18 **Part II: Calculation of Earnings Sharing based on approved versus actual costs and**
19 **recoveries:**

20 1. Using the 2015 Customer Choice Program costs and recoveries as an example (i.e.
21 \$989,339 program costs and \$422,705 marketer recoveries as provided in Table 1 of the
22 supplementary information filing), please provide the step by step calculation of the
23 50/50 earnings sharing amount based on the currently approved Customer Choice
24 Program cost recovery methodology.

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27 **Response:**

28 The Customer Choice Program costs have not been subject to the earnings sharing mechanism
29 to date in the PBR term under the currently approved methodology. Please refer to the
30 response to question 1 above.

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34 2. Using the 2015 Customer Choice Program costs and recoveries provided in Table 1 of
35 the supplementary information filing, please provide the step-by-step calculation of the



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1 50/50 earnings sharing amount based on FEI's proposed program cost recovery method
2 (i.e. Option 4 – Combination Fee).

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5 **Response:**

6 For purposes of this response, FEI has assumed that the year is 2017 rather than 2015, that its
7 proposed cost allocation and adjustment to the Base O&M is approved as filed, and that the
8 actual costs and recoveries are as they were in 2015.

9 Step 1 – the approved formula O&M is calculated for the year, which, if approved as proposed,
10 would include an allocation of Customer Choice Program Costs equal to \$510,489 (\$307,488 for
11 2016 escalated by the Forecast 2017 Net Inflation Factor of 100.976% + \$200,000).

12 Step 2 – actual Customer Choice Program Costs to be allocated to all non-bypass customers
13 are incurred and recorded in Account 200-16 Customer Operations at an amount of \$504,392
14 (as shown in Table 3-2 of the Application).

15 Step 3 – at the end of 2017, the earnings sharing is calculated as the difference between the
16 total approved formula O&M and the total actual O&M costs (which includes the difference
17 between \$510,489 formula and \$504,392 actual Customer Choice Program Costs). Specifically
18 for Customer Choice Program Costs, this would be \$3,048.50 credit (\$510,489 formula less
19 \$504,392 actual x 50%).

20 Step 4 – the amount calculated in Step 3 is recorded in the Earnings Sharing Deferral Account
21 for refund to customers in the following year (2018 in this case).

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