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November 7, 2017

British Columbia Public Interest Advocacy Centre
Suite 208 – 1090 West Pender Street
Vancouver, B.C.
V6E 2N7

Attention: Ms. Leigha Worth, Executive Director

Dear Ms. Worth:

Re: FortisBC Energy Inc. (FEI)

Project No. 3698899

2016 Rate Design Application (the Application)

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 2a

On December 19, 2016, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-109-17 setting out the Regulatory Timetable for the review of the Application, BCOAPO resubmitted IRs which it had previously submitted on August 10, 2017 from Part I of the proceeding along with additional IRs. In order to differentiate the resubmitted IRs due to duplicate numbering, FEI has filed the resubmitted IRs in the attached response, referring to them as the response to BCOAPO IR No. 2a.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties



FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
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1 **INTERROGATORIES FROM AUGUST 10, 2017 IR REQUEST**

2 **2.0 Reference: Exhibit B-1, Application, p. 7-5 to 7-5 & 7-19 (Figure 7-9); Exhibit B-8,**
3 **BCOAPO IR 7.5; Exhibit B-5, BCUC IR 18.2 & 18.3**

4 2.1 Has FEI undertaken any study of the declining use of natural gas as a preferred
5 fuel for space and water heating (Exhibit B-1, Application, pages 7-3 to 7-5)
6 which considers the impact of various rate designs on customer fuel preference?
7

8 **Response:**

9 FEI has not conducted any specific study to evaluate the impact of the rate design on natural
10 gas market share in space heating and water heating applications. However, as described
11 below, FEI believes that the choice of the rate structure and rate design have limited impacts on
12 FEI's customers' fuel preference.

13 The figure below provides a historical comparison of FEI's rate with BC Hydro's Step 1 and Step
14 2 Residential rates for a customer with an average annual consumption of 90 GJ. As
15 demonstrated in the figure below, since 2009 BC Hydro's rates have consistently increased,
16 while the natural gas rates have remained generally stable and in some years decreased.
17 Despite these trends, both FEI's 2012 Residential End Use Study (REUS) and BC Hydro's 2014
18 REUS¹ indicate that during this period the share of natural gas for space heating and water
19 heating has decreased. This data indicates that there is a disconnection between competitive
20 energy prices and natural gas market share, suggesting that the choice of the rate structure
21 would have little impact on natural gas market share in water and space heating applications.

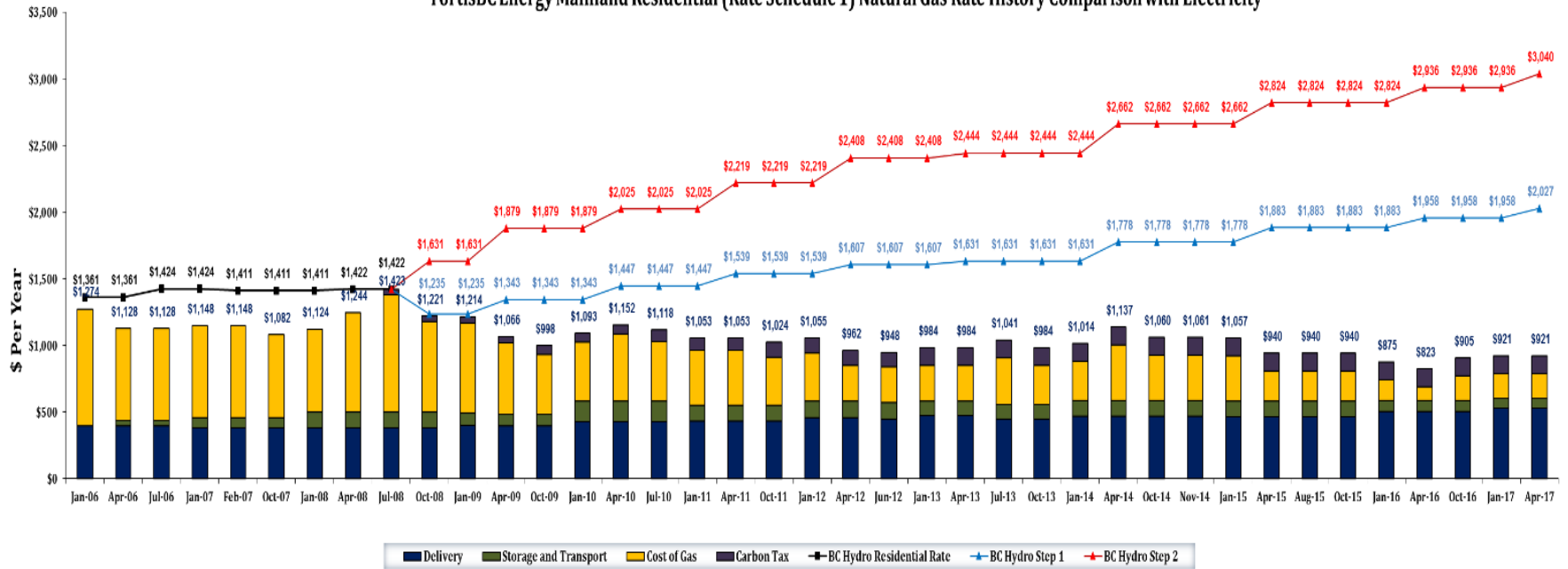
22 This disconnection can be partially explained by the role of non-price factors, such as local and
23 provincial government policies, changes in the mix of dwelling types and the higher capital and
24 installation costs of natural gas equipment compared with the corresponding electric equipment,
25 all of which hinder FEI's ability to compete with other fuel sources on the basis of energy price
26 levels only. Please refer to the response to BCUC-FEI IR 1.18.2 (Exhibit B-5).

¹ BC Hydro 2014 REUS, Pages 60 & 106



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FortisBC Energy Mainland Residential (Rate Schedule 1) Natural Gas Rate History Comparison with Electricity



Assumptions:

- *Annual usage of 90 GJ
- *Efficiency of gas equipment is 90% relative to 100% for electricity
- *FortisBC Energy amount includes the basic charge and all applicable rate riders
- *BC Hydro rates are exclusive of the basic charge and inclusive of the applicable rate rider

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1 2.2 It remains unclear from FEI's responses to previous information requests why a
2 5% increase in the Basic Charge was chosen (e.g. as opposed to 2% or 20%, or
3 another percentage). Is the charge set to return proportion of contribution of
4 revenues to the 2009 proportionate level as shown in Figure 7-9 (Application,
5 page 7-19)? Or is the charge set of a qualitative assumption of the
6 reasonableness of the increase?
7

8 **Response:**

9 The 5 percent increase in the Basic Charge was not based on achieving a proportionate
10 revenue recovery from fixed charges as in 2009. As stated in the response to BCOAPO-FEI IR
11 1.7.5 (Exhibit B-8), both qualitative and quantitative analysis, FEI's experience in dealing with
12 customers, and the Commission's previous decisions on this matter informed FEI's proposed 5
13 percent revenue-neutral increase to the Basic Charge.

14 FEI's rationale for the proposed change to the residential rate is explained in Section 7.5.1 of
15 the Application. As explained in the response to BCOAPO-FEI IR 1.7.1 (Exhibit B-8), the rate
16 design is an exercise of finding the right balance among competing rate design considerations.
17 FEI's proposed 5 percent increase to the Basic Charge is revenue-neutral (an increase to the
18 Basic Charge and a corresponding decrease to the volumetric Delivery Charge) and achieves
19 that balance. It will improve the intra-rate schedule economic fairness among residential
20 customers, does not lead to rate shock, and is supported by the jurisdictional review as well as
21 previous rate design decisions.

22
23

24
25 2.3 Is \$27 the Basic Charge that would recover 100% of customer-related costs?
26

27 **Response:**

28 A \$27.10 per month Basic Charge would recover 100 percent of monthly customer-related
29 costs. Please refer also to the response to BCUC-FEI IR 1.20.5 (Exhibit B-5, page 89, lines 17-
30 20) for more information.

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1 **4.0 Reference: Exhibit B-8, BCOAPO IR 9. 1 & 9.3**

2 4.1 FEI indicates that changes to the interruptible rates that increase revenues, but
3 lower the benefits to interruptible customers, might cause a move to firm service
4 and thereby an increase in costs to meet these firm service requirements. What
5 elasticity of demand study has FEI done which would corroborate the supposition
6 that a modest increase in interruptible rates would lead to interruptible customers
7 moving to firm service?
8

9 **Response:**

10 Please refer to the response to BCOAPO-FEI IR 1.9.3.c where FEI states that no price elasticity
11 study has been undertaken for industrial interruptible service and FEI is not aware of any price
12 elasticity study that would separate interruptible and firm services for industrial customers. Since
13 there has not been a significant movement of customers switching from firm service to
14 interruptible service or from interruptible service to firm service, FEI considers the discount from
15 firm service rates to be appropriate and beneficial to all customers. The cost of service
16 reductions from the avoided capital costs needed to provide firm service are greater than the
17 revenue reductions from interruptible rate discounts (see Exhibit B-1, Table 9-19, pages 9-30).

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21 4.2 Since 2015, the number of interruptible customers has increased by nearly 10%
22 (100-105 to 113-114). Are the additional customers since 2014 new customers
23 or existing customers who have opted for all or a portion of their deliveries on an
24 interruptible basis?
25

26 **Response:**

27 As indicated in the response to BCOAPO-FEI IR 1.9.1 (Exhibit B-8), the increase of nine
28 interruptible customers in 2015 is a result of amalgamation of the gas utilities as well as some
29 new customer additions within that year. Approximately half of the customers were new
30 customers and the other half were existing Vancouver Island customers that became
31 interruptible service customers upon the adoption of common rates. The customers that
32 switched due to amalgamation were mostly from the former FEVI Inverse Load Factor (ILF)
33 Rate Schedule, which was essentially a seasonal summer service that allowed for smaller
34 amounts of winter consumption.

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1 **5.0 Reference: Exhibit B-8, BCOAPO IR 10.4**

2 5.1 FEI has provided a qualitative response to the question of benefits accruing to
3 RS 1 and RS 2 customers if new load balancing provisions are approved. Has
4 FEI undertaken any quantitative analysis of the benefits of more stringent
5 balancing provisions on the various customer classes? If so, please provide that
6 analysis. If no such studies have been undertaken, does FEI have any estimate
7 of quantum of the benefits of new load balancing provisions?
8

9 **Response:**

10 Please refer to the response to Absolute-FEI IR 2.1.2.

11

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1 **6.0 Reference: Exhibit B-8, BCOAPO IR 11.3**

2 6.1 Please provide the current actual interest rate which is being applied to cash
3 security deposits. How often is this rate recalculated (in accordance with the
4 response to the referenced information request) and applied to outstanding
5 security deposit balances?
6

7 **Response:**

8 The interest rate being applied to customer security deposits is FEI's prime interest rate minus 2
9 percent, as set out in the Standard Fees and Charges Schedule in the General Terms and
10 Conditions of FEI's tariff.

11 The rate is recalculated when the rate of interest declared as the "prime rate" for loans is
12 changed by FEI's lead bank. For 2017, this rate has been recalculated as follows:

- 13 • January 1, 2017 – July 13, 2017: 2.75% less 2% = 0.75%
- 14 • July 13, 2017 – September 13, 2017: 2.95% less 2% = 0.95%
- 15 • September 7, 2017 onwards: 3.20% less 2% = 1.20%

16

17 The interest is accrued monthly and applied to refunded security deposits at the current rate in
18 effect at the time of the accrual and refund.

19