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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. 2b

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 additional IRs due to duplicate numbering, FEI has filed the additional IRs in the attached response, referring to them as the response to BCOAPO IR No. 2b.

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



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1 **ADDITIONAL INTERROGATORIES**

2 **1.0 Reference: Exhibit B-5, FEI Response to BCUC IR No. 60 (pg. 258)**

3 1.1 FEI states that the proposed daily balancing, threshold and charges for
4 transportation service will apply to gas delivered by FEI under Rate Schedule
5 14A. Please clarify if any revenues derived (e.g. exceeding balancing
6 tolerances) will be credited back to the midstream portfolio to be benefit of all
7 sales customers, or only system (FEI) sales customers.

8
9 **Response:**

10 FEI is not certain of the distinction between “sales customers” and “system (FEI) sales
11 customers”.

12 All revenues collected from charges incurred by transportation customers, including daily
13 balancing and balancing tolerances, are credited back to the midstream portfolio for sales
14 customers that pay the midstream rate under RS 1 to RS 7. Sales customers that pay the
15 midstream rate include customers that purchase their commodity from FEI and those that
16 purchase their commodity from a Customer Choice marketer.

17 Transportation customers, including those purchasing their commodity under RS 14A, do not
18 pay a midstream rate and therefore do not benefit from the revenues derived from charges for
19 daily balancing and balancing tolerances.

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1 **2.0 Reference: Exhibit B-11, FEI Response to CEC IR No. 55 (pgs. 130-131)**

2 2.1 The response to CEC IR No.1 Q. 55 (page 130) discusses the proposed tiered
3 range for system balance charges (see below). However we can find no
4 rationale for the equivalence of Tier 2 summer and winter charges, whereas Tier
5 3 imbalances attract significantly higher seasonal fees. Please explain the
6 rationale for the winter premium in one tier but not the other.

7
8 **Table 10-10: Range of System Imbalance and Associated Charges**

Range	Winter	Summer
Tier 1: 0-	No fee	No fee
Tier 2: 10-	\$0.25	\$0.25
Tier 3:	\$1.10	\$0.30

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10 **Response:**

11 A tiered or increasing incremental charge structure provides a financial incentive to Shipper
12 Agents to manage their business within tighter limits. FEI derived the Tier 2 charge using a
13 cost-based approach to account for the incremental variable costs involved in moving gas in
14 and out of storage for system balancing purposes as shown in Table 10-9 on page 10-37 of the
15 Application (reproduced below). FEI used a range of commodity prices as indicated in the first
16 column, and the NWP commodity charge, NWP fuel and Storage fuel were derived as a
17 percentage of the commodity price.

18 **Table 10-9: Transportation Balancing Incremental Variable Costs**

Sumas Price (US\$/MMBtu)	NWP Com. Charge	NWP Fuel	Storage Fuel	Incremental Variable Costs (US\$/MMBtu)	Incremental Variable Costs (CAD\$/GJ)
\$2.50	\$0.06	\$0.07	\$0.04	\$0.16	\$0.20
\$3.00	\$0.06	\$0.08	\$0.04	\$0.19	\$0.23
\$3.50	\$0.06	\$0.10	\$0.05	\$0.21	\$0.25
\$4.00	\$0.06	\$0.11	\$0.06	\$0.23	\$0.28
\$4.50	\$0.06	\$0.12	\$0.07	\$0.25	\$0.31
\$5.00	\$0.06	\$0.14	\$0.07	\$0.27	\$0.33

19
20 With the resulting range of incremental variable costs between \$0.20 CAD/GJ and \$0.33
21 CAD/GJ, and given the basis for which this charge was developed, it was reasonable to have a
22 flat annual Tier 2 charge of \$0.25 CAD/GJ, rather than a higher price in the winter months as
23 was originally developed for the Tier 3 range. The proposed Tier 2 charge provides an



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1 increased incentive to balance within the 10 percent tolerance, and should reasonably recover
2 costs to the extent that Shipper Agents exceed the threshold. Given some Shipper Agents are
3 currently managing within a 10 percent tolerance, FEI did not want to penalize them further in
4 winter months as they are most likely bearing costs in some way to manage to this level,
5 whereas other Shipper Agents should be bearing such costs or incurring the balancing charges.

6 For Tier 3, as indicated in the Application, Shipper Agents that exceed the 20 percent tolerance
7 level would be subject to the same charges as applied today: \$1.10/GJ in the winter months and
8 \$0.30/GJ in the summer months. The Tier 3 charge has a higher winter charge in order to give
9 Shipper Agents a greater incentive to balance in the winter, when higher-cost peaking resources
10 may be incurred for balancing purposes.

11 Overall, FEI believes that its proposal is a reasonable and balanced approach. The proposal is
12 designed to level the playing field and incent tighter balancing, without undue impacts to
13 Shipper Agents or transportation customers.

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16

17 2.2 The winter premium is approximately 3.66x the summer charge in Tier 3. Using
18 the same differential in Tier 2 would give a winter charge of approximately 0.915.
19 Using these figures (0.915/0.25) for Tier 2 please recalculate the estimated
20 revenues using the same assumptions as in the response to CEC IR No. 1, Q
21 56.1.

22

23 **Response:**

24 Using the same assumptions as in response to CEC-FEI IR 1.56.1, which include the
25 assumption that Shipper Agents do not change their behavior in response to the new balancing
26 charge, the table below shows that a higher winter charge of \$0.915 for Tier 2 would increase
27 the estimated 2015 revenue from balancing charges by \$190,698 as compared to the revenue
28 using the recommended \$0.25 balancing charge.

29 FEI expects, however, that the introduction of a balancing charge within a tighter tolerance will
30 in fact cause Shipper Agents to balance their supply more closely than in the past, making it
31 unlikely that the revenue estimates in the table below would be realized. Implementing a higher
32 Tier 2 winter charge would provide an even greater incentive for Shipper Agents to balance
33 within 10 percent and make it more unlikely that the higher revenue estimates in the table below
34 would be collected. In fact, higher charges could potentially reduce revenues.



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Estimated Balancing Charges

	Under-delivered Volume (GJ/Year)	Balancing Charges (\$/Year) (\$0.915/0.25)	Balancing Charges (\$/Year) \$0.25 Flat	Difference
0-10%	-668,442	No Charge	No Charge	-
10%-20%	-563,735	(\$331,632)	(\$140,934)	(\$190,698)
>20%	-1,990,512	(\$1,299,237)	(\$1,299,237)	-
2015 Total	-3,222,688	(\$1,630,868)	(\$1,440,170)	(\$190,698)

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2.3 Given that FEI has indicated the reasoning for the Tier approach to balancing charges is to allow shippers to acclimatize to the tighter tolerances, would it be reasonable for the Commission to establish a sunset period for Tier 2 charges and provide for eventuality of only the higher Tier 3 charges for all imbalances above 10%?

Response:

FEI may consider this request in the future. The intent of the proposal is to modify behavior of some Shipper Agents. If over time the charges need to be increased to modify behavior, this may be something to consider in the future.



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1 **3.0 Reference: Exhibit A2-14, Elenchus Response to BCOAPO IR No. 2, 14 and 16.1**
2 **and Attachment 1**

3 3.1 In response to BCOAPO's interrogatory on low income support, Elenchus has
4 provided a table showing that in Ontario low income assistance is utility funded
5 through the LEAP program. In Attachment 1, the Staff Report of the State of
6 New York Public Service Commission lists a number of U.S. states that provide
7 utility funded assistance. Has FEI examined these programs to determine if
8 similar utility funded low income assistance might be feasible in British
9 Columbia?

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11 **Response:**

12 A low income-directed program such as this, singling out low income customers simply on the
13 basis of that status, is not feasible in B.C. given the absence of statutory foundation.

14 As stated in Elenchus' rate design report, "public policy mandates generally do derive from
15 government legislation, regulations or specific directives". Policymakers in each jurisdiction are
16 responsible for defining the social objectives and establishing the appropriate regulatory
17 frameworks and the regulators are responsible for translating these overall policy goals into
18 practical programs. Low income programs are not an exception. As stated in the attachment to
19 Elenchus response to BCOAPO's IRs, some U.S states, such as the State of New York, have
20 established regulatory frameworks which allow for both utility-funded and tax payer funded low
21 income programs. Regulators in these states may design and implement utility-funded low-
22 income programs in alignment with government policy¹ and in accordance to their jurisdictions.
23 On the other hand, some U.S states have no low-income programs. For instance, as stated in
24 Concentric's report (attached to Elenchus response to BCOAPO IR 16.3) in the State of
25 Colorado, the ballot proposal that would have established utility-funded low-income programs
26 was rejected by voters.

27 The Commission has in the past supported the notion that income distribution policies should be
28 defined by the policymakers and not the Commission, stating in the 1993 BC Gas Rate Design
29 Decision:

30 The Commission is generally of the belief that decisions about income
31 distribution are best left to elected representatives².

32 More recently, in BC Hydro's 2015 rate design decision, the Commission determined that
33 preferential rates for low-income customers are unjust, unreasonable and unduly discriminatory
34 contrary to sections 59-60 of the UCA.

¹ For instance, the Staff report of the State of New York Public Service Commission clearly indicates that its low-income program is aligned with "Governor Cuomo's Reforming the Energy Vision (REV)" initiative.

² 1993 Rate Design Decision, Page 24.



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1 Even in the absence of the Commission's decisions on this point, FEI does not support the idea
2 of utilities delivering the low income-specific program suggested, and does not see that role as
3 being provided for under the UCA. It sees merit in the government's role. In this regard, FEI
4 notes as well that the result of BC Hydro's recent focus group research indicates that there is
5 "not a pre-existing public opinion demand" for a low-income program. The report also raises
6 customers' concerns regarding creating a precedent for other utilities or institutions to introduce
7 similar programs:

8 Overall, those challenging the Fund's concept, and for some participants who
9 were open to the concept, there was a desire for BC Hydro to remain focused on
10 its perceived core function. From their perspective, this is to generate electricity
11 for the province rather than operate as a charity or provide social assistance to
12 those in need. Moreover, concerns that creating a program of this nature will
13 encourage or create a precedent for other utilities or institutions to create
14 programs that require fund contributions from rate payers. Some left the question
15 open on whether a provincial government program might be able to fulfill the
16 scope and mandate of the Fund proposal³.

17 FEI agrees with the Commission's statement that the decisions related to income distribution
18 are best left to elected representatives and that the present statutory regime does not allow for
19 the Commission to set rates on this basis. As stated in FEI's Application, the BC government
20 has various programs and tax measures that are specifically designed to assist with the
21 affordability of energy for low income households. Considering the government's experience
22 and mandate, FEI believes that any additional assistance to low-income customers should be in
23 the form of improvements to the BC government's existing programs.

24 In terms of crisis intervention funds more generally, as directed by the Commission's decision
25 on BC Hydro's 2015 rate design application, BC Hydro has brought forward an application for a
26 Customer Emergency Fund Pilot Program which is currently before the Commission. The
27 Commission will determine the feasibility of a crisis intervention fund and whether there is an
28 economic or cost of service justification for the fund. The outcome of the application is not yet
29 known. Further, if the application is approved, the approval would be for a pilot project. The
30 feasibility of such a program in B.C., if approved by the Commission, may be better known after
31 the pilot project has concluded.

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35 3.2 What study has FEI done which examines the relationship between low-income
36 specific utility rates or assistance programs and the reduction in bad debt costs?
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³ BC Hydro's Customer Emergency Fund Pilot Program Application, Appendix F.



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1 **Response:**

2 FEI has not conducted any studies to examine the relationship between low-income rates,
3 assistance programs or any other low-income programs and the reduction of bad debt
4 expenses.

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1 months, the Equal Payment Plan is also available to customers. Further, FEI offers Energy
2 Conservation Programs that support the weatherization of homes, such as the Energy
3 Conservation Assistance Program for income-qualified customers that provides an energy
4 evaluation, energy savings products and advice.

5 In some cases, FEI may refer customers to the Ministry of Social Development and Poverty
6 Reduction (MSDPR) Crisis Line which may be able to provide one time assistance to customers
7 in need. To the extent that a customer authorizes the MSDPR to do so, FEI will work with
8 MSDPR on payment arrangements.

9 Further, FEI works closely with organizations like the Salvation Army, foodbanks and other
10 community-based social service organizations to share information on Energy Conservation
11 Programs and the payment solution support noted above. FEI also works with groups like the
12 BC Non-Profit Housing Association Partnership to provide information on Energy Conservation
13 Programs to housing providers that support low-income customers.

14