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September 28, 2017

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 Inc. (FBC)**

**Project No. 3698875**

**Application for Reconsideration and Variance of Order G-199-16 FBC Net Metering Program Tariff Update Decision ~ Phase 2 (the Application)**

**Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1**

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On March 17, 2017, FBC filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-127-17 setting out the Regulatory Timetable for the review of the Application, FBC respectfully submits the attached response to CEC IR No. 1.

If further information is required, please contact Corey Sinclair, Manager, Regulatory Affairs at (250) 469-8038.

Sincerely,

**FORTISBC INC.**

***Original signed:***

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

**1. Reference: Exhibit B-4, LTERP Response to BCUC IR 11.4 2016, Exhibit B-1, page 2 and page 20**

**Response:**

On pages 26-27 of the LTERP, the Company lists cost (which should be interpreted as cost recovery) as a challenge, stating that the fixed charges in the current rate structures do not adequately recover the cost of connection to the distribution system.

Currently, for Residential customers, the fixed Customer Charge collects less than 50 percent of the costs allocated to this function in the Company's most recent cost of service analysis (COSA). The balance of these costs is collected through the variable charge portion of the rate.

That means that customers with DG, including net metered customers, pay lower variable consumption charges, and, since some of the Company's fixed costs are collected through the variable (energy and demand) charges, fixed charges are under-recovered. In the case of net metered customers, the compensation for net excess generation during a billing period may reduce the contribution toward fixed costs to zero or negative. While the avoidance of energy charges is fair because the customers did not use the power, it is problematic that they also avoid paying for all of the fixed costs of the grid that delivers power when they need it and/or takes the excess power they sell back to the utility. The costs are ultimately borne by other customers through higher rates.

Customers with low use due to reasons other than customer-owned generation cannot avoid paying fixed charges, although by virtue of low energy charges will contribute less to fixed charges than a customer with higher consumption.

(c) the panel majority has approved, without considering all relevant factors, NEG pricing that overcompensates NM customers without any valid justification and at the expense of other FBC rate payers. Further, the NEG compensation price the majority approved can and does result in FBC receiving less than a fair rate of return from residential NM customers when they are credited for NEG at Tier 2 rates in particular billing periods but only consume electricity at a Tier 1 level or not at all. The panel majority has therefore approved unjust and unreasonable rates contrary to the *UCA* (see pages 19-29, below).

(b) NEG can be and is compensated at the Tier 2 rate of over 15 cents per kWh, which is far in excess of the cost of other comparable resources available to FBC and is actually in excess of any measure of long run marginal cost (**LRMC**) even though NEG is not considered a long term resource; and

(c) the high compensation rate for NEG under the RCR incents generation above the levels needed to offset personal consumption contrary to the intent of the NM program.[46]

1.1 Please provide FBC's Long Run Marginal Cost of energy (LRMC).

**Response:**

As stated in the response to BCUC IR 1.34.2 in Exhibit B-2 in the Company's 2016 Long-Term Electric Resource Plan (LTERP) and Long Term Demand Side Management (DSM) Plan process, the estimated value of long run energy capable of being delivered in the winter is $84 per MWh. If the energy from a project is almost completely outside of the winter period, then $84 per MWh does not apply.

FBC also notes that, as described on pages 78 and 79 of the 2016 LTERP, one of FBC's current resources (the Columbia Power Corporation unused Canal Plant Agreement Entitlements from the Brilliant and Brilliant Expansion Plants) has not been included in the LTERP past 2027 as a resource option due to an inability at this time to confirm that it is available. This power has been contracted through to the end of 2027 (subject to Commission acceptance) and it is very possible that it and potentially even significantly larger volumes of power will be available after 2027. Given FBC's very modest expected long term energy needs and the uncertainty around what resources will be available in the future, FBC does not believe that it is appropriate at this time to use the long run marginal cost (LRMC) of energy to justify making additional supply available long before it is needed at a price that may be much higher than future resource options.

1.2 Please elaborate on why NEG cannot be considered a long term resource.

**Response:**

With regard to the intermittent output of a net metering (NM) system, there is great uncertainty with any installation as to the timing or volume of the energy that will be received. The owner could decide to cease operating or, more likely, to add load such as an electric vehicle that would reduce or eliminate the amount of net excess generation (NEG) produced. Therefore, FBC does not believe that NEG should be considered a long-term resource.

However, the more important consideration is not whether or not NEG is defined as a long-term resource, but rather the price at which it is obtained and whether it actually helps provide power when power is needed.

1.3 Please confirm that revenues generated from Tier 2 customers contribute to reductions in the price for Tier 1 energy.

**Response:**

FBC assumes that "Tier 2 customers" refers to customers that have consumption in the higher second tier of the RCR. Strictly speaking, the relative levels of the Tier 1 and Tier 2 rates depend on the proportion of revenue that arises from kWh sales in each tier. When the RCR was originally set, an assumption was made based on the anticipated ratio of Tier 1 to Tier 2 sales in the overall residential class load. This ratio has been fairly consistent since the RCR was implemented. To the extent that the percentage of Tier 2 consumption is higher or lower than assumed, overall revenue from the class may be impacted. This is not reflected in an adjustment to the Tier 1 rate. Rather, the revenue variance is flowed through to customers.

**2. Reference: Exhibit B-4, LTERP Response to BCUC 2.70.1**

**70.0 Reference: INFORMING RATE DESIGN FILINGS**

**Exhibit B-8, Scarlett IR 1; British Columbia Utilities Commission, Report to The Government of British Columbia on the Impact of BC Hydro and FortisBC's Residential Inclining Block Rates (2017) (RIB Rate Report), p. 6; FBC 2014 Stepped and Standby Rates for Transmission Voltage Customers Decision dated May 26, 2014 and Order G-67-14 (FBC 2014 Stepped and Standby Decision), p. 54**

**DG subsidy**

FBC states in Scarlett IR 1 (d): "… customers with low consumption, whether as a result of consumption habits or participation in DSM, still make a standard contribution towards the fixed costs of the system through the Customer Charge. Only customers with DG that have the ability to reduce bills to zero (or negative) can avoid this contribution completely. This means that DG customers, who still rely on and benefit from connection to the electric grid, are being subsidized by other non-DG customers."

2.1 Please confirm that in FBC's view there are no Bonbright principles supporting the subsidization of one customer group by another.

**Response:**

Confirmed. Bonbright holds that subsidization is to be avoided.

2.2 Please provide an analysis comparing the current NM compensation model and FBC's proposed compensation model as they relate to the Bonbright principles. The following provides an example however an alternative format that FBC deems appropriate is also acceptable.

Eg.

| Current Situation | FBC Proposed Model | Bonbright Principle Considerations |
|---|---|---|
| | | |
| | | |
| | | |

**Response:**

The rate design principles adopted by FBC, as previously articulated by the Commission are as follows:[1]

| Bonbright Principle | Comment |
| --- | --- |
| Principle 1: Recovering the Cost of Service; the aggregate of all customer rates and revenues must be sufficient to recover the utility's total cost of service | FBC will recover the Cost to Serve the residential class under either NEG compensation scenario. |
| Principle 2: Fair apportionment of costs among customers (appropriate cost recovery should be reflected in rates) | In the current NEG compensation scenario, NM customers with annual NEG will shift additional costs to other customers. This may occur in either scenario but the impact is mitigated by a lower annual NEG compensation rate. |
| Principle 3: Price signals that encourage efficient use and discourage inefficient use | The current NEG compensation scenario overvalues annual NEG produced by NM customers while the FBC proposal values the energy appropriately at the avoided cost. |
| Principle 4: Customer understanding and acceptance | Customers will likely understand either scenario. Acceptance or non-acceptance may be driven by whether a particular customer is a participant in the NM Program and the extent to which they may benefit through the annual NEG compensation method that is in place. |
| Principle 5: Practical and cost-effective to implement (sustainable and meet long-term objectives). | Both current and proposed models meet this criterion. |
| Principle 6: Rate stability (customer rate impact should be managed) | Customer rate impact is best managed by utilizing FBC's proposed annual NEG compensation scenario since customer bills will be more consistent from billing period to billing period. |
| Principle 7: Revenue stability | FBC's proposed annual NEG compensation scenario will slow the shift in revenue responsibility that may result from an increased number of NM customers. This will not impact overall revenues but may impact the overall level of rates. |
| Principle 8: Avoidance of undue discrimination (interclass equity must be enhanced and maintained) | The proposed annual NEG compensation scenario better mitigates the prospect of interclass cost shifting. |

1 Appendix A of Order G-45-11 in the BC Hydro Residential Inclining Block Re-Pricing Application.

**3. Reference: Exhibit B-1, page 19 and page 20**

> 55. Under the terms of RS 95, as approved in the 2009 NM Decision, if a NM customer is a net generator in any billing period, the NEG "shall be valued at the rates specified in the applicable Rate Schedule and credited to the Customer's account". As described in the Application, residential customers were served under a flat retail energy rate at the time the NM program was originally approved.[43]
>
> 56. However, with the implementation of the two-tiered RCR in 2012, pursuant to Commission Order G-3-12 and Decision (the **RIB Decision**), residential NM customers are now compensated for NEG at either the Tier 1 rate for generation up to the threshold of 1,600 kWh over two months or the higher Tier 2 rate for amounts over 1,600 kWh over two months.[44] This treatment is based on the pre-existing tariff language. There is no indication in the RIB Decision or the filings in that proceeding that the effect of the RCR on the NM program was given any consideration at the time.[45]

3.1 Please elaborate on how the Tier 2 rate was established relative to the Tier 1 rate.

**<u>Response:</u>**

Initially, once the threshold amount of consumption that triggers the use of the Tier 2 rate and the Customer Charge were set, the Tier 1 and Tier 2 rates were derived in order to satisfy the criterion that 95 percent of customers should receive an annual bill increase no greater than 10 percent as compared to the then-existing flat rate. The rates were set in order to be revenue neutral with the existing cost-based flat rate, but neither the individual rate tiers, nor the spread between them were set with reference to any particular cost rationale. Specifically, the Tier 2 rate was not set with reference to the LRMC of energy, which in economic terms would reflect the most efficient level.

A number of rate combinations would have satisfied the "no greater than 10 percent increase for 95 percent of customers" criterion; however, the one selected at the time was chosen in consideration of a number of other factors related to additional billing and conservation impacts.

In subsequent years up until 2015, the respective Tier 1 and Tier 2 rates were set in accordance with Commission direction received in Order G-3-12 as follows:

a. The Customer Charge is exempt from general rate increases, other than rate rebalancing increases;
b. The Block 1 rate is subject to general and rebalancing rate increases; and

c. The Block 2 rate is increased by an amount sufficient to recover the remaining required revenue (i.e., the residual rate).

Since 2015, each rate component has been adjusted by the same percentage in response to annual revenue requirements changes.

**4. Reference: Exhibit B-4, 2016 LTERP Response to Shadrack 1 i**

1. FortisBC (FBC) stated in its application at 2.3.3 "Small Scale Distributed Generation" that:

   *"...the fixed charges in current rate structures do not adequately recover the cost of connection to the distribution system".*

   i. Please compare the average cost to FBC, by rate class if available, of connecting Net Metering (NM) customers with the average cost to FBC for connecting regular customers.

**Response:**

The majority of NM customers are already connected when they enroll in the net metering program. The physical requirements for interconnection are comparable to customers in general (although the ability of the utility to recover these common costs from the NM customer may be lessened as discussed in the response to BCUC IR 1.11.4).

There are, however, incremental costs associated with connecting a NM customer and with the ongoing administration of the program. FBC does not recover these costs from program participants and does not therefore separate them in a manner that can provide reporting. Costs prior to interconnection include any required site visit, review of the NM design and documentation by FBC staff, administering the Net Metering Application and Agreement and billing review to ensure eligibility. Post-connection, NM metering customers require manual billing and account reconciliation each billing period. Currently all of these costs are recovered from customers in general.

4.1 Please provide FBC's best estimate of the incremental costs associated with connecting a NM customer. A range or order of magnitude is acceptable.

**Response:**

Interactions with a NM customer prior to the time of interconnection have a cost of approximately $100. These costs are distinct from ongoing post-connection costs such as manual billing, account maintenance and reconciliation.

4.2 Why does FBC not recover the administration costs from the NM customers?

**Response:**

As indicated in the response to CEC IR 1.4.1, post-connection administration costs include manual billing and account reconciliation each billing period. In FBC's original 2009 Application establishing the NM Program, the Company sought to recover the annual reconciliation cost from program participants, but such recovery was not approved. FBC understood that the Commission's direction in the matter was indicative of a general approach that would also apply to monthly costs, and has not therefore reapplied to recover the monthly costs from NM customers specifically.

**5. Reference: Exhibit B-4, 2016 LTERP Response to BCUC 1.10.4**

> BC Hydro noted at page 15 of its 2013 Net Metering Evaluation Report #3 that, "Generally speaking, the economic value of customer self-generation to BC Hydro and non-participating customers is measured in terms of avoided costs because customers supply part or all of their own electricity." Thus, FBC concludes that BC Hydro has determined $99.90 per MWh is the avoided cost for power on its system for this purpose, whereas FBC considers that the most reasonable proxy for its avoided cost of power is the rate at which it is able to purchase power under its PPA with BC Hydro.
>
> FBC notes that the Commission has previously provided context for the comparison of rates and programs of different utilities, stating:
>
>> FortisBC operates with a different set of supply resources and with a different customer base in terms of geography, population density and the residential/commercial/industrial mix it faces. The Commission Panel has no mandate, nor does it find it appropriate, to require FortisBC to manage its utility business to produce rates or programs identical to those of BC Hydro. The Commission Panel believes that FortisBC's responsibility is to provide safe and reliable service in a cost-effective manner consistent with British Columbia's energy objectives. To do so, FortisBC must design and manage its system based on the resources available to it and the needs of its customers. This, at times, may result in rates that are greater than those of BC Hydro and potentially times when they are less.[1]

5.1 Please confirm that FBC is from time to time, able to purchase energy from the market at a lower cost than that from the BC Hydro PPA.

**Response:**

Confirmed; however, there is no guarantee of timing or volume.

5.2 Please provide FBC's anticipated PPA purchase price (a range is acceptable) for the next 12 months.

**Response:**

The PPA energy purchase price is expected to be between $48.63 and $50.09 per MWh.

5.3 Please provide FBC's anticipated market purchase price (a range is acceptable) for the next 12 months.

**Response:**

For 2018, FBC anticipates purchasing the majority of its market power at a price of $30 to $35 per MWh on average. However, additional amounts of power are expected to be purchased at potentially lower prices provided system conditions and market prices allow it. While FBC does not have a price forecast for these purchases, they are included in the 2018 expected Power Purchase expense as an additional $2 million reduction in annual Power Purchase costs as compared to purchasing PPA power.

Historically, market prices have been as low as the single digits or even negative. On the other hand, in times of tight market supply, market prices can exceed $100 per MWh. Given the level of FBC's system flexibility, FBC has little to no need on an expected basis to purchase market power at high prices.

5.4 To the extent that FBC is able to purchase energy at a lower rate than the PPA, is it appropriate to consider the lower rate as FBC's avoided cost of energy? Please explain why or why not.

**Response:**

FBC believes that the PPA is the appropriate resource to use as FBC's avoided cost of energy at this time. The BCH PPA represents a readily available resource at an established price. While market prices may be lower than PPA rates and FBC actively purchases market power to displace both PPA energy and capacity, there is no longer term guarantee that this will be possible and no way to forecast what the price or timing will be.

Therefore, while FBC actively optimizes its resource portfolio to take advantage of the lowest cost resources to the extent that it is prudent to do so, it is difficult to make longer term planning decisions assuming that such optimization will always be available. However, the fact that FBC does have this flexibility should be kept in mind and the longer term planning decisions should strive to maintain the option for such shorter term displacements by ensuring that FBC is not over-resourced to such an extent that more cost-effective market options become limited.

**6. Reference: Exhibit B-4, FBC Evidence Part 2 and Exhibit B-1, page 4 and page 28**

| Consumption Characteristics | | | | | Billing Under Current Rates | | | Billing Under Proposed Methodology | | | | | Customer Impact | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Customer | Number of Billing Periods Receiving Power from FBC | Number of Billing Periods Delivering Power To FBC | Number of Billing Periods With Net Excess Generation | Annual Net Consumption (kWh) | Annual Net kWh Billed at Tier 1 Rates | Annual Net kWh Billed at Tier 2 Rates | Total Annual Energy Cost (Credit) including Customer Charges | Annual Net kWh Billed at Tier 1 Rates | Annual Net kWh Billed at Tier 2 Rates | kWh Remaining in Bank at March 31, 2016 | Value of kWh Purchased from kWh Bank | Total Annual Energy Cost (Credit) including Customer Charges & kWh Bank | Bill Impact | Customer Outcome |
| 1 | 6 | 6 | 6 | -114,386 | -9,600 | -104,786 | -$17,143 | 0 | 0 | 114,386 | $5,563 | -$5,371 | $11,772 | Worse Off |
| 2 | 6 | 6 | 0 | 14,832 | 9,600 | 5,232 | $1,981 | 9,600 | 5,232 | 0 | $0 | $1,981 | $0 | No Change |
| 3 | 6 | 6 | 0 | 8,815 | 8,184 | 631 | $1,119 | 8,184 | 631 | 0 | $0 | $1,119 | $0 | No Change |
| 4 | 6 | 6 | 3 | 881 | 881 | 0 | $282 | 881 | 0 | 0 | $0 | $282 | $0 | No Change |
| 5 | 6 | 6 | 0 | 14,498 | 7,901 | 6,597 | $2,022 | 7,901 | 6,597 | 0 | $0 | $2,022 | $0 | No Change |
| 6 | 6 | 6 | 0 | 8,435 | 5,964 | 2,471 | $1,182 | 5,964 | 2,471 | 0 | $0 | $1,182 | $0 | No Change |
| 7 | 6 | 6 | 3 | 626 | 626 | 0 | $256 | 626 | 0 | 0 | $0 | $256 | $0 | No Change |
| 8 | 6 | 6 | 4 | -1,461 | -1,367 | -94 | $40 | 0 | 0 | 1,461 | $71 | $121 | $82 | Worse Off |
| 9 | 6 | 6 | 0 | 8,921 | 8,815 | 106 | $1,101 | 8,815 | 106 | 0 | $0 | $1,101 | $0 | No Change |
| 10 | 6 | 6 | 1 | 9,224 | 5,431 | 3,793 | $1,334 | 5,431 | 3,793 | 0 | $0 | $1,334 | $0 | No Change |

***A. Interpretation of RS 95***

12. FBC respectfully submits that the Commission panel majority erred in its interpretation of RS 95 regarding the legal consequences of an NM customer producing consistent annual NEG. This erroneous interpretation led to the majority's direction that FBC propose an amendment to the tariff purportedly clarifying that customers cannot be removed from the NM program solely for producing annual NEG.[3]

(c) in over one third of the bills for these customers, NEG was compensated at Tier 2 rates without any consumption above the Tier 1 threshold, with in one case, the amount of generation compensated at Tier 2 exceeding 100,000 kWh with no corresponding Tier 2 consumption at all.

6.1 Are FBC customers who are consistently producing NEG and earning financial value for it required to pay income, GST or any other tax on those earnings? Please provide FBC's understanding of this issue.

**Response:**

NM customers are responsible for obtaining their own tax advice regarding the application of various Canadian taxes to their sales and purchases of electricity. However, FBC is prepared to provide the following comments.

Where a NM customer sells generated electricity, the customer may be earning income from a business or property and subject to income tax. It is the responsibility of each NM customer to determine their liability for and pay any income tax related to the earnings.

For GST, FBC understands that NM customers registered or required to be registered for GST must collect and remit GST on the gross sales of electricity to FBC. FBC must also charge GST on gross sales of electricity to customers. GST registered NM customers should consult with their tax advisers as to their entitlement to claim the GST paid to FBC as an input tax credit on their GST return.

FBC understands that PST does not apply to FBC purchases of electricity from NM customers. However, commercial (non-residential) NM customers will pay PST on the electricity purchased from FBC as they are consumers of the electricity and the residential PST exemption does not apply.

6.1.1 If yes, does FBC issue the relevant tax statements for this revenue?

**Response:**

FBC does not issue any special purpose tax statements to any customers in respect of the NM revenue. FBC believes the information needed by NM customers to prepare their respective tax returns is included in the regular bill/invoice that FBC sends to them. Included in the bill issued by FBC is the delivered kWh to the NM customers, received kWh from the NM customers and the price/kWh, as well as GST and PST where applicable. FBC believes the information is adequate for income tax and GST purposes.

6.1.2 If no, is there any GST or other tax burden being borne by non-NM customers as a result of the NEG payments? Please explain.

**Response:**

FBC believes there is no tax burden being borne by the non-NM customer as a result of the NEG payments because there is no net tax burden on FBC on purchases of electricity from NM customers.

**7. Reference: Exhibit B-1 pages 10 and 11 and page 13**

> 28. By stating that the NM program and tariff schedule were approved "as proposed in the Application" and "as filed", the 2009 Commission panel indicated itself to be in agreement with FBC's statements regarding the intent of the program and eligibility criteria in the 2009 Application and Submissions. The 2016 Majority Decision rightly concluded that these statements were consistent with FBC's intent that the NM program was not a means for customers to consistently produce NEG for sale to FBC, but the panel majority then erred in distinguishing that from the Commission's intent in approving RS 95.[18]

> 29. If the 2009 Commission panel had a different understanding of the "intent" of the NM program than what FBC had described in its Application and Submissions (as the 2016 panel majority suggested), then the 2009 panel would not have stated its approval in the terms described above and it would necessarily have explained in the Reasons for Decision how its views regarding customer eligibility differed from what FBC had clearly expressed in its filings.

> 30. FBC's intent for the NM program as expressed in the 2009 proceeding must have been shared by the Commission panel that originally approved the program. That intention, which is a key component of the factual matrix in these circumstances, is consistent with and supports FBC's right to remove customers who no longer satisfy the program eligibility criteria.

> 35. In order for the interpretation of RS 95 to be in harmony with the balance of the Electric Tariff and Rate Schedules, FBC must also necessarily have been able to remove customers from the NM program if they no longer satisfy the eligibility criteria. Customers that are not eligible for RS 95 simply have no entitlement to continue to receive service under that rate schedule and FBC has no continuing obligation to provide it. The same is true if customers become ineligible for any other FBC rate schedule.

7.1 Please confirm that it would have been appropriate for the Commission to have altered the Eligibility Criteria if it did not accept the intent of the NM program.

**Response:**

Confirmed. While it would be inappropriate for the Commission to direct FBC to ignore the approved Eligibility Criteria, the Commission could amend those criteria provided that doing so did not result in NM customers being on a rate that was unduly discriminatory or preferential.

**8. Reference: Exhibit B-1 pages 13-14 and page 14**

> 39. This public interest rationale is inconsistent with the intention that the NM program be limited, to the greatest extent possible, to off-setting customers' own consumption. The Commission panel majority itself recognized the importance of this principle in approving the addition of clarifying language to the eligibility section of RS 95, which was said to be "within the original intent of the program".[24] On that basis, an NM customer's only reasonable expectation upon joining the program would be to minimize or reduce electricity costs and thereby off-set the initial investment in self-generation. There should be no expectation of using

> the NM program to turn a profit through sales of NEG to FBC and initial investment decisions should not be made on the expectation of receiving regular monetary compensation for NEG. As noted above the "risk" associated with removal is limited to the possibility of not receiving compensation for NEG. This risk could not objectively deter a potential NM customer's investment in self-generation unless the customer assumed a profit margin contrary to the intent of the program.

> 41. FBC's right to remove customers from RS 95 is also an important form of check on the NEG production of existing NM customers. Without the existence of this right, and the concomitant risk to existing NM program participants that their NEG may no longer be compensated in the future, there is effectively no disincentive against existing customers maximizing the NEG produced by their current systems for sale to FBC.

8.1 **Please identify and discuss any different protocols that FBC follows when purchasing energy from a 'for profit' vendor than it follows when purchasing energy under the NM program.**

**<u>Response:</u>**

The NM program requirements are as defined by RS 95, which FBC follows when purchasing energy under the NM program. Once the tariff terms were set, FBC has no control over the price to be paid or the volume or timing of energy received. The major difference in protocol between NEG customers with persistent annual NEG and for profit market vendors is that market vendors have to deliver to the utility based on an agreed schedule (subject to curtailments and outages) that takes into account FBC's actual needs at the time and will reflect a reasonable price to be paid. If the power is not needed or the price is too high, FBC will not contract with a market vendor for supply. FBC recognizes that it is not possible for a NM customer to operate within similar constraints, and it is reasonable to absorb small amounts of

NEG in the system on an as generated basis. However, there are limits as to how much power FBC can reasonably be expected to absorb in this manner.

**9. Reference: Exhibit B-1, page 26**

> 79. FBC's RCR is necessarily reflective of a fair and reasonable return based on the Company's approved revenue requirement in conformity with ss. 59-61 of the *UCA*.[61] By allowing customers in the NM program to be compensated for NEG at a price that is not actually equivalent to, and can be higher than, the value of the electricity consumed, the panel majority has approved an NM rate that provides less than the fair and reasonable return to FBC.

9.1 Please confirm that FBC will recover a fair return on its investment overall, meaning that other ratepayers are required to pay a larger share of that return than NM customers.

**<u>Response:</u>**

Confirmed.