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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Patrick Wruck
Commission Secretary and Manager, Regulatory Support

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. 2016 Rate Design Application

In accordance with the Regulatory Timetable set for this proceeding, we enclose for filing the electronic version of the Reply Submission of FortisBC Energy Inc. on the remaining rate design topics in this proceeding.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Original signed by:

Christopher Bystrom

Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,
R.S.B.C. 1996, CHAPTER 473

and

FORTISBC ENERGY INC.

2016 RATE DESIGN APPLICATION

RATE DESIGN

REPLY SUBMISSION OF
FORTISBC ENERGY INC.

April 24, 2018

TABLE OF CONTENTS

PART ONE: INTRODUCTION

1. FEI submits that the five submissions filed by interveners in this proceeding overall demonstrate a wide level of support for FEI's rate design proposals. While comments from interveners cover a variety of rate design topics, virtually no proposal is opposed by two interveners. B.C. Sustainable Energy Association and Sierra Club B.C. (BCSEA) supports, or does not oppose, FEI's rate design proposals. Interveners support, or do not oppose, FEI's commercial rate design, FEI's housekeeping amendments, the vast majority of FEI's proposed changes to the General Terms and Conditions (GT&Cs) and FEI's Fort Nelson Service Area (Fort Nelson) rate design. Interveners did take the following positions:

- British Columbia Old Age Pensioners et al. (BCOAPO) opposes any increase to the Basic Charge for residential customers, advocates for a smaller discount from firm service for RS 7/RS 27 interruptible customers, opposes FEI's discretion regarding the return of security deposits,[1] favours the elimination of winter disconnection,[2] and argues for a change to RS 6/RS 6P which reduces the revenue shifts to RS 1.

- The Commercial Energy Consumers of British Columbia (CEC) advocates for a 15 percent increase to the Basic Charge for residential customers, and for a rate design for RS 5/RS 25 that would be more favourable to high load factor customers.

- The Industrial Customer Group (ICG) questions the value of FEI's stakeholder engagement process and focuses on FEI's rebalancing proposals, in particular for RS 22A and RS 5/RS 25.

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1 BCOAPO Final Argument, p. 19.

2 BCOAPO Final Argument, p. 21.

- Catalyst focussed solely on opposing FEI's proposed postage stamp RS 22 rate for large industrial customers, including the Vancouver Island Gas Joint Venture (VIGJV).

2. In FEI's submission, no intervener has established a balanced and reasonable case for varying from FEI's proposed rate design. FEI responds to intervener comments below.

PART TWO: STAKEHOLDER ENGAGEMENT WAS ROBUST

3. Contrary to ICG's characterization,[3] FEI's stakeholder engagement process was robust and provided ample opportunity for interveners to discuss and engage with rate design issues. FEI held two information sessions and four workshops prior to the filing of its Application. While the information sessions were designed to inform stakeholders, the workshops were designed as an opportunity for FEI to engage with stakeholders on FEI's rate design proposals.[4] As shown in the materials filed in Appendix 4 of the Application, FEI explained its rate design proposals in sufficient detail to enable substantive discussion and engagement. FEI provided ample time and opportunity for all stakeholders to understand the proposals, provide comments, or discuss any concerns or proposals they had. After the workshops, FEI circulated minutes of the issues raised and invited further comments or questions.[5] If ICG had comments, suggestions, or proposals to discuss with FEI or other stakeholders, it was free to do so at the workshops or afterwards.

PART THREE: RESIDENTIAL RATE DESIGN

4. FEI proposes a five percent increase to the Basic Charge for the residential rate class, which takes service under RS 1, RS 1U, RS 1X and RS 1B (collectively referred to as RS 1). The positions of interveners on the Basic Charge vary:

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[3] ICG Final Argument, pp. 1-2.

[4] Exhibit B-1-5, pp. 4-2 to 4-6.

[5] Exhibit B-1-5, p. 4-4.

- BCOAPO opposes any increase to the Basic Charge.[6]
- BCSEA does not oppose the five percent increase to the Basic Charge stating that it would not "significantly diminish the price signal given by the volumetric charge, which would have been a concern for BCSEA-SCBC."[7]
- CEC advocates for a 15 percent increase to the Basic Charge, as well as further increases to the Basic Charge in future revenue requirements and rate designs.[8]

5. The range of positions taken by interveners suggests that FEI's proposal has struck the right balance amongst competing considerations. FEI responds to the particular submissions of BCOAPO and CEC below.

A. Reply to BCOAPO

6. BCOAPO's comments with respect to the lack of correlation between consumption and load factor are not relevant to FEI's Basic Charge proposal.[9] FEI's proposed revenue-neutral increase to the Basic Charge will result in a larger portion of fixed customer-related costs being recovered by fixed charges. The load factor has no impact on customer-related costs. In other words, the intra-rate schedule fairness which would be improved by increasing the Basic Charge is between low and high consumption customers, not low and high load factor customers. BCOAPO cites one sentence from FEI's Application which describes intra-rate schedule fairness in a general way that includes load factor; however, FEI's detailed analysis in section 7.5.1 makes it clear that FEI is referring to fairness as between low and high consumption customers.

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[6] BCOAPO Final Argument, pp. 11-13.

[7] BCSEA Final Argument, p. 6.

[8] CEC Final Argument, pp. 2-7.

[9] BCOAPO Final Argument, pp. 12-13.

7. BCOAPO's view[10] that changing the mix of fixed and variable charges needs to be done in conjunction with a determination on the utility's allowed return on equity is without merit. The allowed return on equity of the utility is not a rate design consideration. The Commission's previous rate design decisions have been made independently of cost of capital proceedings. FEI also does not accept the notion that its proposed revenue-neutral increase in the Basic Charge would affect its fair return. FEI's proposed change will not impact FEI's revenue stability as FEI has a Revenue Stabilization Adjustment Mechanism (RSAM) which captures delivery revenue variances in consumption due to variances from forecast use rates in the residential and commercial rate classes.[11]

B. Reply to CEC

8. CEC recommends a 15 percent increase to the Basic Charge, that the Commission should direct that future rate increases be applied to the Basic Charge, and that FEI should move to recovering all customer-related costs through the Basic Charge.[12] Taken together, CEC's proposals would result in a material change in the way the Commission has treated the Basic Charge to date and should be rejected.

9. The CEC is alone in its support for an increase to the Basic Charge greater than FEI's proposed five percent. An increase to the Basic Charge is not supported by BCOAPO,[13] and an increase greater than five percent could cause concerns for BCSEA due to its impact on price signals for conservation.[14]

10. The position of stakeholders, as reflected in FEI's stakeholder engagement process and the positions taken by interveners in this proceeding, is consistent with FEI's view

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[10] BCOAPO Final Argument, p. 13.

[11] Exhibit B-1, PDF page 53 (page 3-11, ll. 13 to 25); Exhibit B-1-1, PDF page 52 (page 13-46, ll. 2 to 6).

[12] CEC Final Argument, pp. 6-7.

[13] BCOAPO Final Argument, pp. 11-13.

[14] BCSEA Final Argument, p. 6.

that its proposals are balanced in light of all the relevant rate design principles and considerations. A one-time 5 percent increase in the Basic Charge and a corresponding decrease in the volumetric Delivery Charge will improve the cost recovery from low-consumption customers, while not being large enough to discourage customers from engaging in energy and efficiency measures or cause low consumption customers to disconnect from the system.

11. In contrast, CEC's proposals do not provide an appropriate balance of rate design principles primarily due to the adverse impacts on low volume customers with subsequent cost consequences for all customers, and the impact on conservation incentives in line with government policy.

12. Increasing the Basic Charge with the aim of recovering all customer-related costs would have a significant impact on low-volume customers, and would result in customers leaving the system.[15] FEI is concerned about the effect that a high Basic Charge may have on low volume customers, that may decide to stop natural gas service altogether. This would result in lost revenues that, because of the largely fixed cost nature of natural gas delivery service, are not offset by commensurate cost reductions, leaving other customers with net costs to bear.[16]

13. FEI's concern for the impact on low volume customers reflects common industry practice. Elenchus states that "it is common for utilities to also recover some portion of customer-related costs through the volumetric charge, presumably with the rationale that the volumetric charge is a proxy for the value of service to customers. Maintaining a low fixed basic monthly charge also serves to maintain customer connections even for customers with low demand."[17]

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[15] Exhibit B-5, BCUC IR 1.6.2 and 1.18.2.

[16] Exhibit B-21, BCUC IR 2.64.3 and 2.64.7.

[17] Exhibit A2-10, Elenchus Rate Design Report, pp. 10-11.

14. CEC's proposal for alignment between the Basic Charge and Customer-related costs would also contradict government policy. Increasing the Basic Charge in the manner proposed by the CEC would send price signals that are contrary to government policies in favour of energy efficiency and conservation.[18] Increasing the Basic Charge to recover all Customer-related costs would have a material impact on the incentive for customers to engage in energy efficiency programs.[19]

15. In FEI's view, the preferable course is to make periodic adjustments to the Basic Charge through the rate design process, without future rate increases being applied to the Basic Charge. Assessing the matter of fixed cost recovery through fixed charges or volumetric charges in rate design applications will allow for appropriate consideration of any changes in costs or policy.[20]

PART FOUR: INDUSTRIAL RATE DESIGN

A. General Firm Service (RS 5/RS 25)

16. FEI is proposing the following two adjustments to RS 5 and RS 25:[21]

- Update the multiplier in the Demand Charge from 1.25 to 1.10 to more accurately estimate the peak Daily Demand of customers.
- Increase the Demand Charge by $3.00 to continue the incentive for low load factor customers to take service under Large Commercial RS 3/RS 23 rather than General Firm Service RS 5/RS 25.

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[18] Exhibit B-1-5, Application, section 5.4 and pp. 7-18 to 7-19.

[19] Exhibit B-21, BCUC IR 1.65.3 and 2.65.5.

[20] Exhibit B-5, BCUC IR 1.65.6.

[21] Exhibit B-1-5, Application, p. 9-23 to 9-24.

17. CEC is the only intervener to take issue with FEI's proposals for RS 5 and RS 25. FEI responds to CEC's submissions below.

(a) Updating the Multiplier is Preferable to Using Five Coldest Days

18. CEC agrees that the Daily Demand formula needs to be updated, but recommends the use of the average use over the five coldest days instead of FEI's proposal to update the multiplier.[22] The option of using average use over the five coldest days has a number of drawbacks, including the following:

- Anomalous results could occur for customers who may have had consecutive days of reduced demand due to plant outages or reduced demand for holiday season.[23]

- Customers' peak demand would need to be updated annually, with consequent changes to customers' bills.[24] Based on the annual reviews of peak demand, the economics of continuing service on RS 5/RS 25 will change, which may cause customers to switch rate schedules, which could result in less stability of rates and revenues.

- A formula would be required for new customers for whom there is no consumption record during the five coldest days. New customers would therefore not know what their bills would look like under RS 5/RS 25 until a consumption record was obtained.[25]

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22 CEC Final Argument, p. 16.

23 Exhibit B-1-5, p. 9-19.

24 Exhibit B-1-5, p. 9-19.

25 Exhibit B-1-5, p. 9-19 and 9-20.

19. FEI explained the consequences of the anomalous results that occur under the CEC's proposal, as follows:[26]

> As stated in Exhibit B-1, Table 9-10, page 9-19, "Anomalous results could still occur for customers who may have had consecutive days of reduced demand due to plant outages or reduced demand for the holiday season". Exhibit B-1, Table 9-8, Page 9-17 shows that in 2015 there were 7 customers who would have a zero daily demand using the average consumption on the coldest three days and there were 4 customers that would have had a zero daily demand using the average consumption on the coldest five days. This means that under these approaches to calculating Daily Demand these customers would receive firm delivery at a zero demand charge cost the following year. Further, using a method based on average consumption for a short duration of one to five days would incent customers to modify their consumption to avoid future costs for firm service under General Firm Service.

20. The CEC's argument does not take into account that anomalous results would not be representative of a customer's peak demand.[27] If a customer, by chance or design, happens not to operate on one of the five coldest days in one year due to a holiday or maintenance schedule, this would not be indicative of its ordinary operations under peak conditions, what may happen the next year, or the facilities the utility must have in place to serve the customer. By their nature, anomalous results underestimate the cost to serve and therefore result in an unfairly low demand charges to the detriment of other customers who must pay those costs.

21. CEC speculates that anomalous results could be addressed through the use of a minimum load factor threshold or "other ways", but does not explain how this could be done or what these "other ways" could be.[28] A minimum load factor threshold would not address the issue as customers that meet the minimum threshold could still have anomalous results in any given year. Moreover, FEI in fact looked at the options to address anomalous results in the

[26] Exhibit B-25, CEC IR 2.75.1.

[27] Exhibit B-1-5, p. 9-20

[28] CEC Final Argument, p. 16.

options analysis it presented in its Application. FEI's evaluation of those options led to the conclusion that a modified formula should be used to avoid anomalous results.

22. CEC's argument does not acknowledge the extent to which the Daily Demand formula as proposed by FEI still relies on customers' actual data. Although FEI's proposed multiplier is derived based on actual data for all RS 5/25 customers, the multiplier is applied to individual customers' actual consumption to derive the Daily Demand applicable for each individual customer.[29] Each individual customer's monthly consumption is an important determining factor in deriving that customer's Daily Demand.

23. CEC's argument also does not acknowledge that the Demand Charge as proposed by FEI encourages efficient use of the system. Higher load factor customers will have lower average costs due to the Demand Charge.[30] Thus, under FEI's proposals, customers will continue to see reduced demand charges if they are not contributing as much to the peak demand. FEI's proposed means to determine Daily Demand and the Demand Charge is sufficient to encourage customers to be as efficient as possible, while still contributing to the recovery of the costs of providing firm service.

24. While FEI recognizes that it is conceptually desirable to use each individual customer's actual peak demand, the practical reality is that it is difficult to measure and there is no practical way to do so without creating the potential for anomalous results. FEI's proposal uses a formulaic multiplier to avoid these anomalous results. Moreover, FEI's proposal still uses each individual customer's actual average consumption and a Demand Charge so that customers are still rewarded for efficiently using the system. FEI's proposed update to the multiplier in the Daily Demand formula is therefore preferable to CEC's proposal to use the average use on the five coldest days.

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[29] Exhibit B-1-5, pp. 9-11 to 9-12 and 9-13.

[30] Exhibit B-1-5, pp. 9-11 to 9-12.

(b) Increasing the Demand Charge is Preferable to a Minimum Load Factor

25. CEC's recommended use of a minimum load factor of 50 percent should be rejected. For the reasons set out in paragraphs 59 to 65 of FEI's Final Argument, adopting a minimum load factor in RS 5 and RS 25 would be redundant, an unnecessary administrative burden and would have negative impacts on customers and FEI. Elenchus has also opined that a minimum load factor is not necessary and would have adverse consequences.[31] CEC recognizes that there may be impacts on customers, but does not propose any way to address them.[32]

26. CEC says that it sees no "cost-causation justification" for increasing the demand charge by $3.00 as proposed by FEI.[33] In fact, FEI's proposed demand charge is driven by cost-causation considerations. First, the rationale for increasing the level of the demand charge is to maintain the customer segmentation between large commercial and general firm service by aligning the economic crossover point with an annual load of approximately 15,000 GJ with a load factor of 40 percent.[34] Second, increasing the Demand Charge also allows RS 5/RS 25 to recover its allocated cost of service. The reduction in the Daily Demand formula results in reduced revenue from RS 5/RS 25 which is then offset by the increase in the Demand Charge.[35] Third, FEI is proposing to reduce the Basic Charge of RS 5/RS 25 to rebalance RS 5/RS 25 to an R:C ratio of 105 percent.[36] The end result is that RS 5/RS 25 is recovering its cost of service and experiences an overall reduction in revenue responsibility.

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[31] Exhibit A2-16, CEC-Elenchus IR 2.29.1 and 2.29.2.

[32] CEC Final Argument, p. 20.

[33] CEC Final Argument, p. 15.

[34] Exhibit B-1-5, p. 9-22

[35] Exhibit B-1-5, p. 9-24.

[36] Exhibit B-1-5, p. 12-6.

27. The CEC mischaracterizes[37] FEI’s submission that the load factor threshold is somewhat arbitrary. FEI’s point is that the forty percent is somewhat arbitrary in that there is no “bright line”. Customer generally have to have annual load of approximately 15,000 GJ with a load factor of 40 percent for it to make sense to take service under RS 5/RS 25 as compared to RS 3/RS 23. Turning this load factor threshold into a strict minimum enshrined in the tariff applies an unnecessarily “bright line” test that will adversely impact customers and the utility for the reasons described in paragraphs 62 to 64 of FEI’s Final Argument. CEC does not address these concerns.

28. CEC provides no support for using a 50 percent load factor as the customer segmentation threshold other than noting that it “could potentially be representative of a natural break” between rate classes.[38] FEI explained that “Large Commercial customers are in the mid 30 percent range and these customer groups are dominantly temperature or heat sensitive”.[39] In contrast, “General Firm Service customers’ consumption behavior has more process load, which generally results in a higher load factor in the 50 percent to 55 percent range with some customers with a load factor in the 40 percent to 50 percent range, which is still a ‘step up’ from Large Commercial customers.”[40] In short, the Large Commercial customers have a noticeably lower load factor in the mid 30 percent range and are dominantly heat sensitive. FEI submits that the current customer segmentation threshold remains valid.

(c) Conclusion on CEC’s Proposals

29. CEC’s proposals would represent a material change in the rate structure that would have adverse consequences on customers, including annual reviews by FEI that could result in moving customers into or out of RS 5/RS 25 with potentially material consequences on

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[37] CEC Final Argument, pp. 19-20.

[38] CEC Final Argument, p. 20.

[39] Exhibit B-25, CEC IR 2.74.1.

[40] Exhibit B-25, CEC IR 2.74.1.

customer bills. CEC has proposed no resolution to these adverse consequences. The CEC's proposal would therefore decrease customer understanding and acceptance.

30. CEC's proposal is not consistent with the rate design principle 3: price signals that encourage efficient use and discourage inefficient use. CEC's proposed Daily Demand methodology in combination with a minimum load factor threshold would also not align the rates with the customer segmentation threshold. This would incent customers to manipulate their consumption to reduce their bills, such as by using gas inefficiently or flaring gas to increase their load factor so that they could take service under RS 5/RS 25. This would send inappropriate price signals that would encourage inefficient behaviour, and increase the administrative burden of the utility unnecessarily and with no corresponding benefit to customers.

31. FEI therefore submits that CEC's proposal should be rejected.

B. Interruptible Service (RS 7/RS 27)

32. BCOAPO is the only intervener to take issue with FEI's proposals for RS 7 and RS 27. BCOAPO's argument that FEI could potentially extract more revenue from interruptible customers is without merit.[41]

33. Contrary to BCOAPO's assertions:

- Interruptible customers are not receiving firm service at discounted rates. Interruptible customers can be interrupted at peak times, as was the case in 2006 and 2008 when 88 and 86 customers, respectively, were curtailed.[42] Moreover, because these customers can be curtailed, FEI does not have to build

[41] BCOAPO Final Argument, p. 18.

[42] Exhibit B-8, FEI-BCOAPO IR 1.9.1.

the facilities that would be required to provide firm service but can plan its system based on the knowledge that it can interrupt RS 7/RS 27 customers.

- The lack of migration from RS 7 and RS 27 does not argue for a decrease in the discount as BCOAPO claims.[43] Rather, the lack of migration from RS 7 and RS 27 suggests that the discount is not too low.[44] If the discount were too low, then one would expect migration from interruptible to firm service, which would not be beneficial to other customers, as new infrastructure would have to be built to serve the new firm customers.[45]

- There has not been "continual growth"[46] in RS 7 and RS 27. While there were 103 customers in 2006, there are now 113, with nine of those additions due to the amalgamation with FEVI.[47] This demonstrates virtually no growth in this rate class since 2006. Again, this signals that the discount is set appropriately as the lack of migration to RS 7 and RS 27 indicates that the discount is not too high.[48]

- BCOAPO's claims that "lost revenue to customers might be as high a $1.2 million"[49] and that a 10 percent discount[50] is more reasonable are not supported by any analysis or evidence. FEI's discount has been confirmed in multiple Commission proceedings, and FEI considers that it has optimized its use of interruptible rates to cost effectively defer the need for new infrastructure.[51] BCOAPO's suggestion to reduce the discount by almost half could drive

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[43] BCOAPO Final Argument, p. 16.

[44] Exhibit B-1-5, Application, p. 9-29; Exhibit B-11, CEC-FEI IR 1.47.2.

[45] Exhibit B-8, BCOAPO-FEI IR 1.9.2(b).

[46] BCOAPO Final Argument, p. 16.

[47] Exhibit B-8, FEI-BCOAPO IR 1.9.1.

[48] Exhibit B-1-5, Application, p. 9-29; Exhibit B-11, CEC-FEI IR 1.47.2.

[49] BCOAPO Final Argument, p. 18.

[50] BCOAPO Final Argument, p. 18.

[51] Exhibit B-5, BCUC IR 1.32.6.

interruptible customers to Firm Service with cost consequences to other customers.[52]

- The fact that FEI has not done studies of the price elasticity of its interruptible customers[53] is not surprising as such studies are not ordinarily conducted. As FEI explained in response to BCOAOP IR 2.9.3c), "FEI [is not] aware of any elasticity study that separates interruptible customers from other industrial customers. Ordinarily, the elasticity estimates calculated for industrial customers have a high level of aggregation. In these markets, responsiveness of demand to price may vary greatly from one industry to another depending on factors such as the customer's ability to hedge against price volatility, degree of fuel substitution capabilities, and the ability to accommodate reductions in production levels."

- While it may not be clear to BCOAPO,[54] FEI has had interruptible rates for more than 20 years[55] and FEI understands alternative backup arrangements,[56] the practicality of actually interrupting customers[57] and the unauthorized overrun provisions of its approved tariffs.

34. FEI submits that the evidence shows that the existing discount between Firm and Interruptible service should be continued and FEI's proposals approved.

C. Large Industrial Customers (RS 22 and Special Contract Customers)

35. Catalyst is the only intervener to take issue with FEI's proposal to create a new firm and interruptible rate for RS 22, BC Hydro IG and the VIGJV. In the subsections below, FEI

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[52] Exhibit B-8, BCOAPO-FEI IR 1.9.2(b).

[53] BCOAPO Final Argument, p. 19.

[54] BCOAPO Final Argument, p. 19.

[55] Exhibit B-5, BCUC IR 1.32.6.

[56] E.g., Exhibit B-5, BCUC IR 1.32.7.1; Exhibit B-11, CEC IR 1.47.1.

[57] E.g. Exhibit B-5, BCUC IR 1.32.8, 1.32.11; Exhibit B-8, BCOAPO IR 1.9.1.

responds to the main themes of Catalyst's submissions. FEI submits that its proposed postage stamp firm and interruptible rate for RS 22 reflects the best balance of rate design principles and considerations.

(a) Location of VIGJV Sites Not Relevant under Postage Stamp Rate Design

36. Catalyst's proposal to segment FEI customers based on proximity to pipeline infrastructure must be rejected as it is inconsistent with FEI's approved postage stamp rate design. When the Commission approved the amalgamation of FEI and FEVI, it also approved postage stamp rates for the amalgamated utility (excluding Fort Nelson).[58] The Commission stated at page 18 of its Decision:[59]

> Using the lens of a broader public interest perspective and in light of its conclusion that amalgamation of the FEU is in the public interest, the Commission Panel is persuaded that postage stamp rates are consistent with regulatory efficiency. The Commission Panel also finds that postage stamp rates will promote rate stability over the longer term, as the issues relating to potential future rate shock on Vancouver Island will be eliminated. The Panel further finds that the ability to allocate all costs over the larger ratepayer base will improve rate stability for ratepayers as a whole, and therefore finds that postage stamp rates are appropriate in this instance.

37. The consequence of postage stamp rates is that the location of the VIGJV sites is not a relevant factor in FEI's cost allocations in the COSA. As FEI states:[60]

> Close proximity of any customer to a transmission pressure pipeline should not be a reason to avoid allocating distribution related costs to that customer. Many of FEI's residential, commercial and industrial customers are located in close proximity to transmission pressure pipelines; however, if the customers are in the same rate schedule (i.e. they have similar characteristics) then they are allocated costs as a group. If the group causes a certain type of costs (e.g.

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[58] Order G-21-14 and Decision on Application for Reconsideration and Variance of Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application, February 16, 2004.

[59] Order G-21-14 and Decision on Application for Reconsideration and Variance of Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application, February 16, 2004.

[60] Exhibit B-24, Catalyst IR 2.7.

distribution costs), then all customers in that group are allocated those costs and consequently those costs affect their rates.

38. As explained in FEI's evidence[61] and Final Submission,[62] the VIGJV mills in fact have similar characteristics to other FEI industrial customers. Accordingly, these similar industrial customers are treated as one group in FEI's COSA and are allocated costs based on the costs caused by the entire group of customers.

39. FEI objects to Catalyst filing new evidence in its written argument regarding the location of its sites. This is procedurally unfair as it did not provide an opportunity for FEI to respond with evidence of its own, such as details on the proximity of existing RS 22 customers to transmission pressure facilities or measures of the amount of transmission pressure pipeline required to serve large industrial customers.

40. Nonetheless, the proximity of the VIGJV sites to FEI's transmission pressure pipeline infrastructure is not a unique feature of the VIGJV mills. Many of FEI's industrial customers are in fact located in close proximity to transmission pressure pipelines.[63] However, as FEI has a postage stamp rate design approved by the Commission, FEI's RS 22 customers are not allocated distribution costs based on their location, including those industrial customers that are located in close proximity to transmission pressure pipelines.[64] Under FEI's RS 22 proposal, the VIGJV would treated the same as other large industrial customers on FEI's system.

41. The VIGJV would benefit from postage stamp with respect to transmission pipeline cost allocation. Due to the location of the VIGJV sites on the Sunshine Coast and Vancouver Island, the VIGJV sites use significantly more transmission pipeline to be served than

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[61] E.g., Exhibit B-24, Catalyst-FEI IR 2.7 and Exhibit B-5, BCUC-FEI IRs 1.34.3 and 1.34.4.

[62] Paragraphs 101 to 106.

[63] Exhibit B-24, Catalyst IR 2.7.

[64] Exhibit B-24, Catalyst IR 2.7.

Lower Mainland RS 22 customers. However, under FEI's proposed RS 22, transmission pipeline costs are allocated on a postage stamp basis, rather than based on location.

(b) RS 22A and 22B are Grandfathered from Postage Stamp Rate Design

42. Catalyst's argument that it should be treated the same as RS 22A and RS 22B customers with respect to the allocation of distribution costs is misplaced. The cost allocation of distribution costs to RS 22A and RS 22B is the exception to the norm for FEI. RS 22A and 22B customers are allocated less distribution costs than RS 22 customers because RS 22A and RS 22B are closed rate schedules and benefit from grandfathered treatment.[65] All new large industrial customers on FEI's system, no matter where they are located, are allocated distribution costs on a postage stamp basis. FEI states:

> RS 22 is a Large Volume Transportation service offering in which customers can choose to take firm transportation service only, interruptible service only, or a combination of firm and interruptible transportation service. All new customers wishing to take service under Large Volume Transportation Service can only do so under RS 22; it does not matter where the customer is located, whether they wish to take predominantly firm service with a small amount of interruptible or just interruptible service. If the customers currently being served under RS 22A and RS 22B were to stop service under those rate schedules and restart later, they would become new RS 22 customers as per the 1993 Phase B Decision.[66]

43. As the VIGJV is not served under the grandfathered RS 22A and RS 22B, the cost allocation of distribution costs to these customers is not applicable to the VIGJV. Instead, the VIGJV should be treated similarly to other large industrial customers on FEI's system that take service under RS 22.

44. While FEI does not take location into account pursuant to its postage stamp rate structure, the location of the VIGJV sites are not similar to the location of RS 22A and RS 22B

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[65] Exhibit B-33, Catalyst IR 3.22.

[66] Exhibit B-33, Catalyst IR 3.33.

customers. While RS 22A and RS 22B customers are in the Inland and Columbia regions, the VIGJV sites are located on the Sunshine Coast and Vancouver Island.

45. Catalyst's analogy to the allocation of distribution costs to RS 22A and RS 22B customers is therefore not applicable to the VIGJV or FEI's proposed rate design for RS 22.

(c) Revenue Deficiency Deferral Account (RDDA) and Rate Smoothing Deferral Account (RSDA) not Relevant

46. The VIGJV's historical contributions to FEVI's RDDA and RSDA are not relevant to the rate design for FEI's large industrial customers. The balances in these historical accounts have all been drawn down or amortized in accordance with Commission Orders.[67] FEI will not repeat this history in argument as there are no rate design principles or government policy considerations that make this history relevant to FEI's current rate design.

(d) VIGJV Benefits from Amalgamation and Postage Stamp Rates

47. Catalyst's view[68] that FEVI's core customers received a benefit due to the balance in the RSDA, while the VIGJV did not, is incorrect. The benefit to core customers was in fact due to the amalgamation of FEVI and FEI and the implementation of postage stamp rates. FEI explained:[69]

> It is incorrect to say that the core customers of FEVI, the former Vancouver Island utility, received a 38 percent rate decrease because of their contribution to the $99 million RSDA surplus. The core customers of FEVI received a decrease (phased in over three years) because the Commission approved amalgamation and postage stamp rates with FEI. The RSDA balance was streamed to FEI Mainland customers only to mitigate the rate impacts of amalgamation. It did not go to Vancouver Island core customers.

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[67] Exhibit B-24, Catalyst-FEI IRs 2.24 and 2.26

[68] Catalyst Final Argument, p. 12.

[69] Exhibit B-33, Catalyst IR 3.12.

> As far as industrial rates are concerned, the VIGJV and BC Hydro IG already had comparable rates to the Lower Mainland RS 22 customers, so after applying postage stamp principles to these customers as a group, there was not a large difference between the proposed RS 22 firm rates and the VIGJV's (or BC Hydro IG's) pre-amalgamation contract rates.

48. VIGJV in fact benefited from amalgamation just as FEVI's core customers did. FEI explained:[70]

> In the absence of amalgamation FEVI customers were facing possible significant rate increases. If the common rates proposal was not approved, the RSDA balance was expected to be depleted by 2017 at which time FEVI customers were estimated to see rate increases in the range of 20 percent. Therefore, after December 31, 2017, the VIGJV, or the individual members within it, would have likely faced rate increases if the common rates proposal was not approved.

49. Furthermore, in this proceeding, FEI is proposing a postage stamp rate applicable to the VIGJV. Based on FEI's proposal, the VIGJV mills will be treated the same as FEI's large industrial customers, just as FEVI's former core customers are now treated the same as FEI's core customers. One of the benefits of FEI's proposal is that BC Hydro IG and VIGJV would no longer be required to provide System Gas or be charged for Carbon Tax and other commodity toll items as they do under their special contracts. When this is taken into account, the VIGVJ would experience an overall rate decrease of approximately 4.5 percent under FEI's proposed postage stamp rate.[71]

(e) Distribution vs. Transmission Customer Distinction Not Valid for FEI

50. Catalyst's submission that FEI should classify the VIGJV as a transmission service customer is without merit for a number of reasons.

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[70] Exhibit B-24, Catalyst IR 2.4.

[71] Exhibit B-33, Catalyst-FEI IR 3.1.

51. First, FEI's evidence filed in its Application and responses to information requests as a whole supports FEI's proposed customer segmentation and rate design. Based on its rate design, FEI does not have a transmission service,[72] and does not segment customers based on whether they are connected to the transmission system or distribution system.[73] Rather, FEI segregates its customers based on load characteristics of annual consumption and load factor (i.e., how much the customer consumes on average as compared to its peak demand) and the nature of the service (i.e., sales or transportation).[74] FEI's approach is consistent with past practice, rate design principles, and its postage stamp rate design, and should continue to be approved by the Commission.

52. Second, as summarized in FEI's Final Submission, the VIGJV mills have similar characteristics to other large industrial customers of FEI. Accordingly, these customers are treated as one group in the COSA and allocated costs based on the costs caused by the entire group of customers. As noted in FEI's Final Submission, one similarity is that the average consumption of the five VIGJV mills is within the range of consumption of RS 22 customers. Contrary to Catalyst's submission,[75] it is not necessary that the average VIGJV consumption be equal to the average RS 22 consumption. The relevant fact is that the VIGJV mills are *similar* to other RS 22 customers, i.e. other RS 22 customers have a similar consumption level.

53. Third, VIGJV's claim is based on FEVI's historical COSA and rate design methodologies, which are not applicable to FEI as an amalgamated utility. FEI's rate base, cost of service, total consumption, peak day demand and total customers, amongst other factors, are materially different from FEVI as a standalone utility.[76] How costs may have been allocated to a customer or group of customers in the past for FEVI, will be different from what is done

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72 Exhibit B-24, Catalyst IR 2.7.

73 Exhibit B-24, Catalyst IR 2.13.

74 Exhibit B-24, Catalyst IR 2.13.

75 Catalyst Final Argument, p. 15.

76 Exhibit 24, Catalyst IR 2.6; Exhibit B-33, Catalyst IR 3.21 and 3.24.

now for FEI due to the changed circumstances and costs. There is simply no evidence or rationale for why FEI should adopt FEVI's historical COSA and rate design methodologies. As FEI has submitted above, FEI's evidence in this proceeding establishes that its proposed rate design methodologies are supported by rate design principles and should be approved.

54. Fourth, the VIGJV facilities do not take gas at transmission pressure; rather, they take gas at distribution pressure or intermediate pressure and FEI has facilities in place to step down the pressure at the various VIGJV sites to serve them and the surrounding businesses and communities.[77] It is therefore unclear why VIGJV would be a transmission customer, or how Catalyst would propose that FEI segment customers between transmission and distribution service.

55. Fifth, given the ambiguity between distribution and transmission service as referred to by Catalyst, it is apparent that Catalyst's claim is not based on the level of pressure it receives service from, but on the proximity of its sites to transmission pressure facilities. At root, FEI submits that Catalyst's position is based on the location of its sites and its opposition to the postage stamp allocation of distribution costs. However, as discussed above, a rate design based on location is inconsistent with the postage stamp rate design approved by the Commission for FEI, and must be rejected.

(f) RS 22 is a Firm and Interruptible Service Offering

56. The Commission's 1993 Decision related to the closing of RS 22A and RS 22B did not segregate customers between firm and interruptible service as claimed by Catalyst.[78] In fact, FEI's current RS 22 is a Large Volume Transportation service offering in which customers can choose to take firm transportation service only, interruptible service only, or a combination

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[77] Exhibit B-24, Catalyst IR 2.1.

[78] Catalyst Final Argument, p. 15.

of firm and interruptible transportation service.[79] While Creative Energy is the only RS 22 customer that currently has a firm service contract, all RS 22 customers have the option to take firm service upon request. Some RS 22 customers and potential new RS 22 customers have expressed interest in firm service.[80] FEI's proposal to create a cost of service firm rate for RS 22 will facilitate the provision of firm service to all large industrial customers.

(g) Treatment of Interruptible Revenue is Appropriate

57. Contrary to Catalyst's submissions,[81] FEI is treating interruptible revenue appropriately in its COSA. As explained on page 6-35 of the Application, interruptible rates do not drive system capacity additions and consequently are not allocated any demand-related costs. FEI explained the reason for the high R:C and M:C ratios set out in Table 6-19 of the Application for interruptible service as follows:

> FEI has excluded RS 4, RS 22, and RS 7/RS 27 from Table 6-17 above because Rate Schedule 4 is a seasonal service (firm in the summer and interruptible in the winter), RS 22 is predominantly interruptible and RS 7/RS 27 is fully interruptible. These rates do not drive system capacity additions, and consequently are not allocated any demand-related costs. The charges within these rate schedules are not set using their allocated costs from the COSA model.[82]
>
> To derive the R:C ratio of 1425% for RS 22, FEI used the revenues from RS 22, which are based on a value for service (a discount from firm service), and divided it by the allocated costs, which are low because RS 22 has low firm demand and attracts very little demand-related costs. This means that the 1425% R:C ratio is not meaningful as a measure of rate fairness.[83]

58. In sum, the R:C ratios for interruptible service are not meaningful.

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[79] Exhibit B-33, Catalyst IR 3.33.

[80] Exhibit B-33, Catalyst IR 3.30 and 3.31.

[81] Catalyst Final Argument, p. 17.

[82] Exhibit B-33, Catalyst IR 3.17.

[83] Exhibit B-33, Catalyst IR 3.17.

59. FEI also explained the treatment of interruptible revenue in its final COSA for its proposed RS 22 as follows:[84]

> In the final COSA supporting proposed rates, the VIGJV, BCH IG and RS 22 customers were grouped together and allocated costs based on the number of customers and firm demand of that group. To calculate the R:C ratios of this group, FEI used their firm revenue. The interruptible revenue of this group was allocated to all other customers as an offset to other customers' cost of service. The Interruptible revenue of this group was used as an offset to the cost of service because interruptible service does not receive any allocation of demand-related costs, and including it in the R:C calculation would obscure the ratio results for firm service versus a combined firm / interruptible result. The allocated costs of this group were used to derive their proposed rates.

60. For the above reasons, treating interruptible revenue as an offset to the cost of service is appropriate. This treatment is consistent with the treatment in the initial COSA that has been approved by the Commission.[85]

(h) Proposed RS 22 Rates are Similar to VIGJV's Special Contract Rates

61. FEI's proposed RS 22 rates will be similar to the VIGJV's rates under its special contract. To reiterate FEI's final submission, if large volume customers reserve firm service for only their baseload (i.e., 100 percent load factor) volumes, they will be able to achieve an effective rate of $0.972 per GJ for any mix of firm and interruptible service.[86] This is similar to the current rate of the VIGJV.[87] The VIGJV would also no longer be required to provide System Gas including any associated tax and other commodity toll items under FEI's proposal. When

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[84] Exhibit B-21, BCUC IR 2.72.3. Also see Exhibit B-5, BCUC IR 1.35.2.

[85] BCUC Order G-4-18 and Exhibit B-1, Table 6-7, Page 6-13.

[86] Customers would also have to take enough firm to exceed the minimum take or pay volume, and this does not include the Basic Charge. Exhibit B-32, BCUC-FEI IR 3.95.2 and 95.2.2.

[87] Exhibit B-5, BCUC-FEI IR 1.34.6; Exhibit B-33, Catalyst-FEI IR 3.1.

this is taken into account, the VIGVJ would experience an overall rate decrease of approximately 4.5 percent.[88]

62. Catalyst's submission that System Gas is not included in FEI's revenue[89] is a red herring. Based on 2016 volumes and rates, FEI's revenues under VIGJV's special contract will be approximately 2 percent lower compared to FEI's revenues from the VIGJV under its proposed RS 22, as shown in line 7 of the table included in response to BCUC IR 3.96.2.[90] However, based on 2018 volumes and rates, the VIGJV revenues would be greater. FEI explained:[91]

> Based on 2016 actual volumes, the impact of FEI's RS 22 proposal on the VIGJV would be an increase in firm revenues from $4.599 million to $4.659 million and an increase in interruptible revenue from $2.570 million to $2.653 million. Total revenues from the VIGJV would be $7.169 million based upon 2016 rates and volumes and $7.312 million under FEI's RS 22 proposed rates and 2016 volumes. It should be noted that the VIGJV's firm and interruptible rates within their contract are adjusted annually by half of the Consumer Price Index. For example, the 2016 firm rate of $0.9665 has since increased to $0.9883 in 2018, which moves total revenues in 2018 to $7.330 million (Firm $4.702 million + Interruptible $2.628 million), which is above FEI's proposed revenues $7.312 (before consideration of any system gas).
>
> In addition to their firm and interruptible rates described above, the VIGJV is also currently responsible to provide system gas to FEI as fuel in kind to cover their allocated portion of compressor fuel and unaccounted for gas on the Vancouver Island system, plus any meter station line heater fuel. In 2016, the VIGJV was required to provide 2.65 percent of fuel on top of their VIGJV consumption or roughly 198,000 GJ of system gas as fuel in kind to FEI.
>
> If the VIGJV elects to receive service under the proposed RS 22, then the VIGJV would no longer be responsible for system gas, consistent with the terms and conditions of other RS 22 customers on FEI's system. FEI estimates $972 thousand in cost savings to the VIGJV based on the assumption of 2016 Sumas Daily Index pricing plus carbon tax and motor fuel tax on compressor fuel

88 Exhibit B-33, Catalyst-FEI IR 3.1.

89 Catalyst Final Argument, p. 16.

90 Exhibit B-32, p. 24.

91 Exhibit B-32, BCUC IR 3.96.2, p. 25.

allocated to the VIGJV. These savings should be factored in when comparing the true change in revenues from 2016 or current to the RDA proposals.

63. The key points are as follows:[92]

- FEI's revenues under VIGJV's special contract and under FEI's postage stamp RS 22 rate will be similar.

- When the cost of system gas is included, the VIGJV will experience an overall cost reduction under FEI's postage stamp RS 22 rate compared to the VIGJV's costs under its special contract.

64. Catalyst mischaracterizes the relevance of balancing charges.[93] In FEI's view, all transportation customers should be subject to the same balancing rules, and the fact that the VIGJV may be subject to FEI's proposed balancing rules under FEI's proposed RS 22 is an additional benefit of FEI's postage stamp RS 22 proposal. The balancing rules appropriately put the onus on the customer and the customer's Shipper Agent to manage their gas supply. Balancing Charges do not need to be incurred if the Shipper Agent has sufficient gas supply delivered to FEI to cover off the consumption of the Shipper Agent's customer within the proposed tolerances levels.[94] FEI relies on its evidence and argument in the Transportation Service Review Streamlined Review process for the justification of its transportation service balancing proposals.

65. FEI cannot predict what revenue it would receive from the VIGJV or transportation customers as a whole under its proposed balancing rules, as it will depend on how customers change their behaviour in response to the new rules. FEI estimated potential charges of approximately $1.4 million could have been collected in 2015 under the new

[92] Exhibit B-32, BCUC IR 3.96.2.

[93] Catalyst Final Argument, p. 16.

[94] Exhibit B-33, Catalyst IR 3.1.

balancing rules *if there was no change in customer behaviour*.[95] If the VIGJV took service under FEI's postage stamp RS 22, the VIGJV could incur no balancing charges if it manages its gas supplies within the tolerances levels. Based on 2016 rates and volumes, the VIGJV could incur more than $800 thousand in balancing charges under FEI's postage stamp RS 22 and still be paying less than it would be under its existing special contract.[96] This shows that FEI's proposed postage stamp RS 22 is favourable for the VIGJV from a cost perspective.

PART FIVE: GENERAL TERMS AND CONDITIONS

66. BCOAPO takes the position that FEI should not retain discretion with respect to the return of security deposits,[97] and submits that the Commission should consider eliminating winter disconnection.[98] FEI is working well with its customers and does not believe that any changes to its processes as proposed by BCOAPO are warranted.

67. FEI works with each customer to find payment solutions and options, including deferred payment arrangements for security deposits and outstanding balances as well as providing information on applicable Energy Conservation Programs that may provide rebates and savings opportunities to customers. Depending on the circumstances of the customer and regardless of whether they may be considered low income or not, FEI may adjust charges where FEI has flexibility in the Tariff and there is a reasonable basis to do so.[99]

68. FEI's proposed amendment to Section 6.3 is intended to align the tariff with its current business practice. FEI's current business practice is to return the security deposit to Residential customers after one year of good payment history. This practice is different than the language that currently exists in the Tariff, which outlines that security deposits are only

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[95] Exhibit B-11, CEC IR 1.56.1.

[96] Exhibit B-33, Catalyst IR 3.96.2.

[97] BCOAPO Final Argument, p. 19.

[98] BCOAPO Final Argument, p. 21.

[99] Exhibit B-22-2, BCOAPO-FEI IR 2b.4.2.

required to be refunded to the customer upon termination of services, regardless of the length of time the customer is with FEI or their payment history. The word "may" in FEI's proposed tariff language is intended to provide for exceptions that may occur. FEI anticipates that these exceptions would be very rare and if they did occur, FEI would discuss with the individual customers impacted.[100]

69. In all cases, FEI regards the discontinuation of service as a last resort and as such, works with each customer individually to consider the various alternatives available, such as bill payment options (i.e., flexible payment plans and pre-authorized payment plans) based on their individual situation, irrespective of the time of year. During the winter months, the weather conditions at the customer's service location are taken into consideration by both collections and field staff before a decision is made to disconnect a customer. FEI delays disconnection based on individual circumstances.[101] Allowing this flexibility to work with customers and make individual decisions based on each customer's unique situation is appropriate and is working well.[102]

70. FEI notes the following:

- FEI's low bad debt experience rate of less than 0.3 percent demonstrates that the vast majority of revenue is ultimately collected within the year. Further, most billed revenue is collected within the three month period following the initial billing.[103]

- Since the repatriation of customer service in 2012, FEI put in place a credit and collections approach that emphasizes working with customers on an individual basis to find payment arrangements that work for both the customer and FEI.

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[100] Exhibit B-8, BCOAPO IR 1.11.6a).

[101] Exhibit B-8, BCOAPO-FEI IR 1.11.5(a) and (b).

[102] Exhibit B-8, BCOAOP IR 1.11.5a).

[103] Exhibit B-22, BCOAPO-FEI IR 2.13.1.

This approach provides flexibility for payment arrangements with a focus on maintaining gas service to customers. This approach leads to a better collection process with fewer disconnects, and improved customer service. When comparing 2011 to 2016, FEI has seen a reduction in total annual disconnections for non-payment of approximately 63%.[104]

- If a customer on the equal payment plan has difficulty paying their bill, FEI would work with that customer to understand the options that may be best suited to their situation. This may include creating separate payment arrangements to address an arrearage and would not necessarily include removing the customer from the equal payment plan as a result of these arrangements.[105]

- FEI does not regard payment less than the full amount due as a default, but as the customer showing commitment to paying the bill. As such, if this occurs, FEI continues to work the customer on payment arrangements and terms that will result in their bill being paid in full with continued service.[106]

- Customers must be at least 60 days in arrears prior to disconnection. In many cases, the arrears would be older than this prior to disconnection as FEI attempts to successfully negotiate arrangements with customers and provides customers with additional opportunities to pay the outstanding amounts. While accounts with overdue balances greater than $200 are triggered for notices of disconnection, in most cases this leads to a successful negotiation of payment arrangements with customers.[107]

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[104] Exhibit B-22, BCOAPO-FEI IR 2.14.0 and 2.44.0

[105] Exhibit B-22, BCOAPO-FEI IR 2.6.0

[106] Exhibit B-22, BCOAPO-FEI IR 2.21.7.

[107] Exhibit B-22, BCOAPO-FEI IR 2.15.0.

- On average each year, approximately 90 percent of customers who receive a notice of disconnection remain connected to the system.[108]

- On average, over a third of customers are disconnected for one day or less, and approximately half or more of all disconnections are reconnected within one week.[109]

- FEI is meeting the service quality indicators established by the Commission for FEI's Performance Based Ratemaking Plan.[110]

71. In short, the evidence is that FEI has a highly effective approach to working with customers and that FEI is minimizing both bad debt and disconnections. FEI's practices reflect the appropriate balance of dealing in a fair and flexible manner with its customers, and taking prudent steps to minimize bad debt. Consistent with its current practices which have proven to be successful, FEI should retain the flexibility to withhold security deposits and make winter disconnections when necessary and prudent.

PART SIX: REVENUE SHIFTS AND REBALANCING

A. FEI's Rebalancing Proposals Are Consistent and Logical

72. Contrary to the CEC's argument,[111] FEI's argues consistently and logically that it is not necessary to shift more revenue to RS 1 when RS 1 is already within the range of reasonableness. FEI's point is that there is no justification based on RS 1's R:C ratio to shift more revenue to RS 1. FEI recognizes that there could be other reasons to shift further revenues to RS 1, such as the need to rebalance another rate schedule. The context of FEI's comments was to explain in part why FEI rebalanced RS 5/RS 25 by lowering the Basic Charge

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[108] Exhibit B-22, BCOAPO-FEI IR 2.7.2.
[109] Exhibit B-22, BCOAPO-FEI IR 2.2.2.
[110] Exhibit B-22, Attachment 46.4.
[111] CEC Final Argument, p. 33-34.

and not the Demand Charge. Lowering the Demand Charge would result in impacts to RS 7 and RS 27 and RS 4, which would result in revenue shifts to RS 1. This result would have been supported from a cost causation perspective if RS 1 was below the range of reasonableness; however, as FEI noted, RS 1 is already within the range of reasonableness, so there was no support for lowering the Demand Charge.

73. Contrary to the CEC's argument,[112] shifting of revenue to RS 1 is consistent with the range or reasonableness and also industry practice. FEI's choice to shift revenue to RS 1 was made because RS 1 has the most capacity to absorb these amounts with the lowest bill impact to individual customers, as well as because RS 1 was the only rate schedule with a R:C ratio below 100 percent. FEI explains:[113]

> The distinction was made not only because the RS 1 R:C ratio was the only R:C ratio below 100 percent, but also because RS 1 has the most capacity to absorb these amounts with the lowest bill impact to individual customers. This approach also reflects standard utility practice with respect to revenue rebalancing.
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> The range of reasonableness should be taken as the guideline for whether revenue rebalancing needs to occur for particular rate schedules. All rate schedules with RC ratios within the range of reasonableness should be considered equal in terms of not needing rebalancing. However, once it has been determined that rebalancing should be done, because one or more rate schedules are outside the range of reasonableness or for other reasons, judgment needs to be exercised as to the most appropriate manner to spread the rebalancing. In applying judgment, it is standard utility practice with respect to revenue rebalancing to take into account the R:C ratios of the rate schedules and move rate schedules closer to unity. From a practical perspective, this practice is likely more acceptable to customer groups, since for customer groups above unity but within the range of reasonableness, the approach implied by the question would move their R:C ratios further away from unity. In accordance with this standard practice, FEI adjusted rate schedules above the range of reasonableness to the nearest range of reasonableness boundary (i.e. closer to unity) and applied the revenue rebalancing amounts to rate schedules below

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[112] CEC Final Argument, p. 33-34.

[113] Exhibit B-5, BCUC IR 1.67.1.

> unity. As stated above, this approach was also favoured because RS 1 has the most capacity to absorb the revenue with the lowest bill impact to individual customers.

74. Contrary to the ICG's assertions,[114] FEI's approach of setting the new cost of service firm rate for RS 22 at a R:C ratio of 100 percent is consistent with its approach to the range of reasonableness. There is no existing R:C ratio for an RS 22 firm rate. The firm rate for Creative Energy does not have a meaningful R:C ratio because it is a value-of-service rate, based on a discount from general firm service. In the case of the new firm rate for RS 22, FEI is therefore not relying on the COSA study to justify revenue rebalancing; rather, FEI is setting up a new rate based on costs allocated from the COSA study. While any proposed RS 22 rate with a R:C ratio between 95 percent and 105 percent would be fair from cost allocation perspective, there is no evidence to justify choosing anything other than the rate reflecting the costs allocated from the COSA study (i.e. 100 percent R:C ratio). FEI's approach therefore reflects a consistent evidence-based approach.

B. Rebalancing to 100% would be Inconsistent with Range of Reasonableness

75. ICG's request that the Commission should direct FEI to rebalance all rate classes to a 100% R:C ratio is logically inconsistent with the Commission's determination to use an R:C ratio range of reasonableness of 95 percent to 105 percent.[115] The acceptance of a range of reasonableness means that rates are recovering their cost of service if they are within the range.[116] The Commission states:

> The Panel accepts that in theory an R:C ratio of 100 percent for each rate schedule would indicate that the revenues recovered from each rate schedule are equal to the cost to serve them. However, due to the assumptions, estimates

[114] ICG Final Argument, p. 3-4.

[115] Order G-4-18.

[116] Order G-4-18, Appendix A, p. 25-26, 29-30

> and judgements involved in a COSA study, the Panel considers it appropriate to use a range of reasonableness.[117]

76. FEI rebalances to the boundary of the range of reasonableness because there is no evidence to justify moving customers' rates to one. Once rates are within the range, the evidence from the COSA establishes that they are recovering their cost of service.

77. ICG's argument directly attacks the Commission's conclusions on the range of reasonableness in Order G-4-18. This is revealed most clearly where the ICG argues that the range of reasonableness is an "exercise in sophistry".[118] Contrary to the ICG's claims, the range of reasonableness is supported by the filed evidence of both rate design experts in this proceeding and has already been accepted by the Commission in Order G-4-18, consistent with industry practice throughout North American including the rate design decisions in this province for over 40 years.[119]

78. A symptom of ICG's collateral attack on Commission Order G-4-18 is that ICG arguments revisit a number of arguments already addressed in the first component of this proceeding.

- FEI has explained that FEI's use of a consistent methodology for its COSA studies over the past explains any historical pattern of R:C ratios. Using the same methodologies over time allows the results of the COSA studies to show the movement of costs over time, rather than movements due to methodological changes.[120]

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[117] Order G-4-18, Appendix A, p. 35.

[118] ICG's Final Argument, p. 2-3.

[119] See FEI's Final and Reply Argument on COSA and Revenue to Cost Ratios.

[120] FEI Reply Argument on COSA and Range of Reasonableness, pp. 23-24.

- The probabilistic arguments of the ICG and other interveners were clearly rejected by both rate design experts in this proceeding, including Elenchus.[121] Mr. Todd for Elenchus stated:[122]

> You are proposing that, but I am disagreeing with you, because implicit in your question is the assumption is that there is one correct and true allocation of classes. What I'm trying to say is there is no single true underlying allocation, that is the right number, similar to doing a survey of public opinion. If you surveyed everybody in the country, you would get a true result of the opinion. When you do a sample survey, you get an estimate of that true underlying value.
>
> Here, there is no true underlying value in terms of allocating costs. You are not using a statistical estimation technique, you are doing different methods that are trying to define equity.

The view that R:C ratios should be set to 100 percent due to "risks associated with the imprecision in the COSA" is inconsistent with the expert evidence and inconsistent with the use of a range of reasonableness as approved by the Commission in its Order G-4-18.

79. FEI submits that ICG's arguments are in effect seeking reconsideration of Order G-4-18 and are therefore out of scope.

C. No Need to Rebalance RS 22A

80. Although RS 22A is outside the range of reasonableness, in FEI's view there is no need to rebalance RS 22A given that RS 22A is not too far from the range and benefits from a grandfathered cost allocation that results in favourable rates compared to other large industrial customers.

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[121] FEI Reply Argument on COSA and Range of Reasonableness, pp. 25-28.

[122] Transcript Volume 5, p. 514.

81. Rebalancing, like all rate design decisions, is a complex balancing process.[123] The range of reasonableness is a guideline for rebalancing and must be considered along with all other relevant factors. That the range of reasonableness is a guideline is reflected in the wording of the Commission's direction to FEI "to use an R:C ratio range of reasonableness of 95 percent to 105 percent <u>to inform</u> rate design and rebalancing proposals in the current Application."[124] [Emphasis added.] Consistent with this statement, in past rate design decisions, the Commission has not rebalanced all rate schedules to within the range of reasonableness.[125]

82. FEI acknowledges that its proposal for RS 22A has changed from the preliminary proposal it put forward in its pre-application workshop materials based on a materially incorrect calculation of the R:C ratio for RS 22A of 180 percent. However, FEI is not bound by its preliminary proposals, and has put forward what it considers the most reasonable proposal in all the circumstances, including the correct cost allocation for RS 22A.

83. ICG speculates baselessly that FEI's "true motive" is "to let the RS 22A rate to increase to pressure RS 22A customer to move to RS 22".[126] FEI has set out the reasons for its proposals, and pressuring RS 22A customers to move to RS 22 is not part of those reasons. Furthermore, as FEI's proposed RS 22A rate is still well below RS 22, there is no pressure for RS 22A customers to move to RS 22.

84. ICG incorrectly states that "FEI acknowledges that the terms and conditions are grandfathered, but not the rates."[127] While RS 22A rates move along with changes in FEI's

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[123] Exhibit B-1-5, Application, p. 1-3; Exhibit A2-2, p. 8.

[124] Order G-4-18, item 1.

[125] Exhibit B-11, CEC-FEI IR 1.19.3; 1993 Post Phase B Decision M:C Ratio, General Firm 117%; Large Industrial T-Service RS 22A 123%; 1996 Rate Design Settlement M:C Ratio, General Firm 137.5%.

[126] ICG Final Argument, p. 7.

[127] ICG Final Argument, p. 7.

revenue requirements, FEI's view is that the cost allocation to RS 22A is part of the grandfathered status of RS 22A. Mr. Gosselin clarified FEI's position as follows:[128]

> I didn't expect a lot of discussion around the rebalancing. The rebalancing is particularly about 22As and Bs. And the discussion around 22 in particular. So I just wanted to make clear some of the things that we did in the COSA with respect to the 22As and Bs.
>
> They're grandfathered in the application, and they're grandfathered in a couple of ways. With respect to their Ts and Cs, and also with respect to how we allocated costs to the As and Bs.
>
> So, the way we've allocated the costs in the COSA is very similar to past practice, in the fact that we didn't allocate a lot of distribution costs to them very much at all. Because that's what we've done in the past. So, consequently, their rates themselves, their effective rates, are quite a bit lower than their counterparts in the Lower Mainland and their counterparts as proposed under rate schedule 22.
>
> So the idea for the grandfathering was to both treat them as we've honoured to treat them in the past by keeping their rates similar, not the rates flat, but the rate treatment or the rate derivation similar to the past. Consequently, in the COSA we allocated costs in the same manner.
>
> So, the idea of rebalancing that rate schedule is kind of not what we would have expected, considering they have lower rates than, again, their counterparts in the balance of the system.

85. The cost allocation to RS 22A is what gives RS 22A a favourable rate compared to RS 22, BC Hydro and the VIGJV. It is therefore surprising that ICG would take the view that the rates of RS 22A are not grandfathered. If the cost allocation for RS 22A rates were not grandfathered, then FEI would have proposed to bundle RS 22A in its RS 22 proposal. [129]

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[128] Transcript Volume 5, pp. 487-488.

[129] Transcript Volume 5, p. 488.

86. ICG refers to the fact that FEI is proposing changes to the daily balancing tolerances for RS 22A customers.[130] In the circumstances of FEI's transportation balancing rules, FEI concluded that it would not be appropriate to exclude RS 22A from the balancing rules that would apply to all other transportation customers. While RS 22A and RS 22B are closed, they should not be exempt from coming into line with general industry practices with respect to gas supply. Moreover, FEI's proposed changes to the transportation model are consistent with the spirit and intent of Rate Schedule 22A that customers, or their Shipper Agents, should supply gas reflecting their best estimate of consumption on a daily basis.[131]

87. ICG claims that RS 22A is not assigned the full value of its peaking resource.[132] FEI's cost allocation to RS 22A is consistent with past practice and Commission Decisions, including the 1987 and 1993 rate design decisions which determined that transmission costs should be allocated to RS 22A based on contract demand.[133] FEI also notes that it returns the peaking gas to RS 22A customers at a later date if it draws upon the resource.[134] If the issue of the cost allocation to RS 22A customers were to be reopened, FEI would propose bundling RS 22A with other similar industrial customers on its system.

88. ICG points to the Commission's decision in 1993 to rebalance RS 22A.[135] ICG, however, does not note that the Commission rebalanced only towards a R:C ratio of 110 percent. As seen in the historical results, the 1993 Decision left RS 22A with a 123 percent M:C ratio under the Coincident Peak Method.[136]

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[130] ICG Final Argument, p. 7.

[131] See FEI's Final Argument in the Transportation Service Review, pp. 5-7.

[132] ICG argument, pp. 9-10.

[133] Exhibit B-26, ICG IR 2.1.1 and 2.4.1.

[134] Rate Schedule 22A, section 5.7.

[135] ICG Final Argument, p. 10.

[136] Exhibit B-11, CEC-FEI IR 1.19.3.

D. Rebalancing RS 5/25 by Reducing Demand Charge is Preferable

89. ICG's proposal to rebalance RS 5/25 by reducing the Demand Charge[137] would reduce the incentive for customers to use the system efficiently and thus be inconsistent with government policy. The Demand Charge is the part of the RS 5/25 rate that encourages efficient use of the system. Decreasing the Demand Charge as proposed by ICG would therefore discourage efficient use of the system.

90. FEI's proposal to rebalance RS 5/25 by decreasing the Basic Charge results in each customer receiving the same reduction, while maintaining the incentives for efficient utilization that flow from the demand charge.[138] FEI's proposals also results in no changes to RS 7, RS 27, and RS 4 (which are based on the RS 5/RS 25 demand charge), and maintains the pricing relationship between General Firm and Large Commercial service by maintaining the incentive for customers with a load factor of 40 percent or greater to take service under RS 5 or RS 25.[139]

91. There is also no additional cost causation-based reason to adjust the Demand Charge because RS 1 is already within the range of reasonableness. This is the point of FEI's statement quoted in paragraph 48 of ICG's argument: "Since RS 1 is already within the range of reasonableness with this adjustment, it is unnecessary to adjust the RS 5/25 Demand Charge, which results in additional revenue shifts to RS 1…"[140] Contrary to ICG, FEI's rationale for decreasing the basic charge is to maintain the relationships amongst the other industrial rate schedules, including the incentives for efficiency that flow from the Demand Charge in RS 5/RS 25.

92. As there is no merit in ICG's proposal, FEI submits that it should be rejected.

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[137] ICG Final Argument, p. 10-13.

[138] Exhibit B-35, ICG 3.2.3.

[139] Exhibit B-35, ICG-FEI IR 3.2.5.

[140] Exhibit B-35, ICG-FEI IR 3.2.5.

E. Proposed Rebalancing of RS 6/RS 6P is Appropriate

93. There is no basis for BCOAPO's proposed 55 percent load factor for RS 6/RS 6P, the result of which would be to reduce the revenue shifts to RS 1.[141] Contrary to BCOAPO's assertions, natural gas vehicle service under RS 6 an RS 6P has a 100 percent load factor. The customers served under RS 6 and RS 6P are the stations servicing natural gas vehicles. These customers are not heat sensitive and FEI's historical experience with this customer group is that consumption is spread evenly throughout the year.[142] BCOAPO's proposed 55 percent load factor should therefore be rejected.

PART SEVEN: CONCLUSION

94. FEI submits that the intervener submissions show overall a wide level of support for FEI's proposals. Where interveners have taken issue with FEI's proposals, they have not provided a more balanced and reasonable alternative. FEI submits that its proposed rate design changes reflect the appropriate balance of rate design principles and considerations, and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: April 24, 2018 ***[original signed by Christopher Bystrom]***

Christopher Bystrom
Counsel for FortisBC Energy Inc.

141 BCOAPO Final Argument, p. 15.

142 Exhibit B-1-5, pp. 6-23-24 and Exhibit B-8, BCOAPO IR 1.6.5a).