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March 20, 2018

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 Energy Inc. (FEI)

Project No. 3698899

2016 Rate Design Application (the Application)

Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 3

On December 19, 2016, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-5-18 setting out the remainder of the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to CEC IR No. 3.

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

90. Reference: BCUC Order G-4-18 page 35 and 38

> *Commission determination*
>
> **The Panel directs FEI to use an R:C ratio range of reasonableness of 95 percent to 105 percent to inform rate design and rebalancing proposals in the current Application. FEI is directed to file updates to the Application in response to the findings and directives in this order with Reasons, in accordance with a procedural order to be issued subsequent to this order. The electronic versions of the updates should include both a blacklined version and a clean version.**

> For the reasons outlined above, the Panel considers it appropriate to reduce FEI's current R:C ratio range of reasonableness of 90 percent to 110 percent to an R:C ratio range of reasonableness of 95 percent to 105 percent. This range is to be used to inform rate design and rebalancing proposals in the current Application. Since other considerations are made in rate design and rebalancing, FEI is free to propose whether or not they will rebalance rates.

90.1 Please confirm that the range of reasonableness of 95% to 105% represents a maximum threshold for a given rate class for to depart from unity in its calculated revenue to cost ratios.

Response:

Not confirmed.

The range of reasonableness is a guideline,[1] in that the Commission may determine that rebalancing may not be required even if the R:C ratio is outside the range of reasonableness.[2] This was stated by the Commission in its Decision in Order G-4-18 at page 38:

> For the reasons outlined above, the Panel considers it appropriate to reduce FEI's current R:C ratio range of reasonableness of 90 percent to 110 percent to an R:C ratio range of reasonableness of 95 percent to 105 percent. This range is to be used to inform rate design and rebalancing proposals in the current Application. Since other considerations are made in rate design and rebalancing, FEI is free to propose whether or not they will rebalance rates. [underlining added.]

The Commission is clear that the range of reasonableness is not the only factor in deciding whether rates should be rebalanced.

[1] E.g., Exhibit B-5, BCUC-FEI IR 1.53.1.

[2] As noted by Elenchus, "R:C (or M:C) ratio is only one factor that that influence rate design results and there are other considerations (e.g. rate impact, policy concern) that will lead to the final rates." Exhibit A2-13, BCOAPO-Elenchus IR 2.11.4. Also see testimony of Ms. Tabone at Transcript Volume 5, pp. 490-491.

90.1.1 If not confirmed, please explain why not.

Response:

Please refer to the response to CEC-FEI IR 3.90.1.

90.2 Please confirm that the Commission did not provide direction as to the target for rebalancing, such that rate schedules could be rebalanced to unity or another revenue to cost ratio within the 95% to 105%.

Response:

Please refer to the response to CEC-FEI IR 3.91.1.

91. Reference: Exhibit B-1-4 page

> originally designed, FEI is proposing to update the multiplier in the peak day demand formula from 1.25 to 1.1 (the multiplier estimates the peak day demand from the average peak Monthly demand). As a result of the above change, FEI is also proposing to raise the Demand Charge for RS 5 and RS 25 by $3.00/GJ/Month to continue to provide a price signal for only high load factor customers to take General Firm Service. As the R:C ratio before rebalancing is 106%, FEI proposes to shift $1.093 million of revenue responsibility to RS 1 as explained in section 12.2.2. The R:C ratio after rebalancing is 105%, which is within the range of reasonableness directed by Order G-4-18. FEI is proposing to reduce the revenue responsibility of RS 5/25 by decreasing the Basic Charge by $118 per month.

91.1 Please explain why FEI limited its rebalancing to 105%, instead of reducing to unity or another revenue to cost ratio within the 95% to 105% threshold.

Response:

FEI limited its rebalancing of RS 5/25 to 105 percent, which is consistent with the 95 percent to 105 percent range of reasonableness that the Commission directed[3] FEI to use to inform rate design and rebalancing proposals for FEI and Fort Nelson.

An R:C ratio within the range of reasonableness indicates that a rate schedule is recovering its fair share of costs, and therefore there is no reason to rebalance to unity or to any other R:C ratio. As explained by FEI in its final argument on COSA and R:C ratios[4], if rebalancing is determined to be appropriate, it should be to the nearest boundary of the range of reasonableness. The COSA results provide no evidence to justify further rebalancing.[5] Therefore, rebalancing of RS 5/25 to 105 percent is appropriate and there is no evidence to justify adjusting rate schedules that are within the range of reasonableness.

91.2 Could FEI have adjusted other rate classes which were not outside the range of reasonableness to unity or another revenue to cost ratio within the 95% to 105% thresholds? Please explain why or why not.

[3] Page 2 of BCUC Order G-4-18 dated January 9, 2018.

[4] Page 17 of FEI Final Argument on COSA and revenue to cost ratios

[5] Exhibit A2-8, CEC-Elenchus IR 1.2.2: "Rebalancing should be undertaken to move all classes that are outside the approved range to the nearest boundary"; also see Transcript Volume 5, p. 479, ll. 20-26.

Response:

There is no evidence to justify adjusting rate classes that are within the range of reasonableness. Please refer to the response to CEC-FEI IR 3.91.1.

92. Reference: Exhibit B-1-4 page 2-2 and 2-3

> FEI has a number of tariff supplements, including bypass agreements. These tariff supplements are negotiated agreements and are approved separately by the Commission and, as such, FEI is not proposing any changes to existing tariff supplements in this Application. The exception to this is the proposed cancellation effective Q4 of 2018, of FEI Tariff Supplement G-21 between Creative Energy and FEI. Please refer to Section 9.8 of the Application for more information.

92.1 Why has FEI changed the date of the proposed tariff cancellation to Q4 2018?

Response:

FEI originally proposed a June 1, 2018 implementation date for all proposals in the Rate Design Application, including the proposed tariff amendments and the cancellation of FEI Tariff Supplement G-21[6]. However, a June 1, 2018 implementation date is no longer possible given the Regulatory Timetable established by Order G-5-18. As a result, in FEI's Compliance Filing for Order G-4-18, dated February 6, 2018 (Exhibit B-1-5), FEI proposed an implementation date for its rate design proposals (including the proposed cancellation of FEI Tariff Supplement G-21) during the fourth quarter of 2018.

Please also refer to the response to BCUC-FEI IR 3.91.1 where FEI further discusses implementation dates.

[6] Application, Section 2.2 Approvals Sought, pages 2-3 to 2-5. Section 2.3 Implementation, pages 2-5 to 2-6.

93. Reference: Exhibit B-1-4 page 12-6

> **12.2.2 Rebalancing of RS 5/25 to be within the Range of Reasonableness**
>
> After Rate Design proposals, the R:C ratio for RS 5/25 is 106.3%, which is outside the range of reasonableness established by Order G-4-18. To rebalance within the range of reasonableness, FEI proposes for the following reasons to decrease RS 5/25 revenues by reducing the basic charge:
>
> - By decreasing the basic charge for RS 5/25, FEI's proposals for RS 7, RS 27 and RS 4 remain unchanged and there will be no additional revenue shift from RS 7, RS 27 and RS 4 to RS 1.
> - Changing only the basic charge, and not the demand or delivery charge, supports rates that continue to attract customers with at least a 40% Load Factor. With the proposed rates, including rebalancing, a customer in RS 5/25 consuming 15,000 GJ would need to have a load factor of approximately 40% to be better off (when compared to RS 3 and RS 23), which is the intent of the General Firm Service offering.
>
> FEI is therefore proposing to decrease the RS 5/25 Basic Charge by $118 per month to $469 per month.
>
> Decreasing the basic charge by $118 per month creates a revenue responsibility decrease of $1.093 million for RS 5/25. Recognizing that RS 1 is within the approved range of reasonableness, but at the lower bound, FEI proposes to shift this revenue responsibility to RS 1, which results in an annual average bill impact for all RS 1 of approximately 0.15%.

93.1 To the extent that RS 5/25 costs are primarily fixed costs does the reduction to the basic charge reflect greater alignment with cost causation than would a reduction to the delivery charge. Please explain why or why not.

Response:

Although adjusting the Basic Charge does not reflect greater alignment with cost causation, it is supported by the rate design principles of rate and revenue stability. As explained in Section 12.2.2 of the updated Application, in response to the findings and directives of Commission Order G-4-18, changing the Basic Charge and not the Demand or Delivery Charge to rebalance revenues for RS 5/25:

- Ensures that FEI's proposals for RS 7, RS 27 and RS 4 remain unchanged and that there will be no additional revenue shift from RS 7 and RS 27 to RS 1.
- Supports rates for RS 5 and RS 25 that continue to attract customers with at least a 40% Load Factor.

Please also refer to the responses to ICG-FEI IR 3.2.4 and 3.2.5.

93.2 Please confirm that the reduction in the Basic charge will mean that the 'reduction' is applied equally amongst all RS5/25 customers.

Response:

Confirmed.

93.2.1 If confirmed, does this equitable distribution have a 'fairness' value, or would it have been equally fair to apply the reduction to the demand or delivery charge. Please discuss.

Response:

Please refer to the response to ICG-FEI IR 3.2.5.

94. Reference: Exhibit B-1-4 page 12-7

> To set the R:C ratio for RS 6/RS 6P within the range of reasonableness, FEI is proposing a reduction of $75.9 thousand in the revenue required from RS 6/RS 6P by decreasing the Delivery Charge by $1.622/GJ. FEI is proposing to reduce the revenue to bring the R:C ratio in alignment with the upper end of the range of reasonableness and decrease the Delivery Charge to match the reduction in revenue.
>
> The decrease to the Delivery Charge supports the government's policy goal of reducing GHG emissions by making natural gas more affordable as a vehicle fuel substituting for gasoline or diesel for those members of the public and fleets that are using the RS 6/RS 6P stations. After the proposed adjustment, RS 6/RS 6P will have an R:C ratio of 105% and RS 6 customers will experience approximately a 20% decrease in their annual bills from this adjustment. As RS 6P is for public natural gas vehicle fueling stations, it is not possible for FEI to calculate an annual bill impact for customers using RS 6P because the volume by customer using the public fueling station is not tracked. As RS 1 is the only rate schedule with an R:C ratio of less than 100%, FEI proposes to shift the $75.9 thousand deficit to RS 1. The shift represents an approximate annual bill impact of 0.01% (rounding to 0.0%) for RS 1 customers.
>
> RS 6P for CNG fueling services to customers at FEI's Surrey Operations Centre was approved by Order G-165-11A. The Delivery Charge for RS 6P was set equal to the Delivery Charge of RS 6 and was intended to remain equal to the RS 6 Delivery Charge over time. Since the approval of RS 6P, however, the Delivery Charge for RS 6P and RS 6 are no longer equal with the RS 6P Delivery Charge being $0.022/GJ less than that of RS 6. As a housekeeping amendment, FEI proposes to set the Delivery Charge for RS 6P equal to the Delivery Charge of RS 6 after all other rate design proposals and rebalancing are effected. This proposal is included in the rebalancing results for RS 6 below.

94.1 Why did FEI choose to reduce the Delivery Charge only, as opposed to a reduction in the Basic Charge or in some combination of the Delivery Charge and the Basic Charge. Please explain.

<u>Response:</u>

Reducing the Delivery Charge only, instead of a reduction to the Basic Charge or some combination of Delivery and Basic Charge, sends the appropriate price signal by making natural gas for vehicles more affordable on a per GJ basis as a substitute for gasoline or diesel, thereby supporting government's policy of reducing GHG emissions. Additionally, the proportion of fixed cost recovery is improved, increasing the percentage of fixed revenues recovering fixed costs.

94.2 Will FEI continue to set the Delivery Charge for RS 6P equal to the proposed RS Delivery Charge?

Response:

Confirmed. FEI proposes to set the Delivery Charge for RS 6P equal to the proposed RS 6 Delivery Charge.

94.2.1 If not, why not?

Response:

Please refer to the response to CEC-FEI IR 3.94.2.

95. Reference: Exhibit B-1-4 page 12-8

Table 12-3: R:C and M:C Results after Rate Design Proposals and Rebalancing

Rate Schedule	COSA after Rate Design Proposals		Rebalance Amount ($000)	Approximate Annual Bill Change	COSA after Rate Design Proposals and Rebalancing	
	R:C	M:C			R:C	M:C
Rate Schedule 1 *Residential Service*	96.4%	94.6%	1,214.4	0.2%	96.6%	94.6%
Rate Schedule 2 *Small Commercial Service*	102.2%	104.1%			102.2%	104.1%
Rate Schedule 3/23 *Large Commercial Sales and Transportation Service*	103.6%	107.6%			103.6%	107.6%
Rate Schedule 5/25 *General Firm Sales and Transportation Service*	106.3%	112.6%	(1,138.5)	-1.2%	105.0%	112.6%
Rate Schedule 6/6P *Natural Gas Vehicle Service*	131.7%	160.4%	(75.9)	-20.3%	105.0%	109.5%
Rate Schedule 22A *Transportation Service (Closed) Inland Service Area*	113.0%	113.4%			113.0%	113.4%
Rate Schedule 22B *Transportation Service (Closed) Columbia Service Area*	103.1%	103.1%			103.1%	103.1%
Rate Schedule 22 *Large Volume Transportation Service*	100.0%	100.0%			100.0%	100.0%

Rate Schedule *(rates not set using allocated costs)*	COSA after Rate Design Proposals		Rebalance Amount ($000)	Approximate Annual Bill Change	COSA after Rate Design Proposals and Rebalancing	
	R:C	M:C			R:C	M:C
Rate Schedule 4 *Seasonal Firm Gas Service*	150.2%	578.3%			150.2%	578.3%
Rate Schedule 7/27 *General Interruptible Sales and Transportation Service*	139.3%	713.6%			139.3%	713.6%

95.1 Please briefly explain why FEI did not rebalance Rate Schedule 22A.

Response:

FEI did not propose to rebalance RS 22A as this is a closed rate schedule. RS 22A and RS 22B are not allocated costs in a postage stamp manner in the COSA as they are not allocated a full share of FEI's distribution system costs. FEI has continued to allocate costs to RS 22A and RS 22B in a manner consistent with past practice and the grandfathered status of these rate schedules. As a result, the rates for RS 22A and RS 22B are lower than other industrial customers under the existing RS 22, or under FEI's proposed RS 22.[7] Rebalancing the charges under RS 22A would be inconsistent with continuing to grandfather the terms and conditions of service under this rate schedule.

Since RS 22 is available for all large industrial customers, grandfathered RS 22A (and RS 22B) customers may elect this rate schedule as an alternative.

7 Transcript Volume 5, p. 487-488.

96. Reference: Exhibit B-1-4, page 13-51

For Rate 2.1 and Rate 2.2, FEI adjusted rates to account for the decrease in revenue responsibility of $35.0 thousand and $37.2 thousand, respectively. This adjustment was made to maintain an economic breakeven threshold of 2,000 GJ /year as discussed in section 13.5.5.4, to align the basic charge of both Rate 2.1 and Rate 2.2 proportionally to the customer classified costs from the COSA model, and to limit any individual customer's annual bill impact.

The following table shows the rates for the daily Basic Charge and the volumetric Delivery Charge for Rate 2.1 and 2.2.

Table 13-28: Rate 2.1 and 2.2 Charges after all Rate Design Proposals

	Rate 2.1	Rate 2.2
Daily Basic Charge ($/Day)	1.2151	3.6845
Delivery Charge ($/GJ)	3.781	3.330

96.1 Are there other combinations of adjustments that would have achieved the same conditions? Please elaborate on FEI's rationale for adjusting both the Daily Basic Charge and the Delivery Charge and the levels by which they were each adjusted.

Response:

This information request refers to the proposed RS 2 and RS 3 charges for Fort Nelson.

FEI's proposals were designed to meet multiple objectives: minimizing any one customer's rate increase to a maximum of 5 percent; retaining the relationship in the Basic Charge between RS 2 and RS 3 of approximately 300 percent (RS 3 Basic Charge / RS 2 Basic Charge); accommodating the rebalancing amounts; retaining a 2,000 GJ economic cross-over; and ensuring the appropriate level of revenue is collected from each rate schedule. FEI's proposal is the optimal solution to meet these objectives, as derived by the Excel Solver function performing a Linear Programming analysis and included in Table 13-28.

97. Reference: Exhibit B-1-4, page 13-55

For Rate Schedule 25, FEI adjusted the Demand Charge to account for the increase in revenue responsibility of $5.7 thousand. FEI increased the demand charge per month per GJ of daily demand from $28.727 to $30.350 resulting in an annual bill increase of approximately 4%.

97.1 Why did FEI choose to adjust the Demand charge instead of the Basic Charge, Delivery Charge, Administration charge or some combination thereof? Please discuss the advantages and disadvantages of adjusting the Demand Charge.

Response:

This IR refers to FEI's proposed RS 25 charges for Fort Nelson.

FEI chose to increase the Demand Charge to achieve the R:C ratio of 95 percent for the following reasons:

1. the Commission's Decision directed FEI to use a Load Factor that was the average actual Load Factor of 27 percent in place of a deemed load factor of 40 percent.
2. The change in load factor results in an increase in the demand-related allocated cost for RS 25.
3. Increasing the Demand Charge provides recovery of the increased allocated fixed demand-related cost and the amount needed for rebalancing.

FEI chose not to apply the increase to other RS 25 charges for the following reasons:

1. Applying the increase to the Delivery Charge, which is a volumetric charge, provides less certainty in the recovery of the fixed incremental demand-related cost because the annual volumes are uncertain due to variation in the weather conditions and the uncertain timing of a decision by the customer to cease service as an RS 25 customer.
2. While increasing the Basic Charge increases fixed revenue for the recovery of increased customer-related costs, the primary driver to the increased allocated cost was the change to the load factor which affects the allocated demand-related costs and not the customer-related costs that the Basic Charge is normally associated with.
3. The monthly Administration Charge is a cost recovery mechanism of utility internal costs related to Transportation Service activities. This is why there is no Administration Charge for sales service. (See Section 11 of the Application). The rate proposed for RS 25 is equal to that proposed for all other transportation service customers of FEI. It would be inappropriate to adjust the Monthly Administration Charge because the cause of the cost

increase is related to the delivery service for any General Firm sales or transport customer.

For these reasons, increasing the Demand Charge as the cost recovery mechanism for the increased demand-related costs and rebalancing to achieve a 95 percent R:C ratio is an appropriate and reasonable approach that is consistent with rate design principles.