



**Diane Roy**  
Vice President, Regulatory Affairs

**Gas Regulatory Affairs Correspondence**  
Email: [gas.regulatory.affairs@fortisbc.com](mailto:gas.regulatory.affairs@fortisbc.com)

**Electric Regulatory Affairs Correspondence**  
Email: [electricity.regulatory.affairs@fortisbc.com](mailto:electricity.regulatory.affairs@fortisbc.com)

**FortisBC**  
16705 Fraser Highway  
Surrey, B.C. V4N 0E8  
Tel: (604) 576-7349  
Cell: (604) 908-2790  
Fax: (604) 576-7074  
Email: [diane.roy@fortisbc.com](mailto:diane.roy@fortisbc.com)  
[www.fortisbc.com](http://www.fortisbc.com)

November 7, 2017

Industrial Customers Group  
c/o Bennett Jones LLP  
2200 – 1055 West Hastings Street  
Vancouver, BC V6E 2E9

Attention: Mr. David Burse

Dear Mr. Burse:

**Re: FortisBC Energy Inc. (FEI)**  
**Project No. 3698899**  
**2016 Rate Design Application (the Application)**  
**Response to the Industrial Customers Group (ICG) Information Request (IR) No. 2**

---

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, FEI respectfully submits the attached response to ICG IR No. 2.

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
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 1

1   **1.0   Topic:           Rate Rebalancing – Rate 22A**

2           **Reference:   FEI Argument dated 2 October 2017, page 6**

3           On page 6, FEI notes the following points about how its operations have changed since  
4           1993:

5                   FEI's operations have changed since 1993, including major transmission  
6                   additions such as the Southern Crossing Pipeline, which make it impossible to  
7                   allocate costs to Rate Schedules 22A and 22B in “exactly” the same way as in  
8                   1993. However, consistent with how the rates for these customers were originally  
9                   derived, FEI did not allocate a portion of distribution costs to Rate Schedules 22A  
10                  and 22B on a postage stamp basis. In summary, FEI's COSA study has  
11                  appropriately treated Rate Schedules 22A and 22B consistent with past practice  
12                  and their grandfathered status.

13           **Request:**

14           1.1    Please cite the BCUC decisions and specific guidance that FEI has used to guide  
15           its COSA treatment for RS 22A and adapt to the changes in operations since  
16           1993.

17  
18           **Response:**

19           FEI has used the full Contract Demand (CD) for the purposes of allocating costs to the large  
20           industrial customers that are in the closed RS 22A. There are two decisions that made  
21           comments on past COSA studies that have been used to guide FEI's allocation treatment for  
22           RS 22A. The first decision was the 1987 Inland Natural Gas (former predecessor company to  
23           FEI) Rate Design Decision and the second was the 1993 Phase B Rate Design. FEI's treatment  
24           of RS 22A is also consistent with the COSA studies in the 1996 and 2001 rate designs.

25           **1.   1987 Rate Design Application, December 11, 1987, pg. 36 – 43.**

26           The cost allocation studies from 1987 and onwards have used the large industrial CD for  
27           allocating the transmission costs. This treatment was noted on page 38 of the 1987 Rate  
28           Design Application Decision, as follows:

29                   In the 1987 study Mr. Schultz made an additional change in the FACOS  
30                   study methodology. He derived an allocation factor T to allocate transmission  
31                   costs as 100 percent of the large industrial C.D. volume was firm even though  
32                   industrial C.D.'s are curtailable up to 50 percent for five days each year (TR  
33                   5602).

34           The FACOS study, which included the large industrials that are included in RS 22A, was  
35           approved as stated on page 41 of the Decision: “*The method employed by Inland is*  
36           *regarded as acceptable ...*”

FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 2

1 The use of the large industrial CD for allocating the transmission costs is reasonable  
2 because the Company calls upon the five half-day peaking resource only under extreme  
3 cold weather load conditions. On the sixth day and all days afterward the utility is required  
4 to deliver the firm full CD, even if extreme weather recurs.

5 **2. 1993 Phase B Rate Design Application**

6 For the 1993 Phase B Rate Design, the basis for allocating costs to RS 22A in the cost  
7 allocation study continued to be 100% of the large industrial customers' full CD, consistent  
8 with the 1987 study. The 1993 cost allocation study supported a need to shift revenue  
9 responsibility from the industrial classes to the residential and commercial classes of  
10 customers. The results of the study were accepted by the Commission as stated on page  
11 15 of the 1993 Phase B Rate Design Decision:

12 The Commission accepts the results of the FDC study showing that cost  
13 causation by customer class supports a shift of revenue responsibility from  
14 industrial customers to residential and commercial customers.

15 **3. 1996 and 2001 Rate Design Applications**

16 The 1996 and 2001 Rate Design Applications were approved based on negotiated  
17 settlements on a without prejudice basis regarding cost of service allocation. The cost  
18 allocation approach for RS 22A in the current Application is consistent with those employed  
19 in the 1996 and 2001 COSAs. However, because of the negotiated settlements, there are  
20 no direct comments from the Commission that acknowledge this treatment.

21  
22

23

24 1.2 Did FEI allocate any midstream costs to RS 22A in 1993? If so, please explain.

25

26 **Response:**

27 No. RS 22A was not allocated any cost of gas in the 1993 Phase B Rate Design and, at that  
28 time, what are now referred to as midstream costs were a component of the cost of gas.

29

30

31

32 1.3 Does FEI allocate midstream costs to RS 22A in the current application? If so,  
33 explain how this allocation is consistent with the 1993 COSA treatment and the  
34 BCUC's guidance on RS 22A.

35



FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 3

- 1 **Response:**
- 2 FEI did not allocate gas supply midstream costs to RS 22A in the current Application.

FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 4

1   **2.0   Topic:           Rate Rebalancing – Rate 22A**

2           **Reference:   FEI Response to BCUC IR (Exhibit B-15)**

3           On page 20, FEI explains the reason for not rebalancing Rate 22A to within FEI's 90 to  
4           110% proposed R:C range of reasonableness or the R:C range of reasonableness  
5           suggested by the Commission for the purpose of this information request.

6                   Rebalancing the charges under RS 22A would be inconsistent with continuing to  
7                   grandfather the terms and conditions of service under this rate schedule. Since  
8                   RS 22 is available for all large industrial customers, grandfathered RS 22A (and  
9                   RS 22B) customers may elect this rate schedule as an alternative. Consequently,  
10                  FEI has not rebalanced RS 22A to 105 percent for this response.

11           **Request:**

12                  2.1   Please cite the BCUC decisions and specific guidance that FEI has used to justify  
13                  its decision not to rebalance RS 22A to within FEI's proposed range of  
14                  reasonableness.

15  
16           **Response:**

17           There are no BCUC decisions or orders and no specific guidance that requires FEI to rebalance  
18           or not rebalance RS 22A to within FEI's proposed range of reasonableness. Please also refer  
19           to the response to ICG-FEI IR 2.1.1.

20

FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 5

1   **3.0   Topic:           Rate Rebalancing – Rate 22A**

2           **Reference:   FEI Application (Exhibit B-1) – Appendix 5 – Workshop 3 – Rate**  
3           **Design and Segmentation – Discussion Guide**

4           During the pre-hearing Workshop 3, FEI distributed information on its COSA Study  
5           results at that time.

6           On page 5, FEI noted how the Rate 22A would be rebalanced to the 90-110 range of  
7           reasonableness.

8                   **4.1 CURRENT COSA RESULTS**

9           FEI has calculated cost of service allocations using the approved costs  
10          from FEI’s Annual Review for 2016 Rates (Order G-193-15) in the COSA  
11          model, and then included known and measurable changes for major  
12          projects expected to be in-service or close to their in-service dates at the  
13          time that rate changes from this rate design are put in place. The resulting  
14          revenue to cost ratios are shown in the following Table 4-1.

15          In Table 4-1, FEI has included both the current revenue to cost and  
16          margin to cost ratios before rebalancing, and also after rebalancing to the  
17          90-110% range for discussion purposes only. To achieve this, in the  
18          following table, FEI has rebalanced Rate Schedule 6 and Rate Schedule  
19          22A to 110% revenue to cost ratio and, for discussion purposes, has  
20          shifted the resulting revenue deficiency of approximately \$3.6 million to  
21          Rate Schedule 1. FEI applied the deficiency to Rate Schedule 1 because  
22          it has the lowest revenue to cost ratio of all other rate schedules.

23          On page 52, FEI elaborates further on the rebalancing of Rate 22A to the 90-110 range  
24          of reasonableness.

25          Based on current COSA results, FEI notes that the revenue to cost ratio  
26          for Rate Schedule 22A is outside the range of reasonableness. The  
27          appropriate revenue to cost ratio will not only be guided by the range of  
28          reasonableness for a rate class but also taking into consideration its cost  
29          impact on customers served under different Rate Schedules. In section  
30          4.1, FEI has calculated that adjusting revenues for Rate Schedule 22A to  
31          achieve revenue to cost ratio of 110% would shift \$3.5 million of revenue  
32          responsibility to other rate schedules. For discussion purposes, Table 4-1  
33          in section 4.1 shows the approximate annual bill change if the revenue  
34          responsibility is shifted to residential customers. FEI would like to  
35          consider inputs on the rebalancing approach at the workshop.

36          On page 6, FEI shows the results after rebalancing.

**Table 4-1: COSA R:C & M:C Ratios, Rebalancing and Bill Change Results<sup>2</sup>**

Rate Schedule	Current R:C %	Current M:C %	Rebalanced R:C %	Rebalanced M:C %	Rebalance Amount	Approximate Annual Bill Change
Rate Schedule 1 <i>Residential Service</i>	95.8	93.4	96.2	94.1	+\$3,587,000	+0.5%
Rate Schedule 2 <i>Small Commercial Service</i>	99.9	99.8	99.9	99.8		
Rate Schedule 3/23 <i>Large Commercial Sales and Transportation Service</i>	101.5	103.0	101.5	103.0		
Rate Schedule 5/25 <i>General Firm Sales and Transportation Service</i>	104.2	110.4	104.2	110.4		
Rate Schedule 6 <i>Natural Gas Vehicle Service</i>	135.6	169.9	110.0	119.6	-\$71,000	-19.0%
Rate Schedule 22A <i>Transportation Service (Closed) Inland Service Area</i>	180.1	183.2	110.0	110.4	-\$3,517,000	-39.0%
Rate Schedule 22B <i>Transportation Service (Closed) Columbia Service Area</i>	105.0	105.1	105.0	105.1		

1

2           3.1     Please confirm that, at the time of pre-hearing Workshop 3, FEI considered it  
3           appropriate to rebalance RS 22A to within FEI's proposed R:C range of  
4           reasonableness of 90 to 110%. Please explain why.

5

6     **Response:**

7     At the time of pre-hearing Workshop 3 the Company was considering proposing to rebalance  
8     RS 22A to 110 percent of its allocated cost that it had at that time as the revenue-cost ratio was  
9     180 percent. This was during the pre-application consultation process and before FEI finalized  
10    its COSA studies and rate design proposals. Subsequent to that workshop, FEI discovered that  
11    there were errors in the derivation of the RS 22A firm and interruptible revenues. The correction  
12    of the errors affected RS 22A allocated cost of service and revenues.



FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 7

1 The corrected R:C ratio is now shown in Exhibit B-1, Table 12-2, Page 12-5. Under the initial  
2 COSA it is 109.5 percent and under COSA after Rate Design Proposals it is 113.0 percent. In  
3 view of rates that apply to RS 22A customers being well below the proposed RS 22 rates and  
4 because FEI is proposing in the Application to retain the previously-approved grandfathered  
5 status for RS 22A, FEI is not proposing any further adjustment to RS 22A rates to reduce its  
6 R:C ratio.

7  
8

9  
10 3.2 If the answer to 3.1 is no, what R:C range of reasonableness did FEI consider  
11 appropriate for RS 22A and where is this view explained in the Workshop 3  
12 Guidance Document?

13

14 **Response:**

15 Please refer to the response to ICG-FEI IR 2.3.1.

16



FortisBC Energy Inc. (FEI or the Company) 2016 Rate Design Application (the Application)	Submission Date: November 7, 2017
Response to Industrial Consumers Group (ICG) Information Request (IR) No. 2	Page 8

1   **4.0   Topic:           Rate Rebalancing – Rate 22A**

2           **Reference:   FEI Application (Exhibit B-1) – Appendix 5 – Workshop 3 – Rate**  
3           **Design and Segmentation – Discussion Guide**

4           On page 45, FEI describes the characteristics of Rate 22A as follows:

5                   ***7.6.1.2 Rate Schedule 22A (Closed) – Inland Service Area Customers***

6           Rate Schedule 22A is only available to large industrial customers who  
7           were receiving transportation service prior to 1993 in the Inland Service  
8           Area. There are 9 customers in Rate Schedule 22A who consumed  
9           approximately 9,535 TJ during 2015. These customers include mining  
10          operations, manufacturing, refineries, pulp mills and forestry companies,  
11          which primarily uses firm transportation service with a small amount of  
12          interruptible service.

13          Since the 1993 Phase B Rate Design Decision Rate Schedule 22A  
14          customers have been grandfathered in recognition of the unique service  
15          offering for the firm and interruptible rates and therefore Rate Schedule  
16          22A is closed to new customers. Rate Schedule 22A non-bypass  
17          customers are still subject to general rate changes. However, unlike Rate  
18          Schedule 22 customers, Rate Schedule 22A customers have a  
19          curtailment of firm service provision that provides peaking gas supplies to  
20          sales customers and these quantities are included as part of the Annual  
21          Contracting Plan.

22          **Request:**

23           4.1    Please confirm that FEI does not allocate any value to the peaking service that  
24           the RS 22A provides, as part of the COSA Study or in the calculation of the RS  
25           22A R:C ratio. If a value is allocated, please explain how it is calculated and what  
26           the value is.

27          **Response:**

28          Confirmed. FEI does not include the peaking service as part of the COSA or in the calculation  
29          of the RS 22A R:C ratio. This is consistent with the COSA studies for the 1993 Phase B Rate  
30          Design, 1996 Rate Design and the 2001 Rate Design upon which RS 22A rates have been set  
31          historically. As explained in the response to ICG-FEI IR 2.1.1, it was from the Commission  
32          Decision in the 1987 Inland Natural Gas Co. Ltd. (a FEI predecessor company) Rate Design  
33          Application, that the full contract demand (CD) was accepted to be used in determining the large  
34          industrial allocated cost.  
35

36