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August 4, 2016
File No.: 240148.00808/15951

BY ELECTRONIC FILING

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

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

Dear Sirs/Mesdames:

Re: ***FortisBC Energy Inc. ("FEI") Customer Choice Program Cost Recovery Application, Project No. 3698874***

In accordance with the Commission's letter of June 23, 2016 (Ex. A-7) in this proceeding, we enclose for filing the electronic version of the FEI's final argument.

Hardcopies of the enclosed will follow by courier.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by David Curtis]

David Curtis

/DC

CUSTOMER CHOICE PROGRAM COST RECOVERY APPLICATION

Submission of FortisBC Energy Inc.

August 4, 2016

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PART ONE: INTRODUCTION

1. The Customer Choice program (the "Program") provides FortisBC Energy Inc.'s ("FEI") customers the choice to buy their natural gas from a gas marketer at a fixed rate and fixed term or from FEI at a variable rate. The Program was the result of direction from the Provincial Government's 2002 Energy Plan and subsequent British Columbia Utilities Commission (the "BCUC" or "Commission") orders and decisions that established the regulatory framework within which the Program currently operates. Under this framework, FEI charges gas marketers who participate in the Program monthly program fees that are intended to recover some or all of the Program's annual costs. However, the current fee structure does not directly align with the Program's costs, and the fees charged to gas marketers in recent years have not fully recovered the Program's annual costs. As a result, in the Commission's Decision and Order A-12-15, dated September 29, 2015, FEI was directed to file a Program cost recovery application. Further to the Commission's direction, FEI reviewed the Program's annual costs and developed a new framework for recovery of the Program's costs. The new framework is the subject of FEI's Customer Choice Program Cost Recovery Application, which was filed on April 14, 2016 (the "Application"). The Application has been thoroughly reviewed through a round of information requests, and a Streamlined Review Process ("SRP") hearing attended by both customer groups and gas marketers. FEI submits that the cost allocation method recommended in the Application is reasonable and should be approved.

2. The relief sought by FEI is described in section 1.1 of the Application, as revised by developments during the SRP hearing, and is now set out in FEI's response to a Commission staff undertaking.[1] Pursuant to sections 59-61 of the *Utilities Commission Act*, FEI seeks approval of:

(a) the allocation of annual program costs between gas marketers and all FEI non-bypass customers (described in Table 3-2 of the Application);

[1] See B-15, response to Undertaking No. 1, for a discussion of the need for the revised order sought.

(b) the fee structure for recovery of program costs allocated to gas marketers (described in section 5.7 of the Application) and annual adjustment mechanism (described in section 6.1);

(c) recovery of all other program costs from all non-bypass customers;

(d) expenditure of $3,000 to implement system changes to accommodate the new fee structure;

(e) an increase to the 2017 Base O&M under the Performance Based Ratemaking ("PBR") formula by $200 thousand; and

(f) a non rate base Marketer Cost Variance deferral account, attracting a weighted average cost of capital return, to record actual Marketer-allocated costs and actual Marketer recoveries each year.

3. FEI's argument addresses the following topics:

(a) in **Part Two** FEI discusses its interpretation of Order A-12-15, which directed the Application, and FEI's role as the Program facilitator;

(b) in **Part Three** FEI discusses the determination of annual Program costs (or "Step 1");[2]

(c) in **Part Four** FEI discusses the allocation of Program costs between gas marketers and all non-bypass customers (or "Step 2"); and

(d) in **Part Five** FEI discusses the recommended approach by which FEI will recover costs allocated to gas marketers via an updated fee structure (or "Step 3").

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[2] See B-14, FEI PowerPoint presentation from July 21, 2016 SRP hearing, slide 10 for an overview of the "three step approach" to the Application.

PART TWO: BACKGROUND TO THE APPLICATION

A. Order A-12-15

4. During the 7th Customer Choice Program Annual General Meeting proceeding ("7th AGM") FEI raised the issue of cost recovery for the Program.[3] FEI advised the Commission and proceeding participants that the fee structure in place for the Program was not recovering the Program's annual costs. The Commission issued Order A-12-15 on September 29, 2015, following the 7th AGM.[4] In Order A-12-15, the Commission directed FEI to submit an application by March 31, 2016, regarding the Customer Choice Program fee structure. In the accompanying reasons for decision the Commission stated:

> The Panel is persuaded by FEI's assertion that the current shortfall in recovering operating costs from gas marketers will continue, and therefore determines a program cost recovery review is warranted. The Panel directs FEI to submit an application to the Commission regarding the Customer Choice program fee structure by March 31, 2016, after conducting a comprehensive review of the program's transaction fees and gaining a better understanding of the impacts of Vancouver Island and Whistler on the program's ability to recover costs.
>
> The allocation of the total operating costs of the program is best addressed during the program cost recovery review. The Panel directs FEI to include in its program cost recovery application a proposal and rationale for the portion of operating costs to be recovered from gas marketers and the relevant mechanisms. <u>The Panel interprets the current framework for program cost recovery, as approved by Order C-6-06, to mean that the expectation of the Commission was that operating costs would be recovered from gas marketers. However, the Panel acknowledges the use of the words "where possible" is not clear and recommends this be addressed in FEI's review of costs</u>. (Emphasis added).[5]

5. As noted in the Commission's Decision, the "where possible" language comes from section 10.2.2 of Terasen Gas Inc.'s Application for Approval of a Certificate of Public

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3 B-14, slide 7. FEI had also raised this issue at previous AGMs, but the matter was deferred.

4 Order A-12-15, dated September 29, 2015, from the Customer Choice Program Seventh Annual General Meeting.

5 Customer Choice Program Seventh Annual General Meeting, Decision, pp. 4-5.

Convenience and Necessity for the Customer Choice program, which states the following: "operating costs will be recovered from Gas Marketers where possible."[6]

6. FEI's interpretation of the cost recovery approach required by the Commission, and in particular the meaning of "where possible", was an issue raised during the SRP Hearing.[7] FEI submits that the interpretation of this phrase should be based on the principle of cost causation. The principle of cost causation is that costs should be borne by those who benefit and cause them to be incurred by the utility.[8] The Commission has recognized this principle as a fundamental principle of rate design.[9] FEI submits that the objective of recovering operating costs from gas marketers "where possible" means applying the principle of cost causation to the costs at issue in the following way:

(a) costs incurred specifically to administer the Program and services for gas marketers and their customers should be allocated to gas marketers; and

(b) costs incurred to ensure the Program is available for all FEI customers whether they choose to participate or not should be allocated to all FEI ratepayers.

7. FEI acknowledges that there may be other interpretations and "where possible" could have been interpreted literally and that all operating costs could, from a technical/practical perspective, be allocated to gas marketers. However, FEI did not feel that this approach was reasonable in light of the cost causation principle and the fact that customer education costs have always been recovered from all customers. As a result, FEI's interpretation of "where possible" can be characterized as "where appropriate based on the principle of cost causation".

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6 Commodity Unbundling Project for Residential Customers, CPCN Application, Terasen Gas Inc., April 13, 2016, p. 85.

7 SRP Hearing, July 21, 2016, Transcript, Volume 1, p. 11, line 22 to p. 12, line 10.

8 B-1, Application, p. 12.

9 Creative Energy Vancouver Platforms Inc., CPCN Decision for a Low Carbon Neighborhood Energy System for Northeast False Creek and Chinatown Neighborhoods of Vancouver, December 8, 2015, p. 64.

B. FEI's Role as Program Facilitator

8. FEI's role in the Customer Choice Program is as the Program facilitator.[10]

9. As the Program's facilitator, FEI is tasked with ensuring that choice is available for customers, and administering the Program effectively and efficiently.

10. In light of FEI's role, FEI has taken a principled approach to cost allocation in the Application and made recommendations with an overriding objective of ensuring 100% recovery of Program costs from either non-bypass customers or from marketers.

11. The principled approach adopted by FEI means that in filing this Application, FEI is not advocating for any particular party, including itself. Rather, FEI is advocating for cost allocations that it believes are the most reasonable based on the application of cost causation principles.

12. FEI does not have a direct financial interest in the allocation of costs that is ultimately approved, but recognizes that other parties do. As a result, while FEI stands behind the principles it has applied and the resulting recommendations, it is amenable to alternative approaches to the recommendations made in the Application so long as Program costs are recovered 100%.

[10] B-14, slide 3.

PART THREE: ANNUAL PROGRAM COSTS

13. In Order A-12-15 the Panel directed FEI to conduct a comprehensive review of the Program's transaction fees and submit an application to the Commission regarding the Program fee structure by March 31, 2016[11]. FEI followed this direction and conducted a review of the Program's annual costs, which are described in section 3.1 of the Application. Based on the review, FEI has determined that the Program's annual costs are captured in six cost categories, which are discussed in the following sections.

A. The Six Cost Categories

(a) Technology Sustainment

14. The technology sustainment costs are made up of third party vendor costs incurred for technical support of systems specific to the Program that would no longer be incurred if the Program ceases to exist.[12] The costs that make up this category are recorded and tracked to the Customer Choice Program and are based on actual hours spent in support of the various systems. The actual costs for 2015 were $175,769. As a result of restructuring the service agreement with one of the consultants involved in this work, FEI has been able to decrease the annual costs for this category by almost $70,000 from 2014 to 2015.[13] FEI submits that these Program costs are necessarily incurred, reasonable and are appropriately managed.

(b) Infrastructure Sustainment

15. The infrastructure sustainment costs represent an 8% allocation of FEI's total infrastructure sustainment costs for maintenance and support of FEI's end-to-end customer information system.[14] For 2015, the 8% allocation results in Program costs of $75,882. The 8% allocation is based on an annual review as part of FEI's budget review process.[15] These Program

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[11] An extension was subsequently granted and the Application was filed on April 14, 2016.
[12] B-1, Application, section 3.1.1.2.
[13] B-6, BCUC IR 1.6.7.
[14] B-1, Application, section 3.1.1.1.
[15] B-6, BCUC IR 1.5.3.

costs would be incurred by FEI regardless of whether the Program exists or not.[16] FEI has demonstrated a strong record of declining system infrastructure costs since 2008.[17] FEI submits that these Program costs are necessarily incurred, reasonable and are appropriately managed.

(c) Contact Centre

16. The contact centre costs consist of the costs incurred to handle Customer Choice Program related phone calls made to FEI's contact centre. The costs are made up of estimated hours of Customer Choice calls at a loaded per hour labour rate. For 2015 the contact centre managed an estimated 775 hours of Customer Choice calls (from both Program customers and non-Program customers). At a loaded labour rate of $31 per hour this resulted in approximately $24,000 in annual contact centre costs associated with the Program.[18] FEI submits that these Program costs are necessarily incurred, reasonable and are appropriately managed.

(d) Program Administration

17. The program administration cost category is made up of two full-time Program analysts who administer the Program.[19] The 2015 costs for these two analysts were $274,024. FEI reduced costs in this category for 2015 by eliminating the Customer Choice manager position and one of the two program analyst positions. Efficiencies were accomplished by creating a new senior program analyst position which absorbed some of the responsibilities previously assigned to the manager. FEI does not believe that further efficiencies can be found in this cost category.[20] FEI submits that these Program costs are necessarily incurred, reasonable and are appropriately managed.

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16 B-1, Application, p. 14.
17 B-12, Direct Energy IR 1.1.a.
18 B-1, Application, section 3.1.2.
19 B-1, Application, section 3.1.3.
20 B-6, BCUC IRs 1.8.1 and 1.8.2.

(e) BCUC

18. The BCUC Program costs are made up of Commission charges to FEI related to Program administration (65%), regulatory proceedings (15%) and dispute resolution (20%). For 2015 the charges amounted to $175,771.[21] These Program costs are not managed by FEI.

(f) Customer Education

19. The Customer Education charges are costs incurred by FEI to carry out its customer education plan for the Program.[22] In response to a Commission information request, FEI suggested that the currently approved budget for this plan of $300,000, which has been approved to be recovered from all non-bypass customers, be reduced to $225,000 going forward. FEI suggested this reduction on the basis that as a result of improved digital communication targeting opportunities, FEI can more cost effectively achieve the Customer Education Plan's objectives.[23] FEI believes that these Program costs, albeit at a reduced amount, are still necessarily incurred and reasonable. FEI's recommendation to reduce this Program cost demonstrates its commitment to finding efficiencies and appropriately managing Program costs.

B. Efficiency

20. Through information requests and at the SRP hearing FEI was asked about the extent to which it is managing the Program's costs efficiently and seeking efficiencies where possible. FEI submits that it has demonstrated in this proceeding that it is appropriately managing the Program's (approximately) $1.0 million in annual costs. As noted above, with respect to specific cost categories:

(a) as a result of restructuring the service agreement with one of the consultants involved in the technology sustainment work, FEI has been able to decrease the annual costs for this activity by almost $70,000 from 2014 to 2015;

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[21] B-1, Application, section 3.1.4.
[22] B-1, Application, section 3.1.5.
[23] B-6, BCUC IR 1.9.1.

(b) FEI has demonstrated a strong record of declining system infrastructure costs since 2008;

(c) FEI reduced costs for Program administration by eliminating a management position and shifting responsibilities; and

(d) FEI has recommended a $75,000 reduction to the Customer Education budget (currently approved at $300,000).

21. FEI continually looks for operating efficiencies.[24]

22. FEI submits that it has demonstrated that it is appropriately managing the Program's annual costs. However, FEI wishes to make clear that it is not seeking approval of the actual Program costs addressed in the Application, or any particular method for determining them going forward.

[24] B-6, BCUC IR 1.8.2.

PART FOUR: ALLOCATION OF ANNUAL PROGRAM COSTS

23. Step 2 of FEI's analysis was to take the Program's annual costs and apply the principle of cost causation (for the reason described above) to allocate these costs. As noted above, the specific application of the principle involved asking the following two questions for each cost item:

(e) Are the costs incurred specifically to administer the Customer Choice Program and services for gas marketers and their customers? If "yes", then they should be allocated to gas marketers.

(a) Are the costs incurred to ensure the Program is available for all FEI customers whether they choose to participate or not? If yes, then they should be allocated to all FEI ratepayers.

A. FEI's Recommended Program Cost Allocations

24. The rationales for the proposed allocations of the six cost categories are set out in section 3.1 of the Application, and summarized in Table 3-1. The resulting cost allocation based on 2015 actual costs is set out in Table 3-2. The allocations of the six cost categories, in summary, are based on the following considerations:

(a) **Technology Sustainment**: These costs are incurred specifically to maintain systems that were developed solely to facilitate and administer the Program, and they would not be incurred if the Program ceased to exist. These costs are incurred specifically to administer the Customer Choice Program and services for gas marketers and their customers and should be allocated 100% to gas marketers.[25]

(b) **Infrastructure Sustainment:** These costs are incurred to ensure that the Program's infrastructure is available for all eligible FEI customers who choose to participate in the Program. While there are some activities associated with

[25] B-1, Application, section 3.1.1.2.

these costs that would no longer occur if the Program ceased to exist, there would be no measurable costs savings as a result. These costs are incurred to ensure the Program is available for all eligible FEI customers whether they choose to participate or not and should be allocated 100% to all FEI ratepayers.[26]

(c) **Contact Centre:** The Contact Centre is available to anyone, whether enrolled in the Program or not, to answer questions about the Customer Choice Program. These costs are incurred to ensure the Program is available for all eligible FEI customers whether they choose to participate or not and should be allocated to all FEI ratepayers.[27]

(d) **Program Administration:** These costs are incurred specifically to administer the Customer Choice Program and to provide services for gas marketers and their customers, and as a result should be allocated 100% to gas marketers.[28]

(e) **BCUC Charge:** FEI submits that the recommended 20% / 80% allocation of these costs to gas marketers and all FEI customers is appropriate. The 20% allocation is based on the Commission's estimate that 20% of its annual charge is associated with dispute resolution, which FEI submits is a cost driven by gas marketers and their customers. The remaining costs are associated with the Commission's program administration and regulatory proceedings, which FEI submits are costs driven by ensuring that the Program is available for all eligible FEI customers.[29]

(f) **Customer Education:** The customer education costs have always been paid for by all FEI customers, and FEI submits that this approach continues to be

[26] B-1, Application, section 3.1.1.1.
[27] B-1, Application, section 3.1.2.
[28] B-1, Application, section 3.1.3.
[29] B-1, Application, section 3.1.4.

appropriate because these costs are incurred to benefit all customers, whether they participate in the Program or not.[30]

B. Some Issues Raised in the Proceeding Regarding Step 2 Allocations

(a) *"All (or most) Costs Should Be Allocated to FEI Customers"*

25. During the SRP, it was suggested that *all* Program costs are incurred to "make the Program available to customers", whether they participate or not.[31] The implication of this view would be that non-bypass customers should bear 100% of the Program's costs. FEI does not agree with this characterization of the Program's costs. The infrastructure sustainment costs, for example, are driven by the need for the existence of FEI's entire customer information system, which will exist regardless of the existence of the Program. On the other hand, the technology sustainment costs and program administration costs are driven by specific Customer Choice systems that would be decommissioned if the Program were eliminated. FEI submits that these kinds of differences in Program costs justify the proposed allocations. A further consideration in support of FEI's approach is that FEI is directed to allocate operating costs to gas marketers where possible.[32]

26. A related theme raised in the SRP concerned the extent to which the Program costs are "fixed" costs for FEI or "fixed" costs per gas marketer. The suggestion was that if the costs are fixed for FEI – that is, the costs are the same regardless of the number of gas marketers – this must demonstrate that all costs are associated with making the Program available.[33] FEI submits that this is an incorrect way to understand the Program's annual costs. While FEI has characterized the costs as largely fixed, and not directly tied to gas marketer participation levels, this does not mean that cost causation principles dictate that the costs are all incurred to make the Program available. FEI incurs relatively fixed Program costs that are incurred specifically to administer the Customer Choice Program and to provide services for gas

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[30] B-1, Application, section 3.1.5.
[31] SRP Hearing, July 21, 2016, Transcript, Volume 1, p. 23, lines 3 to 12 and lines 17 to 20.
[32] Order A-12-15.
[33] SRP Hearing, July 21, 2016, Transcript, Volume 1, p. 26, lines 2 to 12.

marketers and their customers. Certain of these costs are directly attributable to customers actively participating in gas marketer programs (such as technology sustainment and program administration). As a result, FEI submits that these costs are reasonably allocated to gas marketers.

27. Another suggestion was that a 100% allocation of all Program costs to all non-bypass customers would have a de minimus effect on their monthly bills, while the impact on gas marketers may be significant.[34] FEI concedes that the rate impact of fully allocating the Program's costs to all non-bypass customers would be minimal. However, in the circumstances of this Application FEI did not consider the de minimus impact to be a relevant consideration. FEI's approach to cost allocation was as directed by Order A-12-15, principled and based on cost causation. On this approach, the impact on a customer's bill of a 100% allocation is irrelevant.

28. Finally, questions were asked during the SRP about the extent to which FEI has taken into consideration the declining enrollment in Customer Choice and the potential impact that the allocations may have on the future sustainability of the Program.[35] FEI acknowledges that Program enrollment has declined and that FEI's forecast is for continued declining enrollment. Similar to the de minimus bill impact consideration above, FEI submits that this kind of consideration would have been inappropriate for FEI in light of the direction in Order A-12-15 and in light of the principle of cost causation.

(b) *"All (or most) Costs Should Be Allocated to Gas Marketers"*

29. It was also suggested during the SRP that on a strict interpretation of Order A-12-15, *all* operating costs are to be recovered from gas markets "where possible", and since all of the annual Program costs are operating costs they can and should be 100% allocated to gas marketers. FEI's position on this interpretation of Order A-12-15 has been addressed in Part Two, section A above.

[34] SRP Hearing, July 21, 2016, Transcript, Volume 1, p. 27, lines 3 to 11.
[35] SRP Hearing, July 21, 2016, Transcript, Volume 1, p. 102, lines 12 to 19.

(c) Specific Allocations

30. FEI responded to a number of IRs and questions during the SRP regarding specific allocations, such as the allocation to gas marketers for dispute resolution and the extent to which the Program Administration costs are incurred to keep the Program available. FEI acknowledges that some of the specific allocations involve judgment and are not black and white, but FEI stands by the allocations it has recommended. FEI will address specific issues around the six cost categories and their allocation in reply to the extent that further issues are raised.

(d) Conclusion

31. FEI submits that its cost allocation of Program costs is based on appropriate, transparent and fair principles and strikes a reasonable balance between gas marketers, whose interests are to have low fees, and FEI's non-bypass customers, who should bear the reasonable costs of making the Program available.

PART FIVE: RECOVERY OF COSTS ALLOCATED TO GAS MARKETERS

A. FEI's Recommended Gas Marketer Cost Allocation

(a) FEI's Approach

32. Step 3 of the cost allocation exercise takes the Program costs allocated to gas marketers, and allocates those costs among the gas marketers. The challenge of this exercise is the large differences in the enrollment and throughput levels of the gas marketers who participate in the Program. For example, Company B has 51 active customers and 7,249 annual GJs, while Company H has 17,834 active customers and 2,112,968 annual GJs. FEI approached the allocation exercise with these significant differences in mind, while attempting to maintain a principled and fair approach that did not unduly impact gas marketers with a larger market share, or have an undue impact on those with a smaller market share. FEI submits that its recommended approach provides a reasonable balancing of these interests.

33. FEI considered four different options for cost recovery from gas markets: an equal fixed fee, two versions of a fully variable fee, and a combination fee.[36] Through the IR process FEI explored a per GJ / throughput based variable fee as well. FEI then applied both quantitative and qualitative criteria to the different fee options. The quantitative evaluation considered the annual percentage change in gas marketer costs that arise due to the new fees. The qualitative criteria considered fairness (i.e. alignment with the cost causality principle), ease of implementation and long term flexibility. All options rated as "good" with respect to ease of implementation and long term flexibility. As a result the analysis turned on the quantitative evaluation and alignment with cost causality.[37]

(b) The Equal Fee Option (Option 1)

34. The equal fixed fee option takes the annual Program costs allocated to gas marketers and divides the annual fees equally among all participating gas marketers.[38] The result for 2015 on this approach would be an annual fee to gas marketers of $60,618.

35. FEI submits that the equal fixed fee option is inappropriate. On this option, the companies with the smallest market share, Companies B, C and D would see very significant fee increases (429%, 244% and 305% respectively).[39] On the other hand, the companies with the largest share of the market would see significant fee decreases. FEI further submits that on this approach, marketers with smaller market shares may leave the Program and reduce competitive options for customers. FEI submits that for these reasons the equal fee option is not recommended.

(c) The Variable Options (Options 2, 3 and GJ)

36. FEI explored different variable options. Option 2 was a variable rate based on each gas marketer's share of the total customer base.[40] Option 3 was a variable rate based on

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[36] B-1, section 5.1.
[37] The evaluation results are described in B-1, section 5.6 and summarized in Table 5-8.
[38] B-1, Application, section 5.1.
[39] B-1, Application, section 5.6.2.
[40] B-1, Application, section 5.2.

enrolled customers.[41] As noted above, a per GJ option was considered through information requests.[42] FEI submits that all of the variable options suffer from the same defect. In each case, the resulting allocation does not allocate Program costs in a way consistent with the principle of cost causation. For example, on Option 2 Company H would bear approximately $270,000 of the annual Program costs of approximately $500,000 allocated to gas marketers, or over half of the costs.[43] Similar results were determined with the other variable options.[44] On the other extreme, customers with smaller customer enrolment would cover virtually none of the Program costs on a variable approach, despite having the opportunity to enrol customers. FEI submits that for these reasons the variable fee options are not recommended.

(d) The Reasonableness of the Recommended Combination Fee (Option 4)

37. FEI's recommended option is a combination of fixed and variable fees.[45] The proposed fixed fee is $24,000 per year, with the remainder of gas marketer program costs being recovered through a variable fee. FEI confirmed during the SRP hearing that its proposal is that the $24,000 fixed fee will not be adjusted if gas marketers leave the Program. FEI clarified that the loss of a marketer participant would be addressed through the annual reconciliation and captured in updated variable fees the following year.[46]

38. The quantitative analysis of this option is favorable. The impacts on gas marketers in terms of percentage increases and decreases were the most reasonable of all options considered. Company B with the lowest amount of active customers would face a 146% increase in fees based on 2015 actuals, while Company H with the highest number of active customers faces a 31% increase.[47] All of the other options considered had greater percentage change impacts. The recommended combination fee was the least impactful to all gas marketers. FEI modelled fee impacts for different fixed fee amounts in response to BCUC

41 B-1, Application, section 5.3.
42 B-9, Access Gas IR 1.13.
43 B-, Application, section 5.6.3.
44 B-1, Application, sections 5.6.4 and Access Gas IR 1,13.
45 B-1, Application, sections 5.4 and 5.7.
46 SRP Hearing, July 21, 2016, Transcript, Volume 1, p. 22, lines 11 to 24.
47 B-7, BCUC (Previously) Confidential IR 1.1.1.

(Previously) Confidential IR 1.1.1. FEI is amenable to the use of different fixed amounts for the combination fee.

39. FEI further submits that this option reasonably balances cost causation principles while giving fair consideration to the impact on individual gas marketers. It does so by ensuring that all gas marketers are charged for continued access to the Program in an equal way, while ensuring that the non-fixed remaining portion of the costs are shouldered by the gas marketers most often using the Program services and infrastructure.

B. Issues Raised in the Proceeding Regarding the Step 3 Allocation

40. Through information requests and during the SRP the Commission and interveners, particularly gas marketers, asked questions about the recommended approach and alternatives. FEI recognizes that the different fee approaches impact gas marketers in different ways. An equal fixed fee favours gas marketers with larger customer enrollments and could significantly impact those with lower enrollments, while a fully variable fee structure significantly impacts gas marketers with greater market share. Likewise, the *amount* of the fixed fee component of the recommended combination fee is an important consideration for gas marketers. The smaller the fixed portion of the fee, the greater the impact on gas marketers with greater market share; conversely, a higher fixed fee pushes more of the fee onto the marketers with less market share.

41. Some of the key alternatives and fee modelling that was carried out through the IR process is as follows:

(a) **Different fixed fee amounts for recommended Option 4:** FEI's response to BCUC Confidential IR 1.1.1. (now filed publicly) provides the quantitative impact on gas marketers of different fixed fee amounts for the recommended combination fee at 10%, 20%, 30% and 50% fixed fee amounts. FEI notes that in response to this information request, FEI excluded the gas marketer "Company C" that has advised that it is leaving the Program from all of these assessments, and included an updated quantitative assessment for the 40% fixed fee amount.

As a result, the response to this information request provides the most appropriate reference for the quantitative assessment of recommended Option 4 and alternatives to the recommendation that use different fixed fee amounts.

(b) **Maintain Existing Fees:** FEI's response to BCUC IR 1.11.1 provided the necessary fees that would be required to recover the gas marketer portion of annual Program costs under the existing fee structure.

(c) **Volumetric Approach:** FEI's response to Access Gas IR 1.13 provided the modelling for a volumetric (per GJ) variable fee based on 2015 actuals.

42. FEI was asked through information requests and during the SRP hearing about specific impacts to gas marketers, and the extent to which any one fee approach may result in a gas marketer exiting the Program, or more generally impact the ongoing viability of the Program. FEI has no insight into gas marketer operating margins and nor should it.[48] FEI submits that in light of the directive in Order A-12-15, and FEI's role as Program facilitator, it would have been inappropriate for FEI to consult directly with gas marketers on different fee options to assess the actual financial impact on each marketer given their specific operating margins. Taking into consideration the specific financial interests of gas marketers would not likely result in a fair allocation. FEI submits that the quantitative approach that it took to the assessment, of measuring the percentage change to fees charged, was a fair and reasonable way to consider different fee approaches and their quantitative impacts.

PART SIX: CONCLUSION

43. FEI submits that the Application has met the directive set out in Order A-12-15. FEI conducted a comprehensive review of the Program's costs, it has provided a proposal for recovery of Program costs, and it has provided a rationale for the portion of operating costs to be recovered from gas marketers and the relevant mechanisms.

[48] B-6, BCUC IR 1.10.1.

44. As Program facilitator FEI does not have a direct financial interest in the allocation of costs that is ultimately approved and its primary objective is to ensure full recovery of Program costs. As a result, FEI has developed the cost recovery proposal in the Application on a principled basis. FEI is amenable to other approaches to both the Step 2 and Step 3 allocations, and will provide its views, if appropriate, on any suggested alternative approaches in response to intervener submissions.

45. Having considered the information requests and input from the SRP hearing, FEI maintains that its recommended approaches to both the Step 2 and Step 3 allocations are reasonable and should be approved, along with the other relief sought in the Application and as amended in the response to Undertaking No. 1.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: August 4, 2016

[original signed by David Curtis]
David Curtis
Counsel for FortisBC Energy Inc.