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October 18, 2016

Ms. Diane Roy
Vice President, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc.
Project No. 3698874/Order A-3-16
Customer Choice Program Cost Recovery Application

Further to your April 14, 2016 filing of the above noted application, enclosed please find British Columbia Utilities Commission Order A-9-16 and accompanying Decision.

Yours truly,

L Ross

Laurel Ross

/kbb
Enclosure

IN THE MATTER OF

FortisBC Energy Inc.
Application for the Customer Choice Program Cost Recovery

DECISION

and Order A-9-16

October 18, 2016

Before:
D. A. Cote, Commissioner/Panel Chair
W. M. Everett, Q.C., Commissioner
N. E. MacMurchy, Commissioner

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EXECUTIVE SUMMARY

The Customer Choice program allows gas marketing companies licensed by the British Columbia Utilities Commission (Commission) to sell natural gas directly to FortisBC Energy Inc.'s (FEI) residential and small volume commercial customers. It is administered by FEI and the costs are currently recovered from gas marketers through transaction fees and from FEI non-bypass customers through delivery rates. This Application arose from the 2015 Seventh Customer Choice Annual General Meeting where the issue of declining program enrolment and its impact on FEI's ability to recover costs to administer the Customer Choice program was raised. By Order A-12-15 the Commission directed FEI to submit an application to address the Customer Choice fee structure. This decision addresses FEI's proposed cost allocation and recovery models for the Customer Choice program.

FEI has applied for a specific allocation of costs between gas marketers and all FEI non-bypass customers based on the principle of cost causation with a combined fixed and variable fee structure for recovery of costs allocated to gas marketers. FEI has also applied for approval of an increase of $200,000 to the Base Operating and Maintenance (O&M) expenses under FEI's Performance Based Ratemaking (PBR) formula among other things.

Intervening in this proceeding were Access Gas Services Inc., Direct Energy Marketing Ltd., Just Energy (BC) Limited Partnership, Bluestream Energy Inc., Planet Energy (B.C.) Corp. and Summitt Energy BC LP. Also intervening were the Commercial Energy Consumers Association of BC (CEC) and BC Old Age Pensioners Organization *et al*. (BCOAPO).

All of the interveners opposed FEI's cost allocation model. There was general agreement among gas marketers with FEI's principle of cost causality but they disagreed with how these costs would be allocated. CEC argues that FEI failed to consider costs in FEI's delivery and storage and transport charges that are already charged to Customer Choice customers. BCOAPO submits FEI's cost allocation model is unworkable because it is difficult on a principled basis to distinguish costs related to administering the program for gas marketers from those related to making the program available to all FEI customers.

Interveners put a number of alternative cost allocation proposals forward. Gas marketers proposed model options where all or nearly all program costs were allocated to FEI non-bypass customers. BCOAPO and CEC in their final arguments, proposed cost allocation models which shifted the burden for costs away from FEI's non-bypass customers to gas marketers.

FEI, pointing out that its proposal is a middle ground between the various proposals put forward, opposed all alternative proposals put forward arguing there is not sufficient evidence to support the models and due to their being introduced during the argument phase, there was no opportunity for them to be tested.

The Panel rejects both FEI and the interveners' alternative cost allocation models. Applying all or nearly all Customer Choice program costs to FEI non-bypass customers as proposed by gas marketers fails to take into account that some of the program costs have been incurred for the benefit of the gas marketers. Further, because the models were introduced in the argument phase, the evidence is insufficient to make a determination on BCOAPO and CEC's proposals.

The Panel is not persuaded that FEI's application of the cost causation principle is reasonable and determines that while the cost causation principle is appropriate, that principle should be applied on the basis of the following criteria:

i. Are the costs incurred specifically to administer the program and services for gas marketers and their customers? If so, these costs should be allocated to gas marketers;

ii. Are the costs incurred to ensure the program is available for all eligible FEI customers whether they currently choose to participate or not? If all eligible FEI customers benefit from the cost, then these types of costs should be allocated to non-bypass customers; and

iii. Where costs are incurred to administer the program and also ensure it is available for all eligible FEI customers, those costs should be shared by non-bypass customers and gas marketers.

The Panel has applied these criteria to each of the Customer Choice program cost categories resulting in the following cost allocations:

		Allocation (%) FEI Application		**Allocation (%) Panel Determination**	
Cost Description	2015 Actuals	Gas Marketers	Non-Bypass Customers	**Gas Marketers**	**Non-Bypass Customers**
Technology Sustainment	$ 175,769	100%	0%	**50%**	**50%**
Infrastructure Sustainment	75,882	0%	100%	**0%**	**100%**
Contact Centre	24,000	0%	100%	**0%**	**100%**
Program Administration	274,024	100%	0%	**50%**	**50%**
BCUC	175,771	20%	80%	**60%**	**40%**
Customer Education	263,893	0%	100%	**20%**	**80%**
Total Costs	$ 989,339				

Two issues arose with respect to FEI's proposed cost recovery model; the fixed monthly fee of $2,000 and the allocation of remaining variable costs on the basis of the number of customers as opposed to gigajoules consumed.

The Panel determines that the most appropriate approach is to set a significantly reduced fixed fee of $750 with the balance to be recovered as a variable fee. This approach will reduce the burden on gas marketers with the lowest number of customers yet not overly penalize those gas marketers who have maintained a larger customer base. **The Panel also determines the most appropriate way to allocate variable costs is on the basis of the number of customers noting that there has been no persuasive rationale put forward to base it on gigajoules transacted and gas marketers use more of the program services based on the number of customers rather than the number of gigajoules transacted.**

Late in the process FEI revised its approvals and sought to include a $200,000 increase in the O&M costs to be recovered under the PBR formula. The Panel declines to make a decision on this because the change was substantive and made so late in the process there was no opportunity for the evidence on costs to be adequately reviewed or tested. The Panel finds an assessment of Customer Choice program costs is warranted and a decision on this request is best made through a separate regulatory process. **To facilitate the review, the Panel directs FEI to file further information and explanations on specific Customer Choice program costs so their reasonableness may be assessed.**

1.0 INTRODUCTION

1.1 Background

FortisBC Energy Inc. (FEI) obtained a Certificate of Public Convenience and Necessity on August 14, 2006 for the Commodity Unbundling Project for Residential Customers (Customer Choice). In accordance with the Provincial Government's 2002 energy policy, this allowed for the direct sale of natural gas to residential and small volume commercial customers through gas marketing companies licensed by the British Columbia Utilities Commission (Commission, BCUC).

The Commission approved the Customer Choice program cost recovery fees and mechanisms by Order C-6-06, when the program was made available to residential customers in 2007. The program cost recovery model has not been reviewed or amended since that time except for an adjustment to one of the fees charged to gas marketers.

By 2012, FEI's annual reports on the Customer Choice program indicated that recoveries from gas marketers had been declining an average of 10 percent per year since 2010, while program costs had remained fairly stable over the same period.[1]

On June 9, 2015, the Commission held the Seventh Customer Choice Annual General Meeting (AGM) to discuss program improvements or enhancements. FEI raised the issue of a review of the transaction fees charged to gas marketers by stating:

> As Gas Marketers recoveries decline while Program costs remain stable, FEI must ensure that Program costs are recuperated by Program fees. While the expansion to Vancouver and Whistler will provide an extra infusion of Program funds, FEI does not believe it will be enough to cover the shortfall in Program funding in future years. The Company will raise this issue and present the company's recommendations regarding potential fee adjustments at the next Customer Choice Annual General Meeting.[2]

On September 29, 2015, the Commission issued Order A-12-15, which, among other things, directed FEI to submit an application regarding the Customer Choice program fee structure to the Commission by March 31, 2016.

By Order A-1-16, following FEI's request for an extension to the filing date of the Program Cost Recovery Application (Application), the Commission extended the filing deadline to April 14, 2016.

On April 14, 2016, FEI filed the Application, recommending a specific allocation of costs between gas marketers and all FEI non-bypass customers based on the principle of cost causation and a specific fee structure for recovering costs from gas marketers.

[1] 2012 Annual Report for the Customer Choice Program, p. 18 as cited in Exhibit B-1, Appendix A, lines 10–13.
[2] 2014 Customer Choice Program Statistics, pp. 19–20 as cited in Exhibit B-1, Appendix A, lines 29–34.

1.2 Approvals sought

FEI requests Commission approval to replace the existing program cost recovery model with a new cost allocation and recovery model. In addition, FEI amended the approvals sought in its final argument, as further explained in its undertakings filed as exhibits B-15 and B-15-1. Therefore, FEI now seeks approval of the following:

a. The allocation of annual program costs between gas marketers and all FEI non-bypass customers (described in Table 3-2 of the Application);

b. The fee structure for recovery of program costs allocated to gas marketers (described in Section 5.7 of the Application) and annual adjustment mechanism (described in Section 6.1);

c. Recovery of all other program costs from all non-bypass customers;

d. Expenditure of $3,000 to implement system changes to accommodate the new fee structure;

e. An increase to the 2017 Base O&M under the Performance Based Ratemaking (PBR) formula by $200 thousand; and

f. A non-rate base Marketer Cost Variance deferral account, attracting a weighted average cost of capital return, to record actual marketer-allocated costs and actual marketer recoveries each year.

1.3 Regulatory process

FEI proposes the Application be heard through a written process that includes a workshop and one round of information requests, followed by written arguments. On May 9, 2016, by Order A-3-16, the Commission established a preliminary regulatory timetable and sought submissions on the Application review process.

In accordance with Order A-3-16, Access Gas Services Inc. (Access Gas), Direct Energy Marketing Ltd. (Direct Energy), Just Energy (BC) Limited Partnership (Just Energy), the BC Old Age Pensioners' Organization *et al.* (BCOAPO) and the Commercial Energy Consumers Association of BC (CEC) registered as interveners in the proceeding. FEI and all registered interveners filed submissions on the Application review process by May 27, 2016.

Following the intervener registration deadline, the Commission granted late intervener status to the following gas marketers, at their request: Bluestream Energy Inc. (Bluestream Energy), Planet Energy (B.C.) Corp. (Planet Energy) and Summitt Energy BC LP (Summitt Energy).

On June 7, 2016, by Order A-4-16, the Commission established a regulatory timetable to review the Application that included one round of written information requests and a streamlined review process (SRP) followed by written arguments.

FEI filed its final argument on August 4, 2016. Direct Energy, Bluestream Energy, Access Gas, CEC, Just Energy, BCOAPO and Summitt Energy filed final arguments by August 11, 2016. FEI filed its reply argument on August 18, 2016.

2.0 CONTEXTUAL ISSUES

This section provides background and raises contextual issues as to: (a) whether there was a requirement for the Customer Choice program to be maintained; and (b) whether the Panel is bound to follow the direction provided by the 2006 Residential Commodity Unbundling Decision that operating costs will be recovered from gas marketers where possible.

2.1 Requirement to maintain the Customer Choice program

In its 2002 *Energy for our Future: A Plan for BC* (2002 Energy Plan), the Provincial Government specified the following regarding gas marketers: "Natural gas marketers will be allowed to sell directly to small volume customers, and will be licensed to provide consumer protection...Similarly, natural gas marketers will be free to sell directly to residential and small commercial natural gas consumers."[3]

The question the Panel must deal with is whether an obligation is imposed requiring it to maintain the Customer Choice program in light of the decline in customer enrolment and gas marketer participation.

Submissions

Summitt Energy submits that FEI's proposed allocation of costs jeopardizes the existence of the program as the potential for gas marketers to exit the program will be significantly increased. This will result in additional cost burden for any remaining gas marketers and in further exits and the eventual demise or elimination of the Customer Choice program.[4]

Access Gas states the Commission should ensure the long-term viability of the program by "socializing the cost of sustaining the Program."[5] Bluestream Energy states that the program was "mandated by the Provincial Government for the benefit of all rate payers on the FortisBC system."[6] Just Energy makes similar submissions.[7] These interveners essentially submit that the cost allocation should be premised on the continued survival of the Customer Choice program.

BCOAPO submits there is not now, nor has there ever been, a direction, order or requirement of any kind that the Customer Choice program remain open at all or that it remain open in any particular form. Rather, the 2002 Energy Plan only specified that gas marketers would be "allowed to sell directly to small volume customers." To interpret that as a requirement that all non-bypass customers be required to subsidize the program on an ongoing basis even as enrolment rates decline and gas marketers are unable to offer viable (unsubsidized) business models very much stretches the language of the 2002 Energy Plan.[8]

[3] BC Government 2002 Energy for our Future: A Plan for BC, p. 9.
[4] Summitt Energy Final Argument, pp. 1–2.
[5] Access Gas Final Argument, pp. 1–2.
[6] Bluestream Energy Final Argument, pp. 1–2.
[7] Just Energy Final Argument, p. 1.
[8] BCOAPO Final Argument, p. 3.

FEI submits there is no direction or mandate either from the Commission or government to allocate costs in a manner that guarantees the continued survival of the program by whatever means possible or the participation of any particular gas marketer or number of gas marketers.[9]

Commission determination

The language in the Government's 2002 Energy Plan states that gas marketers will be "allowed to sell directly to small volume customers" and "will be free to sell directly to residential and small commercial natural gas consumers." In the Panel's view, the language, on its plain meaning, simply creates an opportunity for gas marketers to participate in the sale of natural gas to residential and small commercial consumers. There is nothing in the language that mandates or guarantees the continued survival of the Customer Choice program in its present or any form even in light of the current decline in customer enrolment and gas marketer participation. **The Panel determines that the Customer Choice program was established by the Commission for gas marketers to participate in natural gas sales. If conditions exist such that this market is no longer viable, the Panel finds there is no requirement to maintain the Customer Choice program.**

2.2 Whether the Panel is bound to follow the direction provided by the 2006 Residential Commodity Unbundling Decision that operating costs will be recovered from Gas Marketers where possible

FEI's (then Terasen Gas Inc.) 2006 Application for Approval of a Certificate of Public Convenience and Necessity for the Customer Choice program states: "operating costs will be recovered from Gas Marketers <u>where possible</u>. Any unrecovered operating costs will be accumulated in a deferral account and are expected to be recovered from eligible residential customers through the use of a rate rider."[10]

In the accompanying decision to Order A-12-15, which directed the filing of the current application, the Commission states:

> The Panel interprets the current framework for program cost recovery, as approved by Order C-6-06, to mean that the expectation of the Commission was that operating costs would be recovered from gas marketers. However, the Panel acknowledges the use of the words <u>'where possible'</u> is not clear and recommends this be addressed in FEI's review of costs.[11]

FEI submits that the interpretation of the "where possible" phrase arising out of the decision accompanying Order C-6-06 should be based on the principle of cost causation; namely, that costs should be borne by those who benefit from and cause them to be incurred by the utility. To meet the objective of recovering costs from gas marketers where possible, in FEI's submission, means applying the cost causation principle as follows:

a. Costs incurred specifically to administer the program and services for gas marketers and their customers should be allocated to gas marketers; and

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[9] FEI Reply Argument, p. 3.
[10] In the Matter of Terasen Gas Inc. Commodity Unbundling Project for Residential Customers Certificate of Public Convenience and Necessity Application, August 14, 2006, Order C-6-06 Terasen Gas Inc., Exhibit B-1, p. 85. Emphasis added.
[11] In the Matter of FortisBC Energy Inc. 2014 Customer Choice Seventh Annual General Meeting Decision, September 29, 2015, p. 5. Emphasis added.

b. Costs incurred to ensure the program is available for eligible FEI customers whether they choose to participate or not should be allocated to all non-bypass customers.

FEI acknowledges that there may be other interpretations and that "where possible" could be interpreted literally and that all operating costs could, from a technical/practical perspective, be allocated to gas marketers. However, FEI did not feel that this approach was reasonable in light of the cost causation principle and the fact that customer education costs have always been recovered from all non-bypass customers. As a result, FEI's interpretation of "where possible" can be characterized as "where appropriate based on the principle of cost causation."[12]

BCOAPO submits that the "where possible" language should be given its plain meaning, which in this context means "where allocatable." On that interpretation, BCOAPO submits that costs should not be allocated in a way that requires non-participants in the program to subsidize the program.[13]

CEC submits that the appropriate interpretation of the language is not related to cost causation but instead relates to the ability to determine the appropriate cost allocation. CEC submits that the appropriate interpretation is that Customer Choice program customers should recover all their incremental costs that can be reasonably identified as being incrementally caused by the Customer Choice program.[14]

Panel discussion

In its decision accompanying Order A-12-15, the Commission interpreted the current framework for Customer Choice program cost recovery, as approved by Order C-6-06, to mean that the expectation of the Commission was that operating costs would be recovered from gas marketers. However, that panel acknowledged that the use of the words "where possible" is not clear and recommended this be addressed by FEI in this Application.[15] The lack of clarity in the language is underscored by the various interpretations of its meaning as submitted by FEI, BCOAPO and CEC.

The language is clearly open to a variety of interpretations. On the one hand it seems to imply that, once the Customer Choice program was implemented and running, the operating costs would be recovered from the gas marketers. On the other hand, one might argue it should not be interpreted to mean that all operating costs of the program must be allocated to gas marketers.

The Panel is of the view there has been significant change in circumstances since the 2006 Decision was rendered. The impact of these changes on the Customer Choice program has led to a requirement for the current review of cost allocation methodologies. Given the scope and comprehensive nature of the current review of methodologies, the Panel finds it is unnecessary to define the meaning of the term "where possible." The Panel considers it is more appropriate to review cost allocation principles and determine a rational basis for the cost allocation methodology which is fair and reasonable for both gas marketers and non-bypass customers

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[12] FEI Final Argument, pp. 3–4.
[13] BCOAPO Final Argument, p. 3.
[14] CEC Final Argument, p. 2.
[15] See Footnote 7, *supra*

who do not participate in the program. The Panel considers this to be an independent cost allocation review and does not consider itself bound by any interpretation of the meaning of "where possible."

3.0 COST ALLOCATION AND RECOVERY MODELS

This section outlines the current cost allocation and recovery models; the alternative models proposed by FEI and interveners, and submissions made regarding those models; and the Panel's determination on the appropriate program cost allocation and recovery models going forward.

3.1 Current model

As noted in Section 1, the program cost recovery fees and mechanisms have not been reviewed or amended since the Customer Choice program was approved in 2006.[16]

Under the current model, there is no specific allocation of program costs between gas marketers and FEI non-bypass customers. Program costs are recovered from FEI non-bypass customers through FEI's delivery rates and from gas marketers through four transaction fees, summarized below:

i. Marketer price group fee: A monthly $150 fee charged per marketer price group to gas marketers, designed to offset the cost to set up and maintain the marketer price groups.

ii. Customer bill fee: A $0.40 charge per bill sent to gas marketers' customers to offset the cost to produce and mail monthly bills.

iii. Confirmation letter fee: Initially a $0.60 charge, later increased to $1.02 by Order A-12-15, per confirmation letter sent to gas marketers' customers, designed to recover the incremental cost to generate and send the letter.

iv. Dispute resolution fee: This fee is comprised of two charges, one fixed and one variable. The fixed component is a $1,000 annual charge to gas marketers. The variable component is a $50 charge to gas marketers per dispute, applied at the Commission's discretion.[17]

FEI explains the above transaction fee structure was appropriate when proposed and approved in 2006 because FEI outsourced customer service and negotiated a service model with its contractor that could increase or decrease with program enrolment levels.[18]

FEI describes two events taking place in 2012 that impacted the cost recovery model's ability to recover costs from gas marketers. First, FEI ended its service model with its contractor and insourced customer service. FEI states: "[m]ost program costs do not increase or fall in direct relation to enrolments; however current fees are directly tied to enrolment levels."[19] Second, program enrolments declined significantly in 2012, largely as a result of the initial residential gas marketing agreements – which came into effect in 2007 – expiring.

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[16] The only change to the cost recovery framework approved by Order C-6-06 was an increase to the confirmation letter fee charged to gas marketers effective January 1, 2015, as approved by Commission Order A-12-15.
[17] Exhibit B-1, pp. 6–8.
[18] Ibid., p. 8.
[19] Ibid., p. 8.

FEI states the transaction fee structure is no longer appropriate given the significant decline in enrolment levels and considering that the majority of the program costs are fixed. FEI submits that at the height of the program in 2008, participation levels reached over 139,000 participants. Participation remained at over 100,000 customers until the first wave of five year contracts expired in November 2012. At that time, participation levels dropped to approximately 65,000 customers. During 2016 Customer Choice program participation is forecasted to remain at approximately 32,000 customers.[20] According to FEI, rather than adjusting the fees charged under the current recovery model, "new fees should be introduced that do a better job of matching Program costs incurred, and in a way that mitigates cost shifts to Gas Marketers."[21]

To address these shortfalls, FEI proposes a new cost allocation and cost recovery model as discussed in the following sections.

3.2 Cost allocation model options

3.2.1 FEI's proposed model

FEI's proposed cost allocation model allocates the recovery of specific program costs from either gas marketers or FEI non-bypass customers by applying the principle of cost causation. Put simply, this principle implies that costs will be borne by those who benefit from and cause them to be incurred.

In order to allocate program costs, FEI evaluates the costs using the following criteria, which rest upon the notion of cost causality:

1. "Are the costs incurred specifically to administer the Program and services for Gas Marketers and their customers? If so, these costs should be allocated to Gas Marketers.
2. Are the costs incurred to ensure the Program is available for all FEI customers whether they currently choose to participate or not? If all FEI ratepayers benefit from the cost, then these types of costs should be allocated to all FEI ratepayers."[22]

In its application of the criteria, FEI allocates the program costs as summarized in the table below:

Table 1: Annual Program Expenses and FEI Proposed Allocations[23]

		Allocation (%)		Allocation ($'s)	
Cost Description	2015 Actuals	Gas Marketers	Non-Bypass Customers	Gas Marketers	Non-Bypass Customers
Technology Sustainment	$ 175,769	100%	0%	$ 175,769	$ 0
Infrastructure Sustainment	75,882	0%	100%	0	75,882
Contact Centre	24,000	0%	100%	0	24,000
Program Administration	274,024	100%	0%	274,024	0
BCUC	175,771	20%	80%	35,154	140,617
Customer Education	263,893	0%	100%	0	263,893
Total Costs	$ 989,339			$ 484,947	$ 504,392

[20] Ibid., pp. 22–25.
[21] Ibid., p. 26.
[22] Ibid., p. 12.
[23] Ibid., Table 3-2, p. 21.

<u>Submissions</u>

Access Gas, Direct Energy, Summitt Energy, Bluestream Energy and Just Energy agree with the application of the principle of cost causality when allocating program costs to either FEI non-bypass customers or gas marketers. However, in applying the principle, the gas marketers allocate all (or nearly all) of the program costs to FEI non-bypass customers on the basis that all of the program costs are incurred to make the program available to all eligible customers. Given the significant difference in their application of the cost causality principle, the gas marketers oppose FEI's proposed cost recovery model.

Direct Energy opposes the allocation of any program costs to gas marketers, a position which Bluestream Energy is in general agreement with.[24]

Access Gas submits that all program costs with the exception of two variable costs (setting up marketer price group and sending confirmation letters) are incurred in order to make the program available to all eligible customers and should therefore be allocated to FEI non-bypass customers.

CEC submits FEI's cost allocation approach is incorrect because FEI "proposes to assess the cost causation principle in light of whether or not the costs are related to making the program available to all customers."[25] As CEC sees it, all costs for the program include making the program available to all customers. In addition, CEC states FEI failed to consider the average FEI costs that are embedded in the delivery charge and mid-stream and storage charge which the Customer Choice program customers also pay. CEC recommends that the Commission "direct FEI to undertak[e] a compliance filing which identifies the average costs recovered in Delivery rates and Storage and Transportation rates where necessary to support a proper allocation to Customer Choice customers."[26]

Just Energy submits FEI's allocation of the program costs for specific cost categories including technology sustainment, program administration and Commission costs to gas marketers is inappropriate as these costs are incurred in order to make the program available. Just Energy states program costs are socialized across all consumers in other jurisdictions and requests that FEI conduct a review of program cost recovery in other jurisdictions. Just Energy agrees with Access Gas and Bluestream Energy that FEI's proposal is cost prohibitive, poses a barrier to program entry and negatively impacts the viability of the Customer Choice program.[27]

BCOAPO submits FEI's proposal is not workable because "it is difficult to distinguish on a principled basis between (1) costs incurred specifically to administer the program and services for gas marketers and their customers; and (2) costs incurred to ensure the Program is available for all FEI customers."[28]

Summitt Energy opposes FEI's proposal on the basis that any allocation of costs to gas marketers will cause some, if not all, gas marketers to exit the program, leading to the eventual demise of the Customer Choice program.[29]

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[24] Direct Energy Final Argument, p. 3; Bluestream Energy Final Argument, pp. 1–2.
[25] CEC Final Argument, p. 2.
[26] CEC Final Argument, p. 11.
[27] Just Energy Final Argument, p. 1.
[28] BCOAPO Final Argument, p. 3.
[29] Summitt Energy Final Argument, p. 2.

FEI submits it is not appropriate or justified to base the allocation of program costs on the financial circumstances of individual marketers. FEI states there is no government or Commission direction or mandate to allocate costs in a manner that guarantees continuation of the program or the participation in the program of particular, or a certain number of, gas marketers. Finally, FEI submits gas marketers "make submissions regarding the impact of the proposed cost allocations that are not based in evidence"[30] and the Commission cannot and should not consider submissions for which there is no basis in evidence.

FEI submits the Commission should disregard submissions made regarding other jurisdictions as no intervener provided any evidence regarding cost recovery models for similar programs in other jurisdictions "other than general statements that things are done differently elsewhere."[31] In addition, FEI submits there is no value in conducting a comparison of other jurisdictions.

FEI submits BCOAPO's statement that FEI's approach to cost allocation is "not workable" should be rejected on the basis that "BCOAPO does not explain this statement."[32]

In reply to CEC's final argument, FEI submits CEC endorses an alternative cost recovery mechanism without addressing the quantitative and qualitative analysis FEI provided in support of its recommendation. As such, FEI submits CEC does not provide any reason to reject FEI's recommended approach to recover costs allocated to gas marketers. Regarding CEC's recommendation that the Commission direct FEI to file a compliance filing, FEI states it is unclear what specific functions CEC is referring to when it discusses "gas supply and portfolio costs." FEI confirms the Storage and Transport Cost includes the costs associated with balancing supply and load, which is a function undertaken for both FEI and gas marketers.[33]

In conclusion, FEI submits its recommendation regarding cost allocation is a middle ground in the proceeding. The gas marketers want more costs allocated to FEI non-bypass customers, and CEC and BCOAPO want more costs allocated to the gas marketers. FEI maintains its recommendations regarding cost allocation are reasonable and should be adopted.[34]

3.2.2 BCOAPO's proposed model

In final argument, BCOAPO proposes that FEI should allocate the Customer Choice program's operating costs to gas marketers unless doing so is not practically feasible.

BCOAPO's approach to cost allocations relies on three questions:

i. Are all the costs incurred specifically for the Customer Choice program and/or its customers? If yes, these costs should be allocated to the gas marketers.

[30] FEI Reply Argument, p. 4.
[31] Ibid.
[32] Ibid., p. 10.
[33] Ibid., p. 16.
[34] Ibid., p. 17.

ii. If the costs are benefitting both gas marketers and their customers and non-participants, is it feasible for FEI to identify the incremental costs attributable to the Customer Choice program and/or customers? If yes, FEI should allocate the incremental costs to the gas marketers.

iii. If FEI is not able to identify the incremental costs attributable to the Customer Choice program and/or customers, can FEI arrive at a principled apportionment of the costs? If yes, FEI should allocate a portion to the gas marketers on a principled basis. If no, FEI should allocate all the costs to all non-bypass customers.[35]

Under BCOAPO's proposal, as calculated by FEI, the 2015 program costs are allocated as follows: $678,894 to gas marketers and $310,443 to FEI non-bypass customers.[36]

Submissions

As BCOAPO's proposal was raised in final argument, only FEI was able to make a submission on it.

FEI submits BCOAPO's proposal should be rejected for the following reasons:

- BCOAPO does not provide any basis or support for its recommended approach, which is unworkable and difficult to implement on a principled basis;
- There was no opportunity to test the proposal through the regulatory process as BCOAPO did not raise this alternative approach during the evidentiary phase of the proceeding. As a result, there is no evidentiary basis on which the Commission can make a determination regarding the proposal; and
- BCOAPO's approach is either similar to (or identical with) FEI's recommended approach, or alternatively, it is highly subjective and uncertain.[37]

3.2.3 CEC's proposed model

CEC proposes an alternative approach, whereby "costs incremental to FEI's average costs in the Delivery costs and Storage and Transport costs charged to Customer Choice customers should be allocated to Customer Choice customers directly because this aligns with cost causation."[38]

This general principle is followed by three more principles, outlined below:

1. If the delivery charge or storage and transportation charge does not include a type of cost in the average, then the specific cost is incremental to the Customer Choice customer.
2. If the delivery charge or storage and transportation charge contains a large magnitude of similar type costs to those used by Customer Choice, but are not used by Customer Choice customers, then the specific costs for Customer Choice customers are not incremental unless significantly greater than the average (because they are paying for them in the average delivery cost).
3. If the delivery charge or storage and transportation charge contains similar costs to those used by Customer Choice customers but are predominantly all used by Customer Choice customers, then the

[35] BCOAPO Final Argument, p. 4.
[36] FEI Reply Argument, p. 12.
[37] Ibid., pp. 10–12.
[38] CEC Final Argument, p. 4.

> specific costs for the Customer Choice customers are incremental to the Customer Choice customers (because they are using the costs embedded in the average delivery costs).[39]

CEC bases its cost allocation on the 2015 program costs and recovery figures provided in the Application. Based on these figures, CEC attributes $783,564 to Customer Choice customers, an amount that is significantly higher than FEI's allocated amount.[40]

Submissions

As CEC's proposal was raised in final argument, only FEI was able to make a submission on it.

FEI submits CEC's principles are articulated so as to be difficult to comprehend. To illustrate this, FEI asserts the following with respect to principle number 1:

> …there is no objective way to apply this principle in the circumstances of this Application. It is unclear what the words 'does not include a type of cost in the average' mean[s]. What types of costs? What 'average'? What does it mean to say that the cost is 'incremental to the Customer Choice customer'? Who endorses this principle? Has the Commission adopted this principle in a past proceeding? What are the 'types' of costs in the delivery charge that are relevant for consideration? This principle raises far more questions than it answers.[41]

FEI argues CEC's proposal should be rejected for the following reasons:

- CEC's principles are questionable and unsupported;
- CEC's application of the principles is highly problematic due to the lack of evidentiary support and CEC's speculative assumptions; and
- There was no opportunity to test the proposal through the regulatory process as CEC did not raise this alternative approach during the evidentiary phase of the proceeding. As a result, there is no evidentiary basis on which the Commission can make a determination regarding the proposal.[42]

3.2.4 Gas marketers' proposed model

Given the significant overlap, the gas marketers' proposed cost allocation models have been combined in this section. The gas marketers generally agree with allocating program costs based on the principle of cost causation. However, in their application of the principle, gas marketers allocate all or nearly all of the program costs to FEI non-bypass customers on the basis that the costs are incurred in order to make the program available.

Access Gas and Bluestream Energy provide further detail regarding this general suggested approach, as outlined below.

[39] Ibid.
[40] Ibid., p. 11.
[41] FEI Reply Argument, pp. 13–14.
[42] Ibid., pp. 13–15.

Under Access Gas' proposal, only four program costs are allocated to gas marketers: marketer price group set up fee; invoice fee; confirmation letter fee; and dispute adjudication fee.[43]

Bluestream Energy proposes to maintain the status quo. Any costs not currently recovered from gas marketers could be recovered from FEI non-bypass customers over the next 1 to 5 year period, in order to maintain the program.[44] Alternatively, if additional program costs are to be allocated to gas marketers, Bluestream Energy submits the "only reasonable and fair means to recover incremental costs from marketers is from increasing variable fee rates or from adding a new unit charge based on marketer gas volumes."[45]

Submissions

BCOAPO does not agree that nearly all program costs are incurred to make the program available and should therefore be recovered from FEI non-bypass customers on the basis that there is no requirement to make the program available.[46]

FEI submits the gas marketers' proposed recovery model fails to address the distinction between costs incurred to make the program available to all eligible customers and costs incurred to administer the program for gas marketers and their customers. Regarding Access Gas' specific proposal, FEI submits there is no basis on the record for establishing the suggested approach.[47]

Commission determination

The parties have proposed various cost allocation models. The Panel will now consider the various alternatives presented and determine the appropriate cost allocation model for the program.

Socialization model

The gas marketers – Access Gas, Direct Energy, Summitt Energy, Bluestream Energy and Just Energy – agree with application of the principle of cost causation in determining whether to allocate the program costs to FEI non-bypass customers or to the gas marketers. However, in their proposed application of that principle, they submit that all, or nearly all, of the program costs should be allocated to the FEI non-bypass customers on the basis that all of those costs are incurred to make the program available to all eligible customers. This has been referred to as the socialization model.

In support of this model, the gas marketers argue that if adopted it would result in a minimal impact on the non-bypass customers' monthly bills. While the socialization model pays lip service to the principle of cost causation, it fails to properly take into account that some of the program costs have been incurred for the benefit of the gas marketers. It would not be principled or fair to the non-bypass customers to have them bear all the costs of the program simply because the impact on their monthly bill would be minimal.

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[43] Access Gas Final Argument, p. 3.
[44] Bluestream Energy Final Argument, p. 2.
[45] Ibid.
[46] BCOAPO Final Argument, p. 3.
[47] FEI Reply Argument, p. 7.

The gas marketers also argue that this model would take into account their concerns regarding the declining enrolment in the program and its future sustainment. As determined in Section 2.2, there is no requirement or mandate that the program be maintained.

For the foregoing reasons, the Panel is not persuaded that the proposed socialization model is appropriate for allocating costs of the program.

BCOAPO model

BCOAPO did not raise its proposed model for cost allocation during the evidentiary phase of the proceeding. It first raised its proposed model in its final argument. The Panel finds this to be prejudicial to the gas marketers who would bear the greater costs of this approach relative to FEI's proposed allocation model and were provided no opportunity to test the evidence.

For example, the Panel notes that BCOAPO, in its approach to applying its proposed model, asks (in part) the following question: Are the costs incurred specifically for the Customer Choice program and/or its customers?

In its reply argument, FEI submits that the question is really just another way of stating the cost causation principle, that is: "are all costs *caused specifically by* the Customer Choice Program and/or its customers"?[48]

Without the benefit of evidence on these types of issues, it is not possible for the Panel to fully understand the nature of BCOAPO's proposed model. Nor does the Panel have the benefit of arguments on BCOAPO's proposed model from any of the parties other than FEI in its reply argument. As a result, there is insufficient evidence for the Panel to make a determination regarding the proposed model.**The Panel, therefore, rejects the allocation model proposed by BCOAPO**.

CEC model

Like BCOAPO, CEC did not raise its proposed cost allocation model for the program during the evidentiary phase of the proceeding. It first raised its proposed model in its final argument. Because of this there was no opportunity for the parties to test the proposal through the filing of evidence in support of the proposal, Information Requests or the SRP. Again, the Panel finds this to be prejudicial to the gas marketers who would bear the greater costs of this approach relative to FEI's proposed allocation model.

CEC's general principle for its allocation model is followed by three more principles (outlined above), which, as submitted by FEI, are articulated in a manner that makes them difficult to comprehend and apply. For example, the first principle states:

> If the delivery charge or storage and transportation charge does not include a type of cost in the average, then the specific cost is incremental to the Customer Choice customer.

[48] FEI Reply Argument, p. 11. Italics added.

The Panel agrees with FEI's comment that in the circumstances of this Application this principle cannot be applied in an objective way. Further, the meaning of the phrase "does not include a type of cost in the average" is unclear as are the costs being referred to and the meaning of the word "average" in this context.

As a further example, CEC's second principle would require consideration of whether delivery or storage and transportation charges "contain a large magnitude of similar type costs to those used by Customer Choice, but not used by Customer Choice customers." It is not clear how this principle would apply in the context of this Application.

Without the benefit of evidence on these types of issues, it is not possible for the Panel to fully understand the nature of CEC's proposed model and make any determination on its merits.

As a result, there is insufficient evidence for the Panel to make a determination regarding CEC's proposed model.**The Panel, therefore, rejects the allocation model proposed by CEC.**

The Panel also rejects CEC's proposal that the Commission require FEI to file a compliance filing regarding the Gas Supply management costs. FEI has confirmed that Storage and Transport Cost includes costs associated with balancing supply and load, a function undertaken for all baseload commodity providers.

<u>FEI model</u>

The gas marketers, BCOAPO, CEC and FEI all refer to the application of the principle of cost causation as a method of determining whether to allocate program costs to FEI's non-bypass customers or gas marketers. The differences in positions between the parties, as described above, is how the cost causation principle should be applied. This is underscored by the gulf between the position of the gas marketers who want to see all costs allocated to FEI's non-bypass customers, and the position of BCOAPO and CEC who want to see more costs allocated to gas marketers.

While the Panel recognizes that FEI's proposed allocation model has attempted to find a middle ground between these viewpoints, it is not persuaded the cost allocation proposed by FEI is reasonable. The difficulty faced by all parties in this proceeding is defining what 'cost causation' means in the context of the Customer Choice program. All customers benefit from having the option to participate in the program. This argues for costs of maintaining and operating the program as being allocable to all eligible customers on the basis that if the program is not maintained and operable it would not be available. On the other hand, costs are being incurred that are benefiting the users of the program which argues for the costs being allocable to the gas marketers.

The Panel recognizes that there is no perfect allocation model or solution and that there will be times when judgment is required. The Panel finds that a reasonable allocation of costs requires the Panel to apply judgment to the allocation of each of the cost components associated with the Customer Choice program bearing in mind their value in ensuring the program is available to all eligible customers and the benefits of the costs incurred to gas marketers. **The Panel determines that the cost causation principle is the appropriate basis for allocating the Customer Choice program costs. It further determines the cost causation principle should be applied on the basis of the following criteria:**

i. **Are the costs incurred specifically to administer the program and services for gas marketers and their customers? If so, these costs should be allocated to gas marketers;**

ii. **Are the costs incurred to ensure the program is available for all eligible customers whether they currently choose to participate or not? If all FEI non-bypass customers benefit from the cost, then these types of costs should be allocated to all FEI non-bypass customers; and**

iii. **Where costs are incurred to administer the program and also ensure it is available for all eligible FEI customers, non-bypass customers and gas marketers should share those costs.**

The Panel determines the foregoing allocation model constitutes a principled rationale for allocating program costs and that it constitutes a reasonable middle ground balancing the interests of non-bypass customers and gas marketers.

The Panel also recognizes that there will be a need to provide ongoing oversight of the Customer Choice program costs to ensure that neither the gas marketers nor the FEI non-bypass customers are bearing costs that are higher than reasonably necessary to run the program.

3.3 Application of cost allocation model to Customer Choice program costs

3.3.1 FEI's proposed cost allocation

FEI asserts that all of the costs associated with the program are fixed costs.[49] FEI proposes the costs be allocated as shown in Table 1.

There were a number of concerns raised with the cost allocations in various categories. These will be reviewed and the Panel applies the foregoing three criteria to the specific Customer Choice program cost categories.

3.3.2 Technology sustainment

Technology sustainment costs were $175,769 in 2015. These costs are incurred to pay external vendors to provide system maintenance for the Gateway for Energy Marketers (GEM) and associated system interfaces.[50] This work is incurred specifically to meet the needs of the Customer Choice program and would not be incurred if the program ceased to exist.[51] Fees for one of the vendors providing this service are charged on an hourly basis for work as needed. A second vendor, operating in 2015 under a monthly support contract was switched in 2016 to an as-needed basis with FEI billed hourly for work performed.[52] Re-structuring of the contract providing the majority of the technology sustainment assistance resulted in a reduction of costs of almost $70,000 in 2015 relative to 2014 (from $209,338 in 2014 to $147,799 in 2015).[53]

FEI proposes that 100 percent of these costs should be attributed to gas marketers.[54] CEC and BCOAPO agree with this allocation.[55] Direct Energy argues that if the program is to be made available to all customers it must

[49] Transcript, Volume 1, p. 21
[50] Exhibit B-1, p. 14.
[51] Ibid., p. 15.
[52] Exhibit B-6, BCUC IR 6.5.
[53] Ibid., BCUC IR 6.7.
[54] Exhibit B-1, p. 21.
[55] CEC Final Argument, p. 5; BCOAPO Final Argument, p. 6.

have the systems maintained to enable the service to be in place. This, in Direct Energy's view, means 100 percent of the costs should be charged to non-bypass customers.[56] FEI, in reply argues that Direct Energy's position ignores the principle of cost causation and its submission on this item should be rejected.[57]

Commission determination

The Panel finds that while the technology sustainment costs are driven by the needs of the customers participating in the Customer Choice program, they are also driven by the needs of all non-bypass customers by ensuring the systems are in place to serve them if they should elect to join the program. **The Panel determines that an appropriate allocation of technology sustainment costs is 50 percent to gas marketers and 50 percent to all non-bypass customers.** In the Panel's judgment this reflects the balance between ensuring the program is available to all eligible customers and the benefits to the gas marketers of incurring these costs.

3.3.3 Infrastructure sustainment

FEI reports infrastructure sustainment costs for 2015 to be $75,882. FEI states that departmental employee vacancies in 2015 resulted in lower than usual costs and expects future costs to be approximately $96,000 annually.[58] FEI developed its cost estimate based on its assessment that one half hour of effort per day is required for the Customer Choice program from the Customer Service Function. This estimate constitutes approximately 8 percent of the infrastructure sustainment labour budget costs as a proxy for the total annual work required to carry out Customer Choice program sustainment duties.[59]

FEI describes infrastructure sustainment as support work undertaken to deal with the numerous unique data flows associated with the Customer Choice program. Eight employees are assigned to perform these activities, with the collective labour time associated with this work equivalent to less than one full time employee.[60] Tasks included in this activity are described as:

- Network hardware and operating system support including:
  - Hardware upgrades
  - Operating system upgrades
  - Server patching for vendor changes and security compliance
  - Code changes to support technical upgrades
  - Investigation and resolution of data synchronization issues
  - Interface monitoring and alert response
- Day to day operations activities including:
  - Management of gas marketer price groups (set-ups, maintenance and retirements)
  - Data clean-up and data correction
  - Inclusion of Customer Choice program content in the support of all customer communication (website content, account online content, bill messaging and bill inserts)[61]

[56] Direct Energy Final Argument, p. 2.
[57] FEI Reply Argument, pp. 6–7.
[58] Exhibit B-1, p. 13.
[59] Exhibit B-6, BCUC IR 5.0.
[60] Exhibit B-1, pp. 12–13.
[61] Ibid., p. 13.

FEI asserts that for the most part the costs incurred are to ensure the system infrastructure is in working order and available for Customer Choice program enrolments. Although there are activities such as creating Gas Marketer Price Groups that would no longer occur if the program was terminated, it is unlikely FEI would benefit from measurable cost savings.[62] FEI recommends allocation of 100 percent of infrastructure sustainment costs to non-bypass customers.

Submissions

While CEC supports the 100 percent allocation of infrastructure sustainment costs to all non-bypass customers, it does so on the basis of the following rationale:

> The CEC submits that the 8% allocation seems somewhat high. Using rough proxies of 1 million customers, and $1 million in Infrastructure Sustainment costs, the average cost per customer for Infrastructure Sustainment is approximately $1, which would be included in the Delivery Charges. In contrast, the 8% allocation of approximately $75,000 over 32,000 customers equates to approximately $2 per customer.[63]

While recognizing CEC is supporting FEI's allocation proposal, FEI states that there is no evidentiary support for the "speculative" analysis and it should be rejected.[64]

BCOAPO argues that since FEI has identified 8 percent of its total infrastructure sustainment costs are incurred specifically for the Customer Choice program, FEI should allocate these incremental costs to gas marketers. The fact that if the Customer Choice program was terminated, there would be no cost savings is in BCOAPO's view not a principled reason to allocate these costs to non-bypass customers.[65]

BCOAPO advocates an alternative approach to cost allocation. Under their approach, where a cost benefits both gas marketers and their customers and non-participants, FEI should allocate any identifiable incremental costs from the Customer Choice program to gas marketers.

In reply, FEI states BCOAPO's alternative approach to cost allocation was only raised in argument and has no evidentiary basis upon which the Commission can make a decision. It also states that BCOAPO does not cite any authority to support the "principles" or "questions" that it asks the Commission to rely on.[66]

Commission determination

The Panel notes that most of the activities undertaken in the infrastructure sustainment area are general in nature, in that they support infrastructure upgrades and maintenance benefiting both gas marketers and all non-bypass customers. Further, the majority of these activities would continue to occur in the absence of the program. The Panel also notes CEC's assertion that the 8 percent allocation to the Customer Choice program is too high is not supported in evidence. However, it does illustrate the difficulty in isolating specific components of these costs as being attributable solely to gas marketers.

[62] Ibid., p. 14.
[63] CEC Final Argument, p. 5.
[64] FEI Reply Argument, p. 14.
[65] BCOAPO Final Argument, p. 5.
[66] FEI Reply Argument, p. 10.

FEI argues that absent the program there would be no reduction in costs to the benefit of non-bypass customers. The Panel finds this persuasive and notes that if all customers left the program and returned to FEI for their gas supply they would be driving the same need for infrastructure sustainment as they do while participating in the program. In essence this means these costs can reasonably be expected to be recovered in the delivery rates paid by all eligible customers. **The Panel determines that 100 percent of the infrastructure sustainment costs should be allocated to all non-bypass customers.**

3.3.4 Contact Centre

Contact Centre costs in 2015 were determined by FEI to be $24,000. The customer Contact Centre handles an estimated 775 hours of Customer Choice calls annually. FEI, using a loaded labour rate of $31/hour (including benefits and concessions) calculates the annual contact centre of about $24,000.[67]

FEI does not track the calls to the Contact Centre to the level of detail that would allow them to distinguish between calls from an existing Customer Choice program customer or calls from existing FEI customers with a general question about the Customer Choice program. [68]

FEI recommends that since Contact Centre calls are incurred to serve all customers, whether or not they currently participate in the Customer Choice program, 100 percent of the costs should be allocated to all FEI non-bypass customers.[69]

No parties objected to the 100 percent allocation of Contact Centre costs to non-bypass customers.

Commission determination

The Panel determines that allocating 100 percent of Contact Centre costs to non-bypass customers is appropriate. The Contact Centre is a general support facility available to all customers. Customer Choice program customers may be calling with respect to a service or billing issue in the same manner as any other FEI customer. Conversely, any FEI customer may call to enquire about the Customer Choice program for the purposes of information and not necessarily to join the program. As noted by CEC, Customer Choice program customers pay for a share of all contact centre costs through the FEI delivery charge.[70] Given that Customer Choice program customers pay for their share of all contact centre costs and Customer Choice program calls to the contact centre are a very small proportion of total calls and the data on the calls does not distinguish the reason for the call, it is reasonable to allocate 100 percent of contact centre costs to all non-bypass customers.

3.3.5 Program administration costs

FEI reports program administration costs of $274,024 in 2015 with the largest part of this being two full-time Customer Choice program analysts. In an effort to reduce costs, FEI eliminated the Customer Choice Manager position and one of two program analyst positions in 2015. Some of the responsibilities of the Customer Choice Manager position were delegated to a new senior analyst. FEI’s position is that a senior analyst and a customer program analyst are required to ensure continuous daily support and it is appropriate for 100 percent of these

[67] Exhibit B-1, p. 15.
[68] Ibid., p. 16.
[69] Ibid., p. 16.
[70] CEC Final Argument, p. 6.

costs to be allocated to gas marketers as they are incurred specifically to administer the program for gas marketers and their customers.

FEI has broken down the analyst responsibilities into core work shared by both analysts and duties requiring a senior analyst. Core duties handled by both include:

- Daily verification that the Gateway for Energy Marketers (GEM) and its related infrastructure is in working order.
- Escalation and follow-up on any daily system or data processing issues.
- Processing of time sensitive reports like the monthly Marketer Supply Requirement for gas marketers.
- Initiation and management of billing error corrections.
- Coordination of the development and implementation of the customer education communications plan.
- Handling issues raised by gas marketers.
- Development and implementation of user testing and the testing of enhancements and system fixes.

In addition to these functions, duties of the senior analyst include the facilitation of meetings and liaison with other departments, coordination and preparation of regulatory filings, assistance with the preparation of annual operating budgets, liaison with the Manager, Gas Marketing Programs at the Commission, coordination of business case development and coordination of vendor and consultant work as required.[71]

FEI believes the two full time equivalent union positions are needed to adequately support the Customer Choice program. In support of this it offers the following:

- The two high level union positions have specific education and experience requirements. FEI does not believe their duties could be easily transferable to other positions within the Company.
- Having two analysts ensures Customer Choice has expert coverage for both absences and vacations. This also ensures system issues and requests from gas marketers, internal stakeholders and Commission staff are dealt with promptly and effectively every day.
- The systems infrastructure supporting Customer Choice has 47 unique data flows. A single change can result in the need to potentially touch a number of these data flows in terms of design, development, testing and implementation.[72]

FEI does not believe further efficiencies can be found in this cost category.[73]

<u>Submissions</u>

When asked whether the systems and processes required to support the program would be available if the program administration costs were not incurred, FEI responded that these costs are necessary and required and the two program analysts ensure the program is in good working order. Direct Energy submits that because of this and based on FEI's principle of cost causality, program administration costs are required to ensure the availability of the program and should be borne by all eligible customers.[74]

No other gas marketer made comments specific to program administration costs.

[71] Exhibit B-6, BCUC IR 1.8.1.
[72] Ibid., BCUC IR 1.8.2.
[73] FEI Final Argument, p. 7.
[74] Exhibit B-12, DE #5; Direct Energy Final Argument, p. 1.

BCOAPO agrees with FEI that program administration costs should be allocated to gas marketers pointing out these costs “are incurred to support gas marketer requirements that facilitate day-to-day or other recurring Program operational requirements.”[75]

CEC submits the delivery charge covers the administration of all FEI programs and if program administration covers programs that Customer Choice customers do not access it would amount to double counting to treat the Customer Choice programs as incremental. Alternatively, if program administrative costs are used extensively by the Customer Choice program as well, then specific administration of the Customer Choice program would be incremental. However, CEC submits “it is unlikely that FEI has sufficient Program Administration costs for other programs embedded in the delivery charge to affect the allocation.”[76] CEC further submits it could be appropriate for the Commission to require FEI to provide additional costing information prior to making a decision. In the absence of such information it could be appropriate to allocate 100 percent of the cost to the Customer Choice program.[77]

Commission determination

In keeping with the criteria in support of the principle of cost causality as outlined in Section 2.4, the Panel determinesthat an allocation of 50 percent of program administration costs to gas marketers and 50 percent to non-bypass customers is appropriate. As outlined by FEI in its Application, program administration costs are incurred specifically for resources dedicated to the continuing operation and administration of the Customer Choice program for the gas marketers and their customers. In support of this, the Panel acknowledges the activities undertaken by its two analysts are related to supporting either the GEM system or the effective administration of the Customer Choice program. However, activities related to the GEM system and the activities in support of maintaining and running the Customer Choice program are equally important to non-bypass customers as without these activities the program could not be made available. Therefore, program administration equally benefits both gas marketer customers and non-bypass customers and sharing them on an equal basis is a reasonable approach to allocating the costs.

Direct Energy asserts that these costs are necessary to ensure the availability of the program and therefore, based on cost causality, should be borne by non-bypass customers. The Panel does not agree. Program administration costs are expended in support of the Customer Choice program and both gas marketers and their customers directly benefit from its continued operation. To ignore these benefits and allocate the entire cost burden for this function on non-bypass customers would be unfair and inequitable. Therefore, no weight is given to Direct Energy’s assertion and an equal sharing of these costs to both gas marketers and non-bypass customers is an equitable allocation of these costs.

The Panel is also not persuaded by CEC’s submission that if program administration covers programs that Customer Choice customers do not access, it would amount to double counting to treat Customer Choice programs as incremental. While this may be true, CEC has presented no evidence to suggest that this situation exists.

[75] BCOAPO Final Argument, p. 7.
[76] CEC Final Argument, p. 7.
[77] Ibid.

3.3.6 BCUC costs

FEI reports Commission charges for 2015 totalled $175,771. Salary charges are billed to the Customer Choice program as a whole and not broken down by function. However, the Commission has provided estimates of time spent by function based on an estimate of the average number of working hours on each of the three primary functions over a three year reporting period from 2012 to 2014 as follows:

1. Program administration accounts for 65 percent of the charges
   - included among these are legal and general administration costs.
2. Regulatory proceedings account for 15 percent of the charges
   - included among these are costs related to the Annual General Meeting including any legal or Commissioner costs as well as reporting and consultant costs.
3. Dispute Resolution accounts for 20 percent of the charges
   - included among these are costs for administration, investigation and any consultant costs as well as the costs related to adjudication.[78]

FEI states that program support and regulatory proceedings are provided for the benefit of all customers regardless of whether they currently participate in the program. Dispute resolution activity costs are related to gas marketers and their customers only. Given this, FEI recommends 80 percent of Commission costs should be recovered from non-bypass customers while 20 percent should be recovered from gas marketers.[79]

Submissions

BCOAPO submits BCUC regulatory proceeding costs should be allocated to all non-bypass customers pointing out that regulatory proceedings benefit all customers by ensuring customer protection by subjecting gas marketers to regulation in the public interest. BCOAPO also submits dispute resolution costs should be allocated to gas marketers noting they are directly related to and attributable to the Customer Choice program referring to a response to a BCUC IR where FEI stated if there were no disputes there would be no costs to adjudicate them. BCOAPO argues program administration costs should be divided between gas marketers and non-bypass customers "in the same proportion as regulatory proceedings relative to dispute resolution proceedings."[80] BCOAPO asserts some of the BCUC administration costs relate to regulatory matters that benefit all customers while some (like those related to licensing, inquiries and dispute resolution) only benefit gas marketers and their customers. When BCOAPO's submissions are applied against the 2015 BCUC costs on its proportional basis, the gas marketers would bear approximately 43 percent of the costs and FEI customers 57 percent. [81]

Just Energy submits that FEI's proposed 20 percent of BCUC costs to be allocated to gas marketers should be reallocated to non-bypass customers given the extremely low level of disputes filed by customers and notes that if disputes are ruled in favour of customers, gas marketers are already charged a dispute fee.[82]

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[78] Exhibit B-1, pp. 17–18.
[79] Exhibit B-1, pp. 18–19.
[80] BCOAPO Final Argument, p. 8.
[81] Ibid., pp. 7–10.
[82] Just Energy Final Argument, p. 1.

Direct Energy submits that a gas marketer already has to pay what it describes as "a variable complaint charge directly associated to each valid complaint" and FEI's proposed 20 percent of BCUC costs should not be charged arbitrarily to gas marketers "for complaints that may or may not be related to them."[83]

CEC submits that BCUC program and regulatory proceeding costs are recovered in delivery rates which are paid by Customer Choice program customers. To the extent that other programs such as biomethane service that are included in the delivery charge that Customer Choice program customers are not using, CEC considers it reasonable to assume they are recovered in the delivery charge postage rate. However, CEC balances this by stating the evidence on the record is insufficient to determine the BCUC costs and the overall FEI\BCUC costs are likely used by Customer Choice program customers in receiving service. CEC concludes program administration and regulatory proceeding costs are likely incremental and recommends a 100 percent allocation to the Customer Choice program. With respect to dispute resolution, CEC submits the FEI delivery charges incorporate customer dispute resolution costs related to all customers and therefore should not be considered incremental and should be attributed to all non-bypass customers. [84]

Concerning Just Energy's submission, FEI asserts the low level of disputes filed by customers is an irrelevant consideration and provides no basis for rejection of the allocation of dispute costs to gas marketers. FEI maintains that while disputes are lower "the dispute resolution costs are still caused by marketers and their product offerings, and, therefore, they should be allocated to gas marketers."[85]

FEI had no specific reply to CEC's submissions with respect to the allocation of BCUC costs. However, FEI did reply to the approach taken by CEC with respect to cost allocation. This was addressed in Section 2.4.

Commission determination

There are two distinct cost categories included in BCUC costs; combined program administration and regulatory costs and dispute resolution costs. Program administration and regulatory costs account for 80 percent of BCUC costs and the remaining 20 percent are for dispute resolution.

In the Panel's view, BCUC administration and regulatory costs are similar to FEI administration costs in that they are necessary to keep the program operating for the benefit of both gas marketers and their customers and all non-bypass customers and if they were not undertaken, the Customer Choice program would not operate efficiently. Given the foregoing, the Panel finds it is appropriate that BCUC administrative and regulatory costs are shared equally between gas marketers and non-bypass customers. **Accordingly, the Panel determines that 40 percent of BCUC costs are to be allocated to gas marketers and 40 percent to non-bypass customers.**

Dispute costs are unique and are distinguished from administration and regulatory costs because they are undertaken to deal with specific issues arising from the actual execution of the program. Specifically, dispute costs deal with issues related to how gas marketers execute the program and have little to do with ensuring the Customer Choice program is operating in an efficient manner. **Therefore, the Panel agrees with FEI that these**

[83] Direct Energy Final Argument, p. 3.
[84] CEC Final Argument, pp. 7–9.
[85] FEI Reply Argument, p. 5.

are a gas marketer cost and determines it appropriate to allocate the remaining 20 percent of BCUC program costs to gas marketers.

In total, 60 percent of BCUC costs are allocated to gas marketers with the remaining 40 percent allocated to non-bypass customers.

The Panel is not persuaded by Direct Energy's submission that dispute costs should not be arbitrarily allocated to gas marketers regardless of whether the specific dispute is related to an individual marketer. Allocating costs to all gas marketers is a practical approach given that actual dispute costs are quite small. In addition, allocating costs on a dispute basis could add to the cost burden by introducing unnecessary complexity into the cost allocation process. Further, because the majority of program costs are to be allocated on a per customer basis, those gas marketers with a smaller customer base are not being unnecessarily burdened.

The Panel is also not persuaded by the submissions of BCOAPO and CEC. As pointed out by FEI, both models were introduced in final submissions and neither has been subject to further scrutiny. Because of the potential to misinterpret the submissions the Panel gives them little weight.

3.3.7 Customer education costs

Customer education costs were $263,893 in 2015. FEI's recommendation is customer education costs should continue to be 100 percent allocated to non-bypass customers as the service is provided to all customers to ensure they make an informed purchase decision. In support of its position, FEI points out the costs are incurred to provide education to all customers and such costs are meant to benefit all customers whether or not they are Customer Choice program participants.

The customer education plan objectives are threefold:

- To promote customer awareness of the Customer Choice program;
- To maintain customer protection via education; and
- To direct customers to its website for more program information.

In executing its plan, FEI uses a number of promotional vehicles including radio advertisements, newspaper and magazine ads outlining rate comparisons, newsletters and has increasingly relied upon digital media options including Facebook, Twitter and programmatic ad purchases linked to related Customer Choice program search engine results.

FEI states it believes the Customer Choice program option is a beneficial one today or in the future if a customer's personal situation changes. While acknowledging that current depressed natural gas prices have made the choice of a fixed rate commodity product less attractive, FEI states it will be more appealing when prices become more volatile and increase. Spending what it considers to be a modest amount on customer information on the program "promotes general awareness and education and helps customer know where they can obtain more information."[86]

[86] Exhibit B-1, pp. 19–20.

FEI states the budget for customer education has remained at $300,000 since it was approved by Order A-9-11 in 2012.[87] However, it believes there is no longer a need to generate consumer awareness of the program due to improved digital communication targeting opportunities allowing it to reach customers considering purchasing natural gas from a gas marketer. As a consequence, FEI suggests reducing its budget to $225,000 and discontinuing all radio advertising other than for English as a second language audiences and maintaining some print advertising for older skewed audiences that are less likely to use computers.[88]

Submissions

As noted in Section 3.1, the submissions of gas marketers and other interveners were primarily focused on the allocation of costs. There was little examination of the costs themselves and whether they are beneficial and should be accepted as proposed, reduced or eliminated. Therefore, the FEI proposal to budget for the expenditure of $225,000 for customer education was unopposed.

Gas marketers, while not specifically referring to customer education costs are in agreement that all costs should be socialized and borne by all non-bypass customers.

BCOAPO submits that customer education costs should be allocated 80 percent to all non-bypass customers and 20 percent to gas marketers although stating it is open to alternative ratios. BCOAPO argues that customer education costs benefit all "by-pass *(sic)* customers by promoting customer awareness about the Customer Choice Program and by ensuring that customers make informed purchase decisions."[89] However, on a principled basis it makes sense that some responsibility should be taken by gas marketers for promotion of customer awareness and consumer protection.

BCOAPO also submits that customer education costs should be incurred for the purpose of consumer protection and not for Customer Choice program advertising. Customer Choice program awareness has increased at this stage and continuing to advertise its existence "is increasingly an inefficient use of Customer Education resources."[90]

CEC submits customer education costs would not exist except for the Customer Choice program and are therefore a program cost. Accordingly, CEC recommends the Commission allocate 100 percent of the customer education costs to the Customer Choice program.

Commission determination

There are two issues that need to be addressed; (1) the appropriate allocation of customer education costs and (2) whether there is a need for customer education and if so, what form it should take.

[87] Exhibit B-1-1, p. 9.
[88] Exhibit B-6, BCUC IR 1.9.1.
[89] BCOAPO Final Argument, p. 10.
[90] Ibid.

<u>Allocation of customer education costs</u>

The Panel does not agree with CEC's view that the allocation of customer education costs should be determined on the basis of whether the cost would exist in the absence of the Customer Choice program, as it does not align with the approved cost causation criteria.

FEI has explained that the costs for customer education should be allocated to non-bypass customers on the basis that it is provided to all customers to ensure they make an informed decision and is meant to benefit all customers regardless of whether they choose to become program participants. However, the Panel does not fully agree and considers there to be a fine line between customer education and what might be described as marketing the Customer Choice program option. We do agree that the customer education costs benefit non-bypass customers by making them aware and more knowledgeable about the Customer Choice option as outlined by FEI. However, we also believe that denying there is a benefit to gas marketers, as submitted by BCOAPO, would not be fair, equitable or reasonable. The fact that the customer education costs result in driving some new customers to gas marketers demonstrates these costs benefit gas marketers. However, this does not necessarily mean the allocation of such costs should be equal for both parties. On the contrary, the Panel accepts that the primary purpose of customer education is to educate, inform and make customers aware and agrees the largest part of these costs are most appropriately borne by non-bypass customers. **Accordingly, using its best judgement, the Panel determines an 80 percent non-bypass customer and 20 percent gas marketer ratio of cost sharing as proposed by BCOAPO is fair and reasonable and reflects the relative benefit to both.**

<u>Need for customer education program</u>

As noted in Section 3.1, since the Customer Choice program 2008 peak of over 139,000 customers, the number of active customers has dropped steadily. FEI forecasts the program will either enrol or re-enrol 26,267 customers (it cannot distinguish between the two groups) between 2016 and 2018 but by the end of 2018, FEI forecasts only 21,632 active participants to remain.[91] In spite of this poor outlook, FEI proposes the expenditure of $225,000 annually for the customer education plan. Given the lack of customer uptake and FEI's admission there is no longer a need to generate customer awareness, the Panel recommends that FEI reconsider this expenditure or at least solicit the support of the gas marketers before proceeding with additional expenditures.

3.3.8 <u>Summary of cost allocations</u>

A summary of the Panel's application of the cost causation criteria on Customer Choice program cost categories is presented in Table 2 below.

[91] Exhibit B-1, pp. 16–17; Exhibit B-8, CEC IR 1.1.1.

Table 2: Summary of Panel Cost Allocations

		Allocation (%) FEI Application		**Allocation (%) Panel Determination**	
Cost Description	2015 Actuals	Gas Marketers	Non-Bypass Customers	**Gas Marketers**	**Non-Bypass Customers**
Technology Sustainment	$ 175,769	100%	0%	**50%**	**50%**
Infrastructure Sustainment	75,882	0%	100%	**0%**	**100%**
Contact Centre	24,000	0%	100%	**0%**	**100%**
Program Administration	274,024	100%	0%	**50%**	**50%**
BCUC	175,771	20%	80%	**60%**	**40%**
Customer Education	263,893	0%	100%	**20%**	**80%**
Total Costs	$ 989,339				

3.4 Need to review Customer Choice proposed costs

FEI's Application sets out the costs that are incurred with respect to the Customer Choice program and how it proposes the costs be allocated between gas marketers and all non-bypass customers. The Application as initially filed is not intended to address the reasonableness of costs associated with the Customer Choice program as it is not a revenue requirements application. However, in response to Undertaking No. 1 filed following the SRP portion of the regulatory process, FEI introduced a revenue requirement element to its Application when approvals sought were revised to include an approval to increase the O&M recovered under the PBR formula by $200 thousand.[92]

To approve a change to the base O&M recovered under PBR requires an assessment of the reasonableness of the costs to be added to the base O&M and a determination of whether, given this assessment of costs, a change to the base O&M is warranted. Because this substantive change to the Application was made so late in the process there was no opportunity for the evidence on costs to be adequately reviewed or fully tested. Because of this the Panel declines to make a decision with respect to increasing the PBR base O&M amount at this time. In addition, the Panel finds that an assessment of Customer Choice program costs and any decision as to whether to increase the PBR base O&M amount is more appropriately made through a separate regulatory process. Depending on the outcome of this separate regulatory process it will be determined whether a recommendation to increase the base O&M recovered under PBR is warranted.

To add to the evidentiary record and facilitate the cost review process, the Panel directs FEI to file within a period of 30 days following this decision the following information as a compliance filing:

FEI program administration

- **Further description of the tasks performed by each of the two FEI program analysts, the time requirement to fulfill each task and how often each of the tasks needs to be performed.**
- **Using the information in Table 1 in Exhibit B-1-3, provide a detailed explanation for the costs incurred each year, including how many analysts were used in each year, whether the analysts were senior or junior and the percentage of management time allocated to the Customer Choice program.**
- **An explanation of the impact of reducing the frequency of performance of tasks by the analysts.**

[92] Exhibit B-15, Undertaking No. 1.

BCUC costs

- **A copy of the information provided by the Commission to FEI outlining BCUC costs for use in the Application.**
- **Any further information the BCUC is able to provide to facilitate a cost review.**

Customer education

- **An explanation of costs to maintain a Customer Choice program informational presence on the FEI website and make the Standard Informational Booklet available.**
- **An explanation of how the customer education costs were charged to PBR and how this links to the additional $200 thousand requested.**

Infrastructure sustainment

- **An explanation of why infrastructure sustainment was adequately maintained in 2015 despite staff vacancies but require additional costs to be attributed to it once the vacancies have been filled.**
- **An explanation of why no sustainment cost savings are possible given the number of Customer Choice program customers continues to decline.**

Upon receipt of this information, the Commission will determine the scope and form of any additional process.

3.5 Cost recovery model options

In its Application, FEI reviews four options it considered for the recovery of costs from gas marketers. Of these, it proposes a combination of a flat monthly fixed fee and a variable fee charged to gas marketers based on the number of active customers in a given month. A static fee of $2,000 per month or $24,000 per year would be charged to each participating gas marketer. This is approximately 40 percent of 2016 projected marketer costs. FEI states it is amenable to an alternative monthly amount but points out almost all costs attributable to gas marketers are fixed in nature so the fixed component becomes largely subjective.

The remaining recoverable amount would be separated into a program administration fee and an infrastructure support fee and divided proportionally based on active customers. Therefore, each of the gas marketers would be charged a set monthly fee as well as proportional variable fees for administration and infrastructure support based on their proportional share of the total Customer Choice customer base.

FEI states that a year-end reconciliation would occur whereby any under or over recovery of fees would be included in the next year's expenses as either a debit or credit and factored into the recalculation of the following year's variable fees. FEI states that to accomplish this it requires a deferral account "to ensure the Marketers-allocated costs are only recovered from Marketers."[93] To assist in managing any variances FEI proposes creating a non-rate base deferral account with carrying costs based on FEI's weighted average cost of capital return.[94]

FEI submits that this approach is a reasonable balance of cost causation principles yet gives fair consideration to the impact on gas marketers. In FEI's view this is accomplished "by ensuring that all gas marketers are charged

[93] Exhibit B-15, p. 2.
[94] Exhibit B-1, pp. 28–29; Exhibit B-15, p. 2.

for continuous access to the Program in an equal way, while ensuring that the non-fixed remaining portion of the costs are shouldered by gas marketers most often using the Program services and infrastructure."[95]

Submissions

BCOAPO states this issue is one that more directly effects gas marketers and should be decided based on their preferences.[96]

Summitt Energy's view is that FEI's proposal for a combination of fixed and variable fees is the best option. However, Summitt Energy requests the Commission in its decision "confirm that the fixed fee cannot be increased by FEI as a result of exiting marketers" thereby ensuring the remaining marketers would not be adversely effected if and when other gas marketers decide to exit the program. [97]

Bluestream Energy states the $2,000 a month fixed fee represents 50 percent of marketer fee recoveries and is not in line with industry fee structuring in any jurisdiction. Bluestream Energy submits that gas industry buyers, sellers, marketers and customers all primarily transact on variable unit charges allowing for effective management and forecast of costs based on volumes purchased and sold each day. In its opinion FEI has proposed the least attractive option of the four noting that if this option is accepted it is certain no new gas marketers will register in the program due to the high initial fixed cost and the risk that these costs will escalate in the future. Bluestream Energy considers the only fair and reasonable means to recover incremental costs from marketers is to increase variable fees or add a new unit charge based on marketer gas volumes.[98]

Access Gas agrees it is appropriate to have a material fixed component given that most of the allocated costs are fixed. Access Gas submits the fixed charge should be percentage based and annually reset as participants enter or leave the market. Access Gas argues that a "per gigajoule" fee is more appropriate than the proposed "per customer" fee in order to avoid subsidization by residential customers.

As an alternative, Access Gas proposes setting variable fees for specific services for gas marketers which are static and indexed to inflation opining that it would be far more efficient and attractive. If there are any shortfalls or excesses they could be accrued to all eligible participants. Implied in the Access Gas proposal is such an approach would better facilitate the budgeting process.[99]

Direct Energy's position is that it is inappropriate and unjustified to allocate a fixed fee charged equally to all participating gas marketers regardless of the number of customers served. Direct Energy considers this method of cost allocation to be reckless and further endangers the program due to increasing the potential for existing participants to exit the program.[100]

[95] FEI Final Argument, p. 17.
[96] BCOAPO Final Argument, p. 11.
[97] Summitt Energy Final Argument, p. 1.
[98] Bluestream Energy Final Argument, p. 1.
[99] Access Gas Services Inc. Final Argument, pp. 1, 3.
[100] Direct Energy Final Argument, p. 3.

CEC submits that a simpler per gigajoule (GJ) charge is more logical than the methodology proposed by FEI and is suitable from a Bonbright perspective.[101]

FEI submits Bluestream Energy has provided no reason to reject FEI's recommended option and has not explained why it is unreasonable and unfair.

FEI interprets the Access Gas position to be similar to what it has proposed with a per GJ variable component. It is amenable to this approach but notes there has not been a rationale provided. FEI submits there is no basis on the record to establish Access Gas' suggested alternative model based on using static or inflation indexed amounts and setting variable fees for specific services.

FEI takes issue with Direct Energy's submissions noting it does not explain why an equal fee across all gas marketers is inappropriate and unjustified nor does it explain why the approach is reckless and further endangers the program.

Concerning CEC's submissions regarding moving to a per gigajoule charge, FEI states it is unclear whether CEC is recommending a fully variable per GJ rate, or only with respect to the variable component of FEI's recommended Option 4. FEI continues by stating that like other interveners, CEC endorses "an approach that is different from FEI's recommended Option 4, without addressing the quantitative analysis that FEI provided in support of its recommendation."[102]

Commission determination

<u>Fixed monthly Fee</u>

FEI has stated that most of its costs are fixed and proposes a fixed fee of $2,000 per month per gas marketer regardless of the number of customers being served. This will recover approximately 40 percent of the 2016 projected gas marketer allocated costs with the balance being a variable amount. There is great variability among the interveners with respect to whether such a fee is appropriate and what size it should be with some supporting it and others rejecting it outright.

The Panel accepts FEI's explanation that most of the costs in the fixed category are caused by all gas marketers regardless of the size of their customer base. However, we also acknowledge that without due consideration of the impact of a fixed rate on those gas marketers with a small customer base, it is likely to negatively impact the program's potential to attract new gas marketers and retain existing ones. This will only serve to weaken a program that is already challenged by the current state of the gas market and result in passing further costs to those that remain. **With these considerations, the Panel determines that the most appropriate approach is to maintain a fixed fee but reduce it significantly from what has been proposed. Accordingly, the Panel sets the fixed rate at $750 per month for each gas marketer with the balance to be recovered by the variable fees.** In our view this will reduce the burden on those gas marketers that have the lowest number of customers yet not overly penalize those gas marketers who in spite of the market challenges have maintained a larger customer base.

[101] CEC Final Argument, pp. 13–14.
[102] FEI Reply Argument, pp.7-8, 16.

The Panel notes that Summitt Energy has requested that the fixed fee not be increased as a result of exiting gas marketers. This would provide additional certainty to the gas marketers remaining in the program. The fixed fee has been set at $750 and will not change. However any shortfall related to a failure to collect a fixed fee will be added to the variable costs to be allocated to the remaining gas marketers. To do otherwise would result in non-bypass customers being unfairly accountable for uncollected fees.

Allocation of variable costs

The primary issue raised with respect to the allocation of variable costs is whether to make this allocation based on the proportional share of the customer base as outlined in FEI's proposal or to allocate costs based on each gas marketer's proportion of total Customer Choice GJs transacted. There does not appear to be any consensus among gas marketers as to the approach to be taken although both Access Gas and Bluestream Energy seem to support a more volumetric approach. However, the Panel agrees with FEI that there has been no rationale put forward to justify making such a change. Moreover, the Panel notes that gas marketers use more of the program services based on the number of customers than the number of GJs transacted. **Therefore, the Panel determines the most appropriate way to allocate variable costs is on the basis of the number of customers.**

The Panel notes that Access Gas proposed an alternative approach based on setting specific fees on a use per service basis. However, this alternative was not sufficiently developed to properly assess how such an approach would work and whether it would prove more efficient than what has been proposed by FEI. **Therefore, the Panel agrees with FEI and rejects Access Gas' alternative proposal.**

Year-end reconciliation

FEI's proposal for cost allocation includes the provision that any over or under recovery of fees would be included in the following year's expenses as either a debit or a credit to be reflected in the following year's variable fees. The Panel considers this to be fair and reasonable as it does not place any obligation for any unpaid gas marketer fees on non-bypass customers and is in keeping with the cost causation principle outlined in Section 3. **Accordingly, the Panel approves the use of a non-ratebase deferral account to capture and record any under or over recovery of gas marketer fees to be used as a debit or credit when these fees are set annually starting on April 1, 2017. This deferral account is approved for a period of five years and will attract a weighted average cost of capital return. The balance will be recovered from or returned to gas marketers in subsequent year through the annual fee adjustment.** The annual fee adjusment process is outlined in Section 4.0 below.

4.0 IMPLEMENTATION

This section deals with the implementation of the new cost allocation and recovery model.

4.1 Expenditure to implement the new fee structure

FEI submits that minimal system changes are required to implement their proposed fee structure. FEI proposes to automate the fee processing system in order to minimize maintenance and administration efforts. FEI describes the specific system changes required to automate the process to charge the new Infrastructure

Support, Administration Support and Program User fees in Section 4.2 of the Application.[103] FEI submits these changes can be completed with approximately 25 hours of development time for a cost of approximately $3,000.[104] FEI expects the implementation can be completed within 90 days of approval of the Application.

<u>Submissions</u>

No parties object to FEI's request for approval of the expenditure of $3,000 to implement the system changes required to implement the new proposed fee structure.

Commission determination

FEI's proposed approach requires minimal system changes and will require minimal ongoing maintenance and administration. The Panel considers the amount of development work required and associated cost to adopt the new fee structure to be reasonable. **The Panel approves FEI's expenditure of $3,000 to implement system changes to accommodate the new fee structure.**

4.2 Fee adjustment process

FEI proposes to continue to collect monthly transaction fees from gas marketers throughout the calendar year then evaluate the fees each January based on the previous year's actuals and adjust them accordingly. FEI would include a letter with the annual program statistics submitted to the Commission and gas marketers each year, outlining any changes to the fee structure for the coming year. The annual program statistics would continue to include detailed information about the Customer Choice operating costs and expenses as well as new information about the gas marketer recovery reconciliation.[105]

In response to Commission Information Request No. 1, it was identified that FEI's proposed approach does not allow for affected parties to comment on transaction fee adjustments prior to the change taking effect.[106] In response, FEI outlines the following alternative approach:

i. In February of each year, FEI will evaluate the previous fiscal year's total costs (i.e., calendar year) allocated to gas marketers in light of the monies recouped from gas marketers over the same period.

ii. FEI would evaluate annual recovery shortfalls or surpluses and propose fee increases or decreases in the Annual Program Statistics submitted to the Commission each February.

iii. Discussion about the recommended fee changes could be addressed at either an Annual General Meeting (AGM) or dedicated proceeding. If the Commission determined that further process in a given year was required, FEI suggests a written process including a single round of information requests, followed by written final submissions and FEI reply submission would be appropriate.

iv. To accommodate this approach, fee adjustments would take effect on November 1 instead of April 1 to coincide with the Annual Contracting Plan.[107]

[103] Exhibit B-1, p. 43.
[104] Ibid., p. 45.
[105] Ibid., p. 41.
[106] Exhibit A-5, BCUC IR 14.1.
[107] Exhibit B-6, BCUC IR 14.1.

During the SRP, FEI maintained its original proposed approach of notifying parties of the fee adjustments is the most efficient and cost-effective method. However, where the Commission determines review of the fee adjustments is necessary, FEI prefers to do so during the AGM rather than by separate dedicated proceeding.[108]

Alternative approaches discussed during the SRP, both of which FEI is amenable to, are outlined below:[109]

- Notification with semi-annual review: FEI determines the required transaction fee adjustment and notifies the parties, as originally proposed, and the adjustments are reviewed during the AGM or by a separate proceeding every x number of years (e.g. 2, 3, 5 years) as determined by the Commission; or
- Notification with review during AGM, by request: FEI determines the required transaction fee adjustment and notifies the parties, as originally proposed. The adjustments are reviewed during the AGM by request only, i.e. the adjustments take effect automatically, unless an intervener raises the issue for discussion during the AGM. In that case, the proposed fee adjustments are reviewed as an issue requiring determination during the AGM.

<u>Submissions</u>

Interveners did not make any submissions on FEI's proposed fee adjustment process.

Commission determination

The Panel acknowledges FEI's proposed approach to fee adjustment is the most efficient and cost-effective method. However, we are not convinced it is appropriate to adjust the fees without providing impacted parties an opportunity to review and comment. The Panel sees the alternative approach raised during the SRP whereby FEI notifies parties of the fee adjustments and those adjustments are reviewed by request only during the AGM as balancing the need for a cost-effective and efficient adjustment process while still providing impacted parties an opportunity to comment. **The Panel determines the fees will be adjusted according to the process outlined below:**

i. **FEI evaluates the previous fiscal year's total costs (i.e., calendar year) allocated to gas marketers in light of the monies recouped from gas marketers over the same period.**

ii. **FEI evaluates annual recovery shortfalls or surpluses and proposes respective fee increases or decreases in the Annual Program Statistics submitted to the Commission each February.**

iii. **Any fee adjustments proposed in the Annual Program Statistics take effect automatically, unless a party raises the issue for discussion and the Commission determines a review is warranted, either during the Customer Choice Program Annual General Meeting or by dedicated proceeding, as determined by the Commission.**

iv. **Fee adjustments take effect on April 1. If the fee adjustments undergo a review, any variances between FEI's proposed adjustment and the determined adjustment will be recorded in the non-rate base Marketer Cost Variance deferral account and incorporated into the subsequent year's fee adjustment.**

[108] Transcript Volume 1, p. 120.
[109] Ibid., p. 122.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of October 2016.

D. A. COTE
PANEL CHAIR / COMMISSIONER

W. M. EVERETT, Q.C.
COMMISSIONER

N. E. MACMURCHY
COMMISSIONER

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ORDER NUMBER
A-9-16

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Application for the Customer Choice Program Cost Recovery

BEFORE:
D. A. Cote, Panel Chair/Commissioner
W. M. Everett, Q.C., Commissioner
N. E. MacMurchy, Commissioner

on October 18, 2016

ORDER

WHEREAS:

A. FortisBC Energy Inc. (FEI) obtained a Certificate of Public Convenience and Necessity on August 14, 2006 for the Commodity Unbundling Project for Residential Customers (Customer Choice) in accordance with the Provincial Government's 2002 energy policy, which allows for the direct sale of natural gas to residential and small volume commercial customers through gas marketing companies licensed by the British Columbia Utilities Commission (Commission);

B. On September 29, 2015, the Commission issued Order A-12-15, which, among other things, directed FEI to submit an application regarding the Customer Choice program fee structure (Application) to the Commission by March 31, 2016;

C. By Order A-1-16, following FEI's request for an extension, the Commission extended the filing deadline for the Application to April 14, 2016;

D. On April 14, 2016, FEI filed the Application, recommending a specific allocation of program costs between gas marketers and all FEI non-bypass customers based on the principle of cost causation and a specific fee structure for recovering costs allocated to gas marketers, comprised of a fixed and variable fee structure;

E. In addition, in the Application FEI requests approval of the expenditure of $3,000 to implement system changes to accommodate the new gas marketer fee structure; an increase to the 2017 Base Operating and Maintenance expenses under the Performance Based Ratemaking formula by $200 thousand; and a non ratebase Marketer Cost Variance deferral account, attracting the weighted cost of capital, to record any under or over recovery of gas marketer fees when these fees are set annually starting on April 1, 2017;

F. By Order A-3-16 dated May 9, 2016, and Order A-4-16 dated June 7, 2016, the Commission established the regulatory timetable for the proceeding, which included one round of written information requests and a streamlined review process followed by written arguments;

.../2

G. FEI filed its final argument on August 4, 2016. Registered interveners filed their final arguments by August 11, 2016. FEI filed its reply argument on August 18, 2016; and

H. The Panel has reviewed and considered all evidence on record for the Application.

NOW THEREFORE, pursuant to section 71.1 of the *Utilities Commission Act,* and for the reasons set out in the Decision that is issued concurrently with this order, the British Columbia Utilities Commission orders as follows:

1. The cost allocation and cost recovery models as determined in the Decision are approved.

2. FortisBC Energy Inc.'s $3,000 expenditure request to implement system changes to accommodate the new cost recovery model is approved.

3. FortisBC Energy Inc. must file specific information on program costs, as outlined in the Decision, within 30 days of this order.

4. The gas marketer fee adjustment process as described in the Decision is approved.

5. FortisBC Energy Inc. is approved to establish a non-ratebase Marketer Cost Variance deferral account, attracting a weighted average cost of capital return, to record actual marketer-allocated costs and actual marketer recoveries each year. The deferral account is approved for a period of five years.

6. All other directives set out in the decision issued concurrently with this order are effective, as outlined in the decision.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of October, 2016.

BY ORDER

D. A. Cote
Panel Chair/Commissioner

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Customer Choice Program Cost Recovery Application

EXHIBIT LIST

Exhibit No.	Description
COMMISSION DOCUMENTS	
A-1	Letter dated April 22, 2016 – Appointing the Commission Panel for the review of FortisBC Energy Inc. Customer Choice Program Cost Recovery Application
A-2	Letter dated May 9, 2016 – Commission Order A-3-16 establishing a Regulatory Timetable
A-3	Letter dated June 7, 2016 – Commission Order A-4-16 establishing the remainder of the Regulatory Timetable
A-4	Letter dated June 7, 2016 – Commission request for submissions on confidentiality
A-5	Letter dated June 15, 2016 – Commission Information Request No. 1
A-6	**CONFIDENTIAL** Letter dated June 15, 2016 – Confidential Commission Information Request No. 1
A-6-1	Letter dated July 4, 2016 – Previously Confidential Commission Information Request No. 1
A-7	Letter dated June 23, 2016 – Commission Order A-5-16 amending the Regulatory Timetable
A-8	Letter dated July 7, 2016 – Streamlined Review Process Procedures
COMMISSION STAFF DOCUMENTS	
A2-1	Letter dated July 22, 2016 – Commission Staff submitting SRP questions to FEI

Exhibit No.	Description
APPLICANT DOCUMENTS	
B-1	**FORTISBC ENERGY INC. (FEI)** Letter dated April 14, 2016 – Customer Choice Program Cost Recovery Application
B-1-1	**CONFIDENTIAL** Letter dated April 14, 2016 – Confidential Customer Choice Program Cost Recovery Application Section 5.6 and Appendix D
B-1-2	Letter dated May 2, 2016 – Customer Choice Program Cost Recovery Application Erratum – Figure 2-2
B-1-3	Letter dated May 20, 2016 – Compliance filing to Order A-3-16 submitting Customer Education Plan 2012-2016 and redacted Section 5.6
B-2	Letter dated May 27, 2016 – FEI Submission on Review Process
B-3	Letter dated June 20, 2016 – FEI Submitting comments on confidentiality protocols
B-4	Letter dated June 22, 2016 – FEI Submitting comments regarding Confidential Appendix D
B-5	Letter dated June 24, 2016 – FEI Submitting Redacted Public Version of Section 5.6 and Appendix D
B-6	Letter dated July 7, 2016 – FEI Submitting Response to BCUC IR No.1
B-7	Letter dated July 7, 2016 – FEI Submitting Response to BCUC Previously Confidential IR No.1
B-8	Letter dated July 11, 2016 – FEI Submitting Response to CEC IR No. 1
B-8-1	Letter dated July 27, 2016 – FEI Submitting Response to CEC IR 1.8.2 – Erratum
B-9	Letter dated July 11, 2016 – FEI Submitting Response to Access IR No. 1
B-10	Letter dated July 11, 2016 – FEI Submitting Response to BCOAPO IR No. 1
B-11	Letter dated July 11, 2016 – FEI Submitting Response to BlueStream IR No. 1
B-12	Letter dated July 11, 2016 – FEI Submitting Response to Direct Energy IR No. 1
B-13	Letter dated July 11, 2016 – FEI Submitting Response to Just Energy IR No. 1
B-14	Letter dated July 21, 2016 – FEI Submitting SRP Presentation

Exhibit No.	Description
B-15	Letter dated July 27, 2016 – FEI Submitting Response to SRP Undertakings
B-15-1	Letter dated August 3, 2016 – FEI Submitting Breakdown of Responses to SRP Undertakings in response to Exhibit A2-1

INTERVENER DOCUMENTS

C1-1	**DIRECT ENERGY MARKETING LTD. (DIRECT ENERGY)** Letter dated May 12, 2016 – Request to Intervene by Karen Cooke
C1-2	Letter dated May 27, 2016 – Direct Energy Submission on Review Process
C1-3	Letter dated June 20, 2016 – Direct Energy Submitting comments on confidentiality protocols
C1-4	Letter dated June 23, 2016 – Direct Energy Submitting Information Request No. 1
C2-1	**ACCESS GAS SERVICES INC. (ACCESS)** Letter dated May 9, 2016 – Request to Intervene by Tom Dixon
C2-2	Letter dated May 27, 2016 – Access Submission on Review Process
C2-3	Letter dated May 27, 2016 – Access Submitting Confidential Document Request
C2-4	Letter dated June 20, 2016 – Access Submitting comments on confidentiality protocols
C2-5	Letter dated June 27, 2016 – Access Submitting Information Request No. 1
C3-1	**BRITISH COLUMBIA OLD AGE PENSIONERS' ORGANIZATION, DISABILITY ALLIANCE BC, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCOAPO)** Letter dated May 16, 2016 – Request to Intervene by Tannis Braithwate
C3-2	Letter dated May 27, 2016 – BCOAPO Submission on Review Process
C3-3	Letter dated May 31, 2016 – BCOAPO Submitting Confidentiality Declaration and Undertaking
C3-4	Letter dated June 16, 2016 – BCOAPO Submitting comments on confidentiality protocols
C3-5	Letter dated June 23, 2016 – BCOAPO Submitting Information Request No. 1

Exhibit No.	Description
C4-1	**JUST ENERGY (BC) LIMITED PARTNERSHIP (JUST ENERGY)** Letter dated May 16, 2016 – Request to Intervene by Nola Ruzycki and Frances Murray
C4-2	Letter dated May 27, 2016 – Just Energy Submission on Review Process
C4-3	Letter dated June 6, 2016 – Just Energy Submitting Confidentiality Declaration and Undertaking
C4-4	Letter dated June 17, 2016 – Just Energy Submitting comments on confidentiality protocols
C4-5	Letter dated June 23, 2016 – Just Energy Submitting Information Request No. 1
C5-1	**COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC)** Letter dated May 16, 2016 – Request to Intervene by Christopher Weafer and David Craig
C5-2	Letter dated May 27, 2016 – CEC Submission on Review Process
C5-3	Letter dated June 23, 2016 – CEC Submitting Information Request No. 1
C6-1	**PLANET ENERGY (B.C.) CORP. (PLANET ENERGY)** Letter dated May 18, 2016 – Request to Intervene by Nino Silvestri and Jordan Small
C7-1	**SUMMITT ENERGY BC LP (SUMMITT)** Letter dated May 27, 2016 – Late Request to Intervene by Jeff Donnelly
C7-2	Letter dated June 17, 2016 – Summitt Submitting comments on confidentiality protocols
C8-1	**BLUESTREAM ENERGY (BLUESTREAM ENERGY)** Letter dated June 23, 2016 – Late Request to Intervene by Kirby Morrow
C8-2	Letter dated June 27, 2016 – Bluestream Energy Submitting Information Request No. 1