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February 26, 2014

Ms. Diane Roy
Director, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V3S 2X7

Dear Ms. Roy:

Re: Application for Reconsideration and Variance
of Order G-26-13, dated February 25, 2013
in respect of FortisBC Energy Utilities'
Common Rates, Amalgamation and Rate Design Application
Project No. 3988717/Order G-100-13

Further to the April 26, 2013 Application for Reconsideration and Variance of Order G-26-13, please find the Commission's Decision attached.

Yours truly,

Erica Hamilton

/dg

Attachment

cc: Registered Parties
(FEU-RD-Phase2)



IN THE MATTER OF

**FortisBC Energy Utilities
(comprising FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc.,
and FortisBC Energy (Whistler) Inc.)**

**Application for Reconsideration and Variance of Commission Order G-26-13
on the FortisBC Energy Utilities' Common Rates,
Amalgamation and Rate Design Application**

DECISION

February 26, 2014

Before:

**A.A. Rhodes, Commissioner/Panel Chair
C.A. Brown, Commissioner
D.A. Cote, Commissioner
L.A. O'Hara, Commissioner
R.D. Revel, Commissioner**

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1.0 INTRODUCTION

This is a reconsideration of a Decision of the British Columbia Utilities Commission (Commission) that denied the application of the FortisBC Energy Utilities (FEU or the Utilities) to amalgamate and adopt common rates for natural gas delivery. Given the FEU's stated position that it would not amalgamate in the absence of postage stamp rates, the Commission first analyzed the proposal to adopt postage stamp rates across the utilities in the context of the separate utilities. The Commission denied that proposal. Consequently, the Commission did not consider whether the proposed amalgamation of the companies comprising the FEU and Terasen Gas Holdings Inc. was "beneficial in the public interest" (the Original Decision¹). This Decision is in the context of Phase II of the reconsideration process, which was approved by Commission Order G-100-13 dated June 26, 2013.

This Phase II Reconsideration Application (the Application) was initiated by the Commercial Energy Consumers Association of British Columbia (CEC), one of the Interveners in the Original Application (CEC Reconsideration Application dated July 8, 2013, Exhibit C1-1) and was followed by a reconsideration application from FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) (which together comprise the FEU). (FEU Reconsideration Application dated July 10, 2013, Exhibit B-1)

The Utilities and the CEC advance the following grounds for reconsideration (FEU and CEC Phases I and II Applications for Reconsideration):

1. Material Errors of Law:
 - a. The Commission Panel erred by failing to consider postage stamp rates within the context of an amalgamated entity (FEU Phase I Application, p. 6);
 - b. The Panel erred by relying on the fact that existing rates of the FEU are approved and therefore fair, in the context of separate utilities, (FEU Phase I Application, p. 6), and ruled that cost causation makes postage stamp rates unfair when cross-

¹ In the matter of FortisBC Energy Utilities, Common Rates, Amalgamation and Rate Design Application Order G-26-13 and Decision, February 25, 2013.

subsidization is significant, without a determination of what the threshold might be (CEC Phase I Application, p. 2);

- c. The Panel erred by dismissing the entire Application based solely on its assessment of postage stamp rates under sections 59-61 (FEU Phase I Application, p. 7);
2. Material Errors of Fact, which include errors in the Panel's findings and factors which the FEU contend were not considered; and
3. New Evidence provided by the FEU and Interveners including:
 - a. The level of integration of the FEU (Exhibit B-1);
 - b. How postage stamp rates impact the issue of customer choice between electricity and gas, and the impact of its competition in the market place (Exhibit B-1);
 - c. Moody's report on the impact of denying postage stamp rates on FEVI's credit rating (Exhibit B-1);
 - d. Updated rate impacts for FEI (Exhibit B-1);
 - e. The proposed development of an Liquefied Natural Gas (LNG) export facility at the Woodfibre site near Squamish along the pipeline connecting the Lower Mainland natural gas transmission to Vancouver Island, which may dramatically change natural gas volumes within FEVI (Exhibit C1-2);
 - f. An opinion that government policy supports postage stamp rates in order to promote access to energy services "so that all British Columbians benefit from access to services at the lowest average cost" (FEU Phase I Application, Appendix A, p. 1);
 - g. An opinion that postage stamp rates will provide equality of investment and job creation opportunities, which will not be created as long as there are competitive advantages in areas which currently have lower rates, such as FEI (FEU Phase I Application, Appendix A, p. 2);
 - h. Statements that government policy supports the increased use of natural gas in the heavy-duty transportation sector (FEU Phase I Application, Appendix A, p. 3);
 - i. Statements that government policy supports regulatory efficiency (FEU Phase I Application, Appendix A, p. 3);
 - j. An opinion that postage stamp rates should be implemented during this period of lower natural gas commodity prices to minimize rate spikes for customers (FEU Phase I Application, Appendix A, p. 3); and
 - k. Letters of comment, which support the FEU Application.

1.1 Background

The Commission issued Order G-26-13 denying the FEU's Original Application for common rates, and declined to consider the issue of amalgamation. The Commission Panel relied on the stated FEU rationale that amalgamation was dependent on the adoption of postage stamp rates. Further, FEU stated that the primary benefit of amalgamation was to facilitate common rates. The Panel therefore concluded that, since common rates were not approved, consideration of amalgamation was not necessary. The Commission Panel accepted and relied on the FEU's position that they would not amalgamate the utilities if common rates were not approved. In the Commission Panel's determination denying postage stamp rates, the Panel stated that "[t]he FEU proposal to implement postage stamp rates involving, as it does, substantial rate decreases for customers of FEVI and FEW at the expense of FEI customers in the Mainland ... is not fair, when viewed against accepted principles of rate design... and would result in rates which would be "unjust, unreasonable, unduly discriminatory or unduly preferential"... and should therefore be denied." (Decision, Executive Summary, p. i)

1.2 Reconsideration Regulatory Process

This Reconsideration Application proceeded by way of a written hearing process. The initial request for reconsideration was filed on April 17, 2013, by the Commercial Energy Consumers Association of British Columbia.

On April 26, 2013, FEU also applied to the Commission for reconsideration of Order G-26-13.

A potential reconsideration by the Commission proceeds in two phases:

1. Phase I: In the interest of regulatory efficiency and fairness, the application undergoes an initial screening phase where the Commission determines if there is a sufficient *prima facie* case to warrant a reconsideration. If the Commission determines that there is a sufficient *prima facie* case, it will order a reconsideration of the application and move to Phase II.

2. Phase II: If the Commission determines that a full reconsideration is warranted, Phase II begins where the Commission hears arguments on the merits of the Reconsideration application.

The Commission established Phase I of the Reconsideration process on May 8, 2013, which proceeded by way of written comments addressing whether CEC and the FEU had put forward reasonable bases to warrant the Reconsideration process proceeding to Phase II.

By Order G-100-13, the Commission established Phase II of the Reconsideration process, and, among other things, ordered that new evidence would be accepted, new parties would be given the opportunity to submit evidence, and a regulatory timetable would establish the Phase II process.

Intervenors included:

- Fort Nelson & District Chamber of Commerce (FNCC);
- The Ministry of Energy and Mines (MEM);
- Mr. Randolph Robinson;
- The British Columbia Pensioners' and Seniors' Organization *et. al.* (BCPSO);
- The Greater Victoria Chamber of Commerce (GVCC); and
- The Association of Vancouver Island and Coastal Communities (AVICC).

The Resort Municipality of Whistler (RMOW) and the British Columbia Hydro and Power Authority (BC Hydro) registered as Interested Parties and the District of Lantzville, Lawrence Sperling, Chris Armstrong, and Ken Wodlinger filed Letters of Comment.

While both CEC and the FEU filed Applications for Reconsideration, CEC also filed a request for Intervener status by letter dated July 8, 2013.

The following Interveners filed evidence or Final Submissions:

- CEC;
- FNCC;
- AVICC;
- MEM;
- BCPSO;
- Randolph Robinson.

1.3 Reconsideration Regulatory Framework

The approvals necessary for the FEU to amalgamate with one another and with Terasen Gas Holdings Inc. are sought pursuant to section 53 of the *Utilities Commission Act*, RSBC 1996, c. 473 (UCA).

Section 53 prohibits a public utility from amalgamating with another person

“(a) unless the Lieutenant Governor in Council

- (i) has first received from the commission a report under this section including an opinion that the consolidation, amalgamation or merger would be beneficial in the public interest, and
- (ii) has, by order, consented to the consolidation, amalgamation or merger, and

(b) except in accordance with an order made under paragraph (a).”

By subsection 53(3), a public utility seeking to amalgamate with another person is required to apply to the Commission for the consent of the Lieutenant Governor in Council. The Commission must then “inquire into the application” and may hold a hearing for that purpose. (subsection 53(4))

Once the Commission has concluded its inquiry, it must either:

- “(a) if it is of the opinion that the ...amalgamation...would be beneficial in the public interest, submit its report and findings to the Lieutenant Governor in Council, or
- (b) dismiss the application.”

(subsection 53(5))

The approvals necessary to implement postage stamp rates for the amalgamated entity are sought pursuant to sections 59 through 61 of the UCA. Those sections provide for the setting of rates for a public utility that are not unjust or unreasonable or otherwise unduly discriminatory or preferential.

1.4 Commission Panel Approach

The Panel notes the FEU’s list of alleged errors of fact and law made by the Panel in its Original Decision. The Panel concludes that in this Reconsideration Application, it is not necessary to deal with all of these allegations on their merits. The Panel has considered a common sense approach that begins with the question, “What if FEU first applied for amalgamation, and then applied for postage stamp rates once amalgamation had been effected?” The Panel takes the following approach, supported by the CEC (Final Submission):

1. Consideration of whether amalgamation is beneficial in the public interest, pursuant to section 53 of the UCA.
2. Consideration of whether common rates are appropriate, in the context of the FEU as an amalgamated entity and in light of the fresh evidence provided in this hearing.
3. Consideration of the need for a rate design application.
4. Consideration of collateral issues that arise from the decisions made by the Panel, such as phase-in periods and the Rate Stabilization Deferral Account (RSDA).

2.0 WHETHER AMALGAMATION IS IN THE PUBLIC INTEREST

The FEU note that the Panel declined to consider whether amalgamation is beneficial in the public interest pursuant to section 53 of the UCA and argue “it [is] a legal error to consider whether amalgamation alone is in the public interest without considering the benefits of postage stamp rates.” (FEU Final Submission, p. 5)

The FEU submit that the Panel must consider postage stamp rates and amalgamation concurrently. They argue that a consideration of whether amalgamation is in the public interest requires a consideration of postage stamp rates and that a consideration of the appropriateness of postage stamp rates must include a consideration of the appropriateness of amalgamation. They submit that this approach is supported by a principle set out in the BCUC 2005 Kinder Morgan Decision,² which provides “the public interest must be viewed in the context of the scope of the approval that is being requested.” (Kinder Morgan Decision, p. 22) Specifically, the FEU argue that their primary reason for seeking to amalgamate, and an important public interest consideration, is the adoption of postage stamp rates. (FEU Final Submission, pp. 5-6)

The FEU further suggest that the Commission Panel must consider, in this amalgamation question, the criteria set out in the 2005 Kinder Morgan Decision, at page 19, as follows:

- (a) The utility’s current and future ability to raise equity and debt financing not be reduced or impaired.
- (b) There be no violation of existing covenants that will be detrimental to the customers.
- (c) The conduct of the utility’s business, including the level of service, either now or in the future, will be maintained or enhanced.
- (d) The application is in compliance with appropriate enactments and/or regulations.

² In the matter of An Application by Kinder Morgan, Inc. and 0731297 BC Ltd. for the Acquisition of Common Shares of Terasen Gas Inc., November 10, 2005

- (e) The structural integrity of the assets will be maintained in such a manner as to not impair utility service.
- (f) The public interest will be preserved.

The FEU stated in the Original Application, which resulted in the Decision for which reconsideration has been sought (Original Application): “Amalgamation also results in applying the relatively lower FEI debt rate to FEVI’s and FEW’s interest expense for the amalgamated cost of service. This yields a net reduction in the amalgamated cost of service of approximately \$2 million” in 2013 compared to the sum of the individual costs of service for FEI, FEVI, FEW and FortisBC Energy Inc. Fort Nelson Service Area. (Exhibit B-3, p. 5)

In new evidence, the FEU reconfirm their position that the utilities are already almost fully integrated. The FEU note “the interdependency of the utilities in all aspects of operations.” They further confirm that there are numerous inter-company agreements that will become unnecessary upon amalgamation. These inter-company agreements also involve the exercise of judgment in terms of cost allocation among the utilities. The FEU conclude that amalgamation of the separate entities “would be beneficial as it would reflect the integrated nature of the service provided, would be simpler, would not be open to contention, and save the time currently associated with administering the agreements.” (Exhibit B-3, AVICC IR 1.3.2, 1.3.3) The FEU submit that the “amalgamation of the utilities will have minimal impact on the degree of integration with the exception of customer communication and billing, regulatory and finance.” This, the FEU submit, is the final step in providing seamless service to all customers. (Exhibit B-1, p. 3)

CEC submits that rate design and the issue of postage stamp rates ought to follow an examination of amalgamation as a precursor, and that rate design follows the determination of the public interest in amalgamation. (CEC Final Submission, p. 5)

This approach is supported by AVICC. (AVICC Final Submission, p. 3)

While BCPSO submits that UCA section 53 and sections 59-61 issues ought to be considered separately, and that section 53 issues ought to be considered first, BCPSO submits that each of these issues should involve consideration of both common rates and amalgamation. (BCPSO Final Submission, p. 2) Further, BCPSO suggests that “amalgamation in the absence of common rates will not advance many of the public interest issues identified [in the Application].” (BCPSO Final Submission, p. 3)

Mr. Robinson argues that the “effect of amalgamation is it establishes cross-subsidization of the services where one customer is subsidizing another customer in a different region.” While Mr. Robinson has remarked on the issue of amalgamation in the context of postage-stamp rates, he has not made submissions on whether amalgamation can be considered separately as a precursor or stand-alone issue.

In their Reply, the FEU state: “all parties appear to agree that the Commission must assess amalgamation first and that the benefits of postage stamp rates must be included in the public interest assessment for amalgamation made under section 53 of the UCA.” The FEU submit that “the legal effect of a positive determination under section 53 must be that it is in the public interest to amalgamate and adopt postage stamp rates.”

The FEU summarize their position that an analysis of whether amalgamation is in the public interest under section 53 of the UCA should include a consideration of the benefits of postage stamp rates and that “[i]f amalgamation is approved, then the Commission must then consider the proposed rates for the Amalgamated Entity under sections 59 to 61, and make a determination that is consistent with the determination on the public interest under section 53.” (FEU Reply, pp. 7-8)

Commission Determination

The Commission Panel finds that the FEU amalgamation is beneficial in the public interest, pursuant to section 53 of the UCA. The Panel concludes that amalgamation of FEI, FEW, FEVI and

Terasen Gas Holdings Inc. will provide economic and other benefits that are in the public interest to FEU customers as a whole. The Panel in the Original Decision declined to consider whether amalgamation was in the public interest because the FEU expressed that they would not amalgamate if there were a Commission ruling denying approval of common rates.

The Panel is influenced by the new evidence respecting the high degree of interdependency among the utilities, as evidenced by the numerous inter-company agreements. The Panel agrees that an amalgamated entity would be consistent with and recognize the integrated nature of the separate utilities making up the FEU.

The Panel is of the view that the essence of section 53 is not to find that amalgamation would be beneficial in the public interest by a particular order of magnitude. Rather, the Panel considers that sufficient evidence of amalgamation to be beneficial in the public interest exists. While the FEU acknowledge that the benefits of acting as one entity have already been realized for the most part, the Panel is also persuaded that the regulatory efficiency from one entity filing revenue requirements applications, one set of income tax returns, one set of annual reports filed with the British Columbia Corporate Registry, etc., and the resultant reduction in some costs such as interest expenses, are sufficient to warrant a conclusion that amalgamation of the FEU is beneficial in the public interest. While the Panel concludes that regulatory efficiency gains are adequate to determine public interest, the Panel also notes there are additional benefits such as greater rate stability for all ratepayers of an amalgamated entity due to the larger customer base.

The Panel supports CEC's submissions "that FEU's position that 'the rationale for amalgamation is entirely dependent on the adoption of postage stamp rates' and that the proposal to amalgamate and implement postage stamp rates must be considered together is somewhat confounding in that it joins issues which should be considered separately in a hierarchy of decision-making." (CEC Final Submission, p. 7)

The Panel agrees with CEC “that although consideration of rates is one element in analysis of utility structure, and despite the FEU’s request to examine amalgamation and postage stamp rates together, that rate design appropriately follows the determination of the public interest in amalgamation and that the public interest in amalgamation should be a precursor to determining appropriate rate design rather than the other way around.” (CEC Final Submission, p. 5)

This argument persuades the Panel to reconsider the Original Decision. The Panel concludes that had the Utilities first sought amalgamation, and subsequently applied to the Commission for common rates, the premise that influenced the Commission Panel in the Original Decision, that existing approved rates must necessarily not be ‘unjust, unreasonable, unduly discriminatory or unduly preferential’ may no longer be determinative in all of the circumstances.

3.0 WHETHER COMMON RATES ARE APPROPRIATE

The FEU have applied to the Commission to reconsider its decision denying common rates for FEI, FEVI, and FEW. While the Commission Panel has already determined that amalgamation is in the public interest and already determined that its approach will be to consider the issues of amalgamation and postage stamp rates separately, the FEU and many of the parties made submissions based on a consideration of these issues concurrently. The Commission Panel will consider the evidence as it is presented in terms of its “approach” to consider the issues separately in the “Commission Determination” section of this part of the Decision.

The FEU and Interveners submit that the issue of postage stamp rates should be considered using a broad public interest perspective, acknowledging (alleged) factors such as:

- Postage stamp rates address rate stability issues for a larger public interest group.
- Postage stamp rates support equality of investment and job creation opportunities.
- Postage stamp rates encourage efficient energy choices.
- Postage stamp rates can be an appropriate means of allocating costs to various customers groups, in that they are consistent with the Bonbright principles.

While the Commission Panel acknowledges the submissions of the various parties, the Panel finds that, having approved amalgamation, it is appropriate to address postage stamp rates in the context of an amalgamated entity. The Panel further agrees that new evidence supports viewing such rates in a broader public policy context.

3.1 Broader Perspective of Public Interest

This section analyzes additional public policy issues.

While the FEU allege that the Commission Panel did not consider various factors relevant to the public interest in the first instance (FEU Phase I Application, pp. 15-25), the Commission Panel will consider all issues with emphasis on those that are connected to new evidence. While there may be some merit to considering other factors raised by the FEU the Commission Panel finds it unnecessary.

Accordingly, the following public interest matters are considered in this section:

1. The impact of postage stamp rates on rate stability for a larger public interest group.
2. The impact of postage stamp rates on equality of investment and job creation opportunities.
3. The influence of postage stamp rates on Regulatory Efficiency.
4. Consideration of the LNG Export Facility near Squamish as evidence of a fundamental change of circumstance.

3.1.1 Rate Stability

The FEU contend that rate stability for the amalgamating entities is one of the key drivers for their application. (FEU Final Submissions, p. 37) In their Rebuttal Evidence, the FEU state that “amalgamation and postage stamp rates would be a lasting solution to the challenges facing FEVI” and that “[a] key benefit of amalgamation and postage stamp rates is greater rate stability for all customers over the longer term.” (Exhibit B-7, FEU Rebuttal Evidence, p. 5)

The FEU also provided a Letter of Support for this Reconsideration Application dated April 15, 2013, from the Ministry of Energy, Mines and Natural Gas [as it then was]. That letter states:

“Government policy has been to promote access to energy services on a postage stamp rate basis so that all British Columbians benefit from access to services at the lowest average cost.” (FEU Phase I Application, Appendix A, p. 1)

CEC suggests that rate stability is better achieved under amalgamation and postage stamp rates than not, particularly as FEVI customers can expect to experience such significant rate increases over a short time period, as to be considered “rate shock.” The CEC cite short term increases of over 20 percent for FEVI customers. (CEC Final Submission, p. 17)

BCPSO submits that rate stability is a significant ratepayer issue, affecting mainly FEVI ratepayers. Further, BCPSO suggests that if rate stability is to be contrasted with “cost” then cost ought to be understood from the perspective of the system and the ratepayers as a whole. (BCPSO Final Submission, p. 7)

Commission Determination

The Commission Panel determines that in the context of the FEU as an amalgamated entity, rate stability for the larger group of ratepayers will be increased with the implementation of common rates. The Panel notes that this is consistent with its findings in the Original Decision.

3.1.2 Equality of Investment and Job Creation Opportunities

The MEM states that it is concerned that without postage stamp rates, regions with lower rates will have a competitive advantage to attract and retain new business ventures. It offers the opinion that investors seeking opportunities in the provincial natural gas resources sector, such as development of liquefied natural gas, as supported by the Province’s Natural Gas Strategy, would look to lower rate regions to locate, rather than Vancouver Island or the Resort Municipality of

Whistler. MEM contends that this has implications for customer fairness from a broader public perspective. MEM does, however, note that “many factors may affect the competitive position of commercial enterprises in a particular locale” but suggests that “a disadvantage in the area of energy input costs may be significant and lead to diminished economic development and job creation opportunities as a result.” (FEU Phase I Application, Appendix A, p. 2)

Further, MEM states, as quoted by FEU in its Phase I Application:

“From a provincial, price fairness perspective, postage stamp rates would provide consistent pricing for the [natural gas for transportation incentive] program resulting in a greater economic incentive throughout British Columbia to use natural gas in the heavy duty transportation sector.”

(FEU Phase I Application, p. 25, citing April 15, 2013 Letter from Ministry of Energy Mines and Natural Gas, Appendix A, p. 3)

Commission Determination

The Commission Panel acknowledges that the provincial government has announced a policy strategy to develop natural gas resources within the province. (British Columbia’s Natural Gas Strategy, Exhibit C1-3, Appendix H) Further, the Commission Panel accepts MEM’s position that postage stamp rates provide consistent pricing, which may help to support a level geographic playing field. However, the Commission Panel also acknowledges MEM’s position that other factors may also be in play and may, in fact, be determinative. **The Commission Panel cannot therefore conclude that postage stamp rates will necessarily affect economic development and job creation opportunities in the province.**

3.1.3 Regulatory Efficiency

Many participants commented that common rates provide regulatory efficiency.

The FEU submit that due to the high degree of integration of FEW, FEVI and FEI, that they are challenged to definitively assign shared costs to the respective utilities. (FEU Final Submission,

p. 57) The FEU specifically refer to the Shared Services Agreement, and conclude that costs are allocated in a similar manner to how common costs are allocated among customer classes within a cost of service study. In effect, the situation today is that some customers from one utility are likely paying for the cost of service of a facility that is on the balance sheet of another entity. The FEU cite the EES Consulting Inc. (EES Consulting) report, which provides the opinion that postage stamp pricing across all regions becomes more appropriate as the FEU become more and more integrated. Facilities, such as the Mt. Hayes storage facility, benefit more than one utility. Postage stamp rates simplify the allocation process. (FEU Final Submission, pp. 56-57; Exhibit B-3-1, Appendix D-1, EES Consulting, "Natural Gas Cost of Service Review")

The FEU tendered new evidence consisting of the 2004 Utilities Strategy Project (Exhibit B-1, Schedule A), the 2004 Shared Services Agreement between FEI and FEVI (Exhibit B-1, Schedule B), and the 2014 Shared Services Agreement between FEI and FEVI. (Exhibit B-1, Schedule C)

CEC supports the notion that postage stamp rates are practical and cost-effective to implement. (CEC Final Argument, p. 35)

AVICC quotes the following FEU statement:

"[G]iven that costs are currently allocated involving the exercise of judgment with the cost allocation based on use of cost drivers and estimates which are only representations of the costs, amalgamation of separate entities as requested by FEU would be beneficial as it would reflect the integrated nature of the service provided, would be simpler, would not be open to contention and save the time currently associated with administering the agreements."

(AVICC Final Submission, p. 6, citing Exhibit B-3, AVICC IR 1.3.4)

BCPSO suggests that both amalgamation and the implementation of common rates reduce the FEU's total costs. It goes on to suggest that the implementation of common rates is therefore not a cost issue, but a fairness issue, based on cost allocation. BCPSO suggests that fairness and cost causation are flexible concepts and that the cost of serving a particular customer is an average of

total costs, which is averaged depending on the “whichever group that customer happens to be lumped with.” (BCPSO Final Submission, p. 8)

Commission Determination

The Panel accepts that regulatory efficiency may be achieved with both amalgamation and postage stamp rates. Amalgamation may support regulatory efficiency by reducing the number of applications before the Commission. Postage stamp rates may support regulatory efficiency by eliminating the exercise in judgment required to allocate costs on a utility-by-utility basis where there are numerous shared facilities. The Panel notes that many of the arguments of the participants respecting regulatory efficiency considered amalgamation and postage stamp rates collectively.

The Panel accepts BCPSO’s argument that fairness in terms of rate design can be achieved without the requirement of maintaining regional rates in the first instance.

The Panel finds that in the circumstances of this case, where there is considerable interdependency among the Utilities comprising the FEU, there is significant judgment required for cost allocation, and there are additional applications made necessary by the existence of three separate utilities, regulatory efficiency will be improved through both amalgamation and postage stamp rates.

3.1.4 Fundamental Change in Circumstance

CEC submits in its application for reconsideration, among other things, that a fundamental change of circumstance has occurred. CEC refers to the proposed development of an LNG export facility, at the Woodfibre site near Squamish, along the transmission pipeline corridor. CEC submits evidence of the anticipated volumes for the proposed LNG plant as in the public domain, as FEVI has applied for a deferral account for the development costs. (Exhibit C1-2, CEC Evidence, p. 1)

CEC also submits that BC Ferries is considering conversion from diesel fuel to LNG, which could possibly be drawn from Mt. Hayes, and refers to the BC Ferries' Fuel Strategy document. (Exhibit C1-2, Appendix A) CEC states, "given that the market for LNG is rapidly expanding, it is appropriate for the Commission to consider the new circumstances and facts with respect to FEVI and how they may influence the relative fairness of amalgamation and postage stamp rates. (Exhibit C1-2, CEC Evidence, p. 3)

In their Final Submission, the FEU state that while the Woodfibre LNG project is a possibility, it is too soon to consider this project as a fundamental change of circumstance. (FEU Final Submission, p. 23)

Commission Panel Discussion

The Panel finds there is insufficient evidence to conclude that the Woodfibre LNG project is likely to proceed and it therefore cannot determine there is a fundamental change in circumstance.

The Panel, therefore, will not consider this potential development as a factor in determining the issue of common rates.

3.1.5 Commission Determination Regarding Common Rates

The Commission Panel determines that the FEU may adopt common rates for the amalgamated entity, upon confirmation:

- (1) The Lieutenant Governor in Council has, by order, consented to amalgamation; and**
- (2) The amalgamation has been effected.**

The Panel emphasizes the importance of its consideration of postage stamp rates in the context of an amalgamated entity.

In summary, in the context of an amalgamated entity with new evidence concerning regulatory efficiency and public policy, the Panel reconsidered the issues of “fairness” and “public policy” from a broad, system wide perspective. Using the lens of a broader public interest perspective and in light of its conclusion that amalgamation of the FEU is in the public interest, the Commission Panel is persuaded that postage stamp rates are consistent with regulatory efficiency. The Commission Panel also finds that postage stamp rates will promote rate stability over the longer term, as the issues relating to potential future rate shock on Vancouver Island will be eliminated. The Panel further finds that the ability to allocate all costs over the larger ratepayer base will improve rate stability for ratepayers as a whole, and therefore finds that postage stamp rates are appropriate in this instance.

Fort Nelson

The Commission Panel notes that the FEU are no longer seeking to include the Fort Nelson service area in their postage stamp rates application, but to maintain regional rates for that area, as has been consistently done in the past.

Mr. Robinson suggests that the exclusion of Fort Nelson from postage stamp rates weakens the position of the FEU. (Robinson Final Submission, p. 7)

AVICC also criticizes the logic of excluding the Fort Nelson area from postage stamp rates, noting that government policy “applies to all British Columbians without any particular municipality being carved out.” It suggests that “FEU’s arguments to exclude Fort Nelson customers seem to contradict many of the arguments FEU made in support of postage stamp rates.” (AVICC Final Submission, p. 9) The FEU state that they “have not made any arguments to exclude Fort Nelson.” Rather, they note that the amalgamation issue is not applicable to Fort Nelson as it is already a part of FEI, and they contend that they simply have not sought reconsideration of the Commission’s decision denying postage stamp rates in terms of its application to Fort Nelson.

Commission Panel Discussion

The Commission Panel agrees there would appear to be a logical inconsistency in maintaining regional rates for Fort Nelson. However, the Panel also notes that the Fort Nelson and District Chamber of Commerce, which intervened in both the Original Application and the Reconsideration Application, took no position on the Reconsideration Application as no reconsideration of rates as applicable to Fort Nelson was sought. The FEU may want to address this apparent inconsistency in its next rate design application.

4.0 RATE DESIGN

In their Original Application, the FEU proposed to use FEI's existing rate design methodologies as a basis for the rate design of the amalgamated entity, noting in part that the customer base of the amalgamated entity will be primarily existing FEI customers. (FEU Final Submission, Original Application, p. 100) The Utilities based their rate design on a detailed Cost of Service Allocation (COSA) study utilizing the cost of service for the amalgamated entity. The FEU confirmed that their proposed rate design had been endorsed by EES Consulting, their external expert in cost allocation and rate design, and is consistent with accepted rate design principles. The FEU stated that they expect to file a rate design application in late 2016, following an approximate two year period to allow for customer movement, as customers adjust to common rates, as recommended by FEU's consultant. (Original Application, Exhibit B-3, pp. 6, 221; Exhibit B-15, BCUC IR 2.58.1)

4.1 EES Consulting Recommendations

In terms of customer movement, EES Consulting stated in its report: "As this is a significant change for many customers in terms of both the rate level and in some cases the rate design, it is recommended that no other rate design changes be made until these new rates are implemented and the utility ensures that all issues related to the rate migration are resolved. Changes to the rate design would be more appropriate to consider in future applications." (Original Application, Exhibit

B-3, p. 221 citing Exhibit B-3-1, Appendix D1, EES Consulting Cost of Service Review Report “FEU Natural Gas Cost of Service Review,” April, 2012, p. 30)

EES also “recommended at that time that both the revenue to cost ratios and the per unit cost by customer, demand and energy components be incorporated when designing rates. Rates should be set to consider the overall cost as well as the cost of each rate component. While rates are not always set exactly equal to the per unit costs from COSA because of balancing all of the other rate design principles, they should be a factor in developing rate design in the future.” (Original Application, Exhibit B-3-1, Appendix D 1, p. 31)

Submissions of the Parties

In its submissions in the Original Application, CEC concurred with the approach of the FEU as to the use of the FEI rate design as a starting basis, revisiting it once it has been in place for a couple of years, but urged the Commission to set a timeline for an amalgamated entity rate design application. CEC also took issue with the FEU’s argument that a “range of reasonableness” of +/- 10 percent of existing rates was sufficient, obviating the need for formal rate rebalancing, although it agreed that this issue was tangential to the main thrust of the application and could be dealt with when a new COSA study for the amalgamated entity was developed. CEC submitted that the Commission should stipulate that the rate design application for the amalgamated entity will:

- address moving the revenue/cost ratios toward one; and
- provide conservation rates designed to reduce peak demand and related costs for customers of the amalgamated utility.

CEC also noted that the FEU are proposing not to include large industrial and special contract customers with specific rate structures and operating agreements in the postage stamp rate design. CEC submitted that the Commission should also require the amalgamated entity to “look for the appropriate balance for these customers to participate in bearing a fair share of the post

amalgamation impacts over time and require [it] to provide such submissions at the appropriate future timing for consideration of these contracts and supply arrangements.” (CEC Final Submission, Original Application, pp. 19-20)

In its submissions in the Original Application, BCPSO expressed concern with the COSA study, in terms of the change in the parameters used in the Minimum System Study used to classify costs, from the 1.25 inch sized pipe used in the past to 2.0 inch sized pipe. BCPSO argued that the Minimum System Method has an inherent bias toward over-classifying costs as customer-related, as opposed to demand-related, resulting in an over-allocation of costs to Rate 1 Residential customers, and that this bias is exacerbated when the assumed pipe size is increased. BCPSO suggested that the “zero intercept” method of classifying costs is superior and asked that the FEU be directed to investigate that method as part of its next COSA study. (BCPSO Submission; Original Application, pp. 9-11)

In reference to CEC’s proposal to set a specific time for a rate design proceeding, the FEU confirmed that the amalgamated entity would be preparing a rate design in the latter part of 2016. The FEU took issue, however, with the CEC’s suggestions regarding revenue/cost ratios and also argued that there is no evidentiary basis for a direction to require the amalgamated entity to provide conservation rates. (FEU Reply, pp. 18-19)

The FEU also addressed BCPSO’s concerns with the Minimum System Supply approach, arguing that with the Peak Load Carrying Capacity (PLCC) Adjustment, its Minimum System approach “more closely matches the theoretical demand and customer components of the distribution system” and that the PLCC Adjustment “fully addresses” BCPSO’s concerns respecting the larger minimum pipe size assumed. The FEU submitted that the zero-intercept approach favoured by BCPSO will be considered in the next rate design application, but will not be used if it produces results that do not show the necessary correlation between size of pipe and cost per unit, as has been the case in the past. (FEU Reply, pp. 14-15)

Commission Determination

There is little disagreement among the parties with respect to implementing FEI's existing rate design methodologies on a transitional basis. The Commission Panel agrees and accepts the proposal put forward by the FEU for the temporary rate design once the amalgamation is legally effective.

There also is no disagreement among the parties as to the need for a future comprehensive Rate Design Review, which, among other things, would address cost allocation methodologies, customer segmentation and rate structure design. The only issue is when this will occur. The Commission Panel notes that amalgamation will result in the combining of a number of regional utilities, each with their own unique set of challenges, under one rate structure. Because of this, it is reasonable to conclude that reliance upon FEI's existing rate design methodologies for the amalgamated utilities may be appropriate for the short term, but the matter should be addressed in a timely fashion to ensure that rates for each category of customer are fair and reasonable. **Accordingly, the Commission Panel directs the FEU to file a Rate Design Application for the amalgamated entity no later than two years after the effective date of the amalgamation of the FEU and Terasen Gas Holdings Inc.** The Rate Design Application should include industrial and other special contract customers as recommended by CEC in the Original Application. As noted above, it should also address the issue of postage stamp rates in terms of their suitability to the Fort Nelson region. The two year time frame should provide adequate time for the FEU to prepare the application, yet allow issues, which have arisen during the initial transition and those raised by the EES Review, BCPSO and CEC, to be addressed in a timely manner.

5.0 OTHER ISSUES

This section deals with consequential issues that result from approval of amalgamation and common rates. In essence, these issues are concerned with easing the burden of amalgamation and postage stamp rates to the FEI ratepayers. The Panel will review the evidence and submissions

in terms of the FEVI RSDA account disposition, potential contributions and phase in, some or all of which can be used to mitigate rate impacts to the existing FEI ratepayers. The Panel will provide its determination based on consideration of all of these interrelated issues.

5.1 FEVI Rate Stabilization Deferral Account (RSDA)

FEVI had a forecast balance of approximately \$93 million in its RSDA at December 31, 2013. This balance is forecast to increase to \$96.7 million at December 31, 2014. The RSDA was built up over a number of years to protect FEVI ratepayers from the eventuality that the government subsidies keeping their rates in check would cease, as planned, on December 31, 2011. (Original Application, Exhibit B-3, p. 168; Reconsideration Application, Exhibit B-1, p. 6) The FEU advise that the RSDA forecast balance represents approximately 50 percent of FEVI's annual revenue requirement. The FEU propose that the RSDA account be used to mitigate the annual rate impacts to FEI, by way of distribution to FEI customers over a 3-year period. (FEU Final Submission, pp. 62, 65)

CEC characterizes the availability of the RSDA to mitigate rates for FEI as a "contribution" from FEVI, which it considers to be one of the positive factors in its assessment of the strong public interest in amalgamation, which it perceives for FEVI. The CEC takes the position that, in contrast, FEW is not similarly situated and rather than providing benefits, brings additional costs to the table. (CEC Final Submission, p. 39)

AVICC supports the FEU proposal to use the RSDA account to mitigate the impact of the increased delivery rates to FEI customers. (AVICC Final Submission, p. 10)

BCPSO agrees with CEC that the use of the RSDA to mitigate rate impacts for FEI customers represents an upfront contribution from FEVI. (BCPSO Final Submission, p. 9)

Mr. Robinson implies that while the contribution of the RSDA balance may be a benefit to the FEI ratepayers, it is not necessarily a "long-term sustaining benefit." (Robinson Final Submission, p. 12)

5.2 Contributions by FEVI and FEW

As outlined in Section 5.1, most of the participants acknowledge that using the balance in the RSDA to mitigate the rate impacts for current FEI customers is a reasonable approach to supporting amalgamation and common rates.

The FEU take the position that it is not necessary for FEW to pay a contribution. However, if the Panel considers that a contribution from FEW is necessary, the FEU suggest two fundamental questions follow:

1. What is the appropriate amount for such contribution? and
2. How, and over how long a period, should such contribution be collected?

The FEU suggest that, to the extent a contribution from FEW is required, the lower limit would be in the order of \$6 million, which represents approximately 50 percent of FEW's annual revenue requirement, and is therefore comparable to the RSDA, which represents approximately 50 percent of FEVI's annual revenue requirement. They suggest the upper end be capped at roughly \$25 million, which is calculated to recover the 2013 year end balances in two deferral accounts, representing the costs to connect and convert the Resort Municipality of Whistler to natural gas from propane. The FEU submit that if a contribution from FEW is necessary, a contribution at the lower limit of \$6 million would be sufficient to reflect a contribution similar to that made by FEVI. The FEU state that the maximum amount that could be collected from FEW customers without increasing the bill impact to those customers would be approximately \$6 million per year. They therefore calculate that a contribution from FEW in the range between \$6 million and \$25 million could be collected over a three to five year period, without increasing FEW rates. The FEU also submit, however, that, given the size difference between FEW and FEI, any suggested amount of contribution from FEW "will be too small to have a material impact on mitigating the rate impact to FEI." (FEU Final Submissions, pp. 64-66, citing, in part, Exhibit C1-4, BCUC IR 2.1.2 to CEC)

The CEC suggests that the inclusion of FEW in the amalgamated entity is on a different footing than FEVI, and the analysis should be more akin to a “mains extension” test case, in that its inclusion represents the absorption of a small community that has converted from propane to natural gas into the amalgamated entity. (Exhibit C1-4, BCUC IR 2.1.4) CEC submits that FEW brings “significant cost issues” to the amalgamation case and recommends that the Commission “apply a treatment that accordingly places more responsibility on FEW customers to contribute toward the benefit of integration into the FEI natural gas system. The CEC submits that it would be inappropriate to allow a ‘halo’ effect to sweep up less economic utilities because of their small impact and recommends the Commission establish clear guideposts for future requests for amalgamation by the utility.” (CEC Final Submission, p. 39)

BCPSO also disagrees with the FEU’s assessment of a reasonable contribution from FEW. BCPSO “submits the upper limit of an appropriate contribution from FEW is closer to the \$60 million proposed by the CEC than the \$25 million proposed by FEU.” (BCPSO Final Submission, p. 9)

5.3 Phase-In Periods

The FEU submit that postage stamp rates ought to be implemented for FEVI and FEW immediately. However, in noting that some parties suggest that a phase-in is necessary, the FEU have examined alternative phase-in options of three and five years. These phase-ins would, in and of themselves, create revenue surpluses, collected from FEW and FEVI customers by way of debit riders, which would in turn be distributed to FEI customers, in addition to the RSDA, through the use of a credit rider. The FEU suggest:

1. While the phase-in riders create a revenue surplus which can be distributed to FEI to further mitigate the rate impacts, the FEU see no compelling need to mitigate the impact on FEI ratepayers beyond the 1.3 percent accomplished by the FEU proposal to simply distribute the RSDA to FEI ratepayers over three years.
2. A phase-in will necessarily provide a contribution from FEVI and FEW, although the FEU see no compelling reason to collect such an additional contribution.

3. A phase-in will postpone the benefits of postage stamp rates, although, as long as the transition to common rates can be accomplished within 3 to 5 years, these benefits would not be unreasonably compromised.
4. A phase-in would add regulatory complexity, which would not be unreasonable, as long as the transition to common rates were accomplished within 3 to 5 years.
(FEU Final Submission, pp. 63-64; Exhibit B-6, BCUC IR 2.1.1)

CEC suggests a formulaic approach to determining phase-in periods, and provides an analysis that weighs individual public interest contributions of the amalgamating utilities. In its submissions, CEC suggests that the public interest case for receiving FEVI into the amalgamated entity is not as positive as the FEU has stated, and therefore a seven year transition period would be more appropriate for FEVI. With respect to FEW, CEC applies a similar analysis that results in an evaluation that FEW would contribute less to the public interest test, and therefore ought to have a 21 year phase-in.

BCPSO agrees with CEC that “the public interest case for the amalgamation and implementation of postage stamp rates is much stronger in the case of FEVI than it is in the case of FEW.” (BCPSO Final Submission, p. 4)

AVICC supports the FEU proposal of using the RSDA to mitigate the rate impacts to FEI customers over a period of three years, but otherwise does not support a phase-in. AVICC strongly disagrees with CEC’s submission respecting phase-in, submitting that rate-riders are usually short-term solutions to stabilization. It submits that the 7 and 21 year transition periods proposed by CEC for FEVI and FEW are unreasonable and patently unreasonable, respectively. (AVICC Final Submission, p. 10) While MEM takes no specific position respecting phase-in, MEM acknowledges the use of rate riders to mitigate impacts. (MEM Final Submission, p. 2)

BCPSO submits that FEVI and FEW ought to be phased in to postage stamp rates, based on calculations that consider the real costs and benefits of amalgamation/common rates, favouring a more formulaic approach similar to that taken by CEC. (BCPSO Final Submission, p. 9)

Mr. Robinson suggests that the proposal to phase in rates over several years to lessen the impact acknowledges “this application lacks beneficial factors for all concerned.” (Robinson, Final Submission, p. 7)

The FEU maintain in Reply, that “a contribution from FEW is neither necessary nor appropriate.” They argue that the Community of Whistler should not be singled out for different treatment than is accorded to all the other communities served by FEI. (FEU Reply, p. 16)

Commission Determination

The Commission Panel finds it to be appropriate that all customers be phased in to postage stamp rates over a three-year period. The balance in the RSDA account will be used to phase in the rate increases for the customers of FEI, as will the additional funds available from the phase-ins of the customers of FEW and FEVI.

The Panel does not accept the FEU contention that a 1.3 percent per year rate increase for customers of FEI represents sufficient mitigation, given the current economic environment of low inflation. These increases, combined with the forecast rate increases from the FEI Multi-Year, Performance Based Ratemaking Application currently before the Commission, are together forecast to result in a rate increase of 9.4 percent by 2018 to Mainland residential customers. The 1.3 percent annual increase proposed for Mainland customers makes up more than half of the predicted rate increase. (Exhibit B-1, pp. 6-7)

In terms of Vancouver Island residents, the Commission Panel notes that FEVI customers have been paying increased rates for a number of years to build up the RSDA for the purpose of mitigating the rate increases which would otherwise apply to FEVI ratepayers on the loss of the government subsidies in December 2011. The Panel notes that this fund will be used for its intended purpose, by mitigating the impact of postage stamp rates on FEI customers, who will be financing the rate reduction for Vancouver Island customers.

The Panel finds that rate changes for all customer groups should be phased in, and that there is no compelling reason to exclude Vancouver Island residents from a phase-in of the lower rates.

With respect to customers of FEW, the Panel notes that FEW is a small utility in its own right, serving a single resort municipality. FEW has recently converted from propane to natural gas, and its ratepayers have already enjoyed rate decreases as a result.

In the Panel's view, it would also be reasonable to phase in the further rate reductions for FEW, to treat all ratepayers of the amalgamated entity consistently. The Panel does not accept the FEU's argument that FEW is being "singled out" for different treatment than other communities served by FEI. The Panel finds that the circumstances of amalgamation of the utility following its conversion place it in different circumstances than has been the case with other communities that are within the larger utility's service area. **The Panel therefore directs that rate decreases for FEW also be phased in over a three year period, to further mitigate the rate impacts for FEI customers, notwithstanding the lack of material impact on such rates, as is suggested by the FEU. The Panel directs the FEU to achieve the maximum contribution available over the three-year phase-in period, without increasing rates to FEW customers over that time.**

In the Panel's view, the phase-in for all customers will produce a fair and reasonable result in all of the circumstances and treat the customers of the amalgamated entity consistently. This flows logically from the approval of amalgamation and approval of postage stamp rates, in that the amalgamated entity is now viewed as a whole.

5.4 Capital Structure and Rate of Return for Amalgamated Entity

A further issue which arises as a result of the amalgamation approval is the appropriate capital structure and rate of return for the new, amalgamated entity. The FEU argued in the Original Application that the proposed equity thickness for the amalgamated entity should be equivalent to

the equity thickness for FEI, on an interim basis, pending the outcome of the ongoing Generic Cost of Capital Proceeding.

The FEU further argued that the Rate of Return on that equity should be increased by 12 basis points above the current benchmark return on equity (ROE) for the new amalgamated entity. They put forward the opinion of their expert that the amalgamation will not create any meaningful diversification for the amalgamated entity and that, rather, the amalgamated entity will face a higher risk than previously. (FEU Final Submission, Original Application, pp. 91-93)

BCPSO supported the maintenance of the status quo for the debt: equity ratio, but disputed the FEU request for an increase in the allowed ROE in the Original Application. BCPSO submitted that one of the main purposes of the amalgamation application was to reduce the business risks being faced by the smaller utilities and that those risks will be eliminated upon amalgamation, rather than continue in the amalgamated entity. (BCPSO Final Submission, Original Application, pp. 7-8) BCPSO submitted, however, that the final decision on the ROE for the amalgamated entity should be deferred to the Generic Cost of Capital Proceeding, and that, in the interim period, the ROE for FEI should apply. (BCPSO Final Submission, Original Application, p. 8)

CEC describes the FEU proposal for a 12 basis point risk premium over the benchmark for the amalgamated entity as “unacceptable” and encourages the Commission to “categorically deny this request.” CEC submits that it would not support postage stamp rates if the Commission were to allow the FEU to carry a premium to the benchmark utility following amalgamation. CEC submits that “[t]he costs to the FEI customers are already very substantial without adding this sort of insult to the injury.” CEC takes the same position in respect of any potential increase to the equity capital structure of the amalgamated entity. (CEC Final Submission, Original Application, p. 16)

In AVICC’s submission “the evidence suggests that the additional business risks presently ascribed to FEVI and FEW will very largely disappear and the business risks of the amalgamated utility will be very similar if not identical to those facing FEI, the benchmark low risk utility.” AVICC submits that

it would be appropriate to use the existing debt: equity ratio for FEI for the amalgamated utility. It further submits that the benchmark ROE currently applicable to FEI “should also be suitable for the amalgamated utility,” noting FEU’s acknowledgment that an ROE with no risk premium relative to the benchmark for the amalgamated entity would not affect their intention to proceed with amalgamation. (AVICC Final Submission, pp. 4-5, referencing Exhibit B-3, AVICC IR 1.1.1) MEM submits that: “[a]malgamation will also provide a broader customer base with less exposure to temporary fluctuations in regional economic conditions. Risks are able to be spread across a larger utility which results in more stable rates for customers over the long term.” (MEM Final Submission, p. 2)

Commission Determination

The Commission Panel finds that a final determination as to the appropriate ROE and capital structure for the amalgamated entity must be deferred to the Generic Cost of Capital Proceeding. However, from the evidence and submissions filed in this Proceeding, the Commission Panel would recommend that the capital structure and ROE remain the same for the amalgamated entity as for FEI, as the low risk benchmark utility. In this Panel’s view, the major benefit to the shareholder of the approval for the FEU to amalgamate and adopt postage stamp rates is a reduction in the risk faced by the two smaller utilities. The Panel does not see this risk as being transferred to the larger amalgamated entity. Rather, in this Panel’s view, the risks attributable to the small size and small customer bases of FEW and FEVI combined with their higher rates, as highlighted in this Application, will be eliminated as these utilities are subsumed into a single, larger entity.

5.5 Deferral Accounts

The FEU requested several new deferral accounts in their Original Application. (FEU Final Submission, p. 81; Original Application) Given that the Utilities do not propose to phase-in Fort Nelson to postage stamp rates, the deferral account requested to phase-in its rates has no

application. Two other deferral accounts are proposed for the costs of application for amalgamation and the cost of the amalgamation itself. These costs were not forecast to exceed \$3.5 million. A further rate base deferral account to capture variances between forecast and actual company own use and unaccounted for gas costs was also proposed. No balance was forecast for this account. (Exhibit B-15, BCUC IR 2.77.1)

Commission Determination

The Panel denies the proposed deferral accounts. The Panel sees no need for a new rate base deferral account to capture variances in company own use and unaccounted for gas costs at this time. The Panel is of the view that this proposed deferral account may be more properly brought forward in a revenue requirements application. With respect to the other deferral accounts requested, the Panel notes FEI's submission that a contribution from FEW in the order of \$2 to \$5 million per year for three to five years "will be too small to have a material impact on mitigating the rate impact to FEI." (FEU Final Submission, p. 66) In the Panel's view the phase-in, which has been ordered for FEW and FEVI, will readily cover these additional costs without the need for deferral. Further, other cost reductions, such as the \$2 million in interest expense savings forecasted for the amalgamated entity, will also serve to contribute to defray these costs.

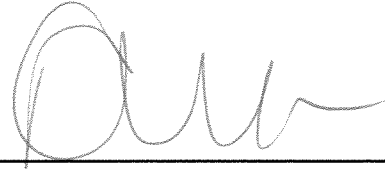
6.0 SUMMARY OF COMMISSION FINDINGS AND DIRECTIVES

This Summary is provided for the convenience of readers. In the event of any difference between the Directions in this Summary and those in the body of the Decision, the wording in the Decision shall prevail.

	Directive	Page
1.	The Commission Panel finds that the FEU amalgamation is beneficial in the public interest, pursuant to section 53 of the UCA.	9
2.	The Commission Panel determines that in the context of the FEU as an amalgamated entity, rate stability for the larger group of ratepayers will be increased with the implementation of common rates.	13
3.	The Commission Panel cannot therefore conclude that postage stamp rates will necessarily affect economic development and job creation opportunities in the province.	14
4.	The Panel finds that in the circumstances of this case, where there is considerable interdependency among the Utilities comprising the FEU, there is significant judgment required for cost allocation, and there are additional applications made necessary by the existence of three separate utilities, regulatory efficiency will be improved through both amalgamation and postage stamp rates.	16
5.	The Panel finds there is insufficient evidence to conclude that the Woodfibre LNG project is likely to proceed and it therefore cannot determine there is a fundamental change in circumstance.	17
6.	The Commission Panel determines that the FEU may adopt common rates for the amalgamated entity, upon confirmation: (1) The Lieutenant Governor in Council has, by order, consented to amalgamation; and (2) The amalgamation has been effected.	17
7.	The Commission Panel directs the FEU to file a Rate Design Application for the amalgamated entity no later than two years after the effective date of the amalgamation of the FEU and Terasen Gas Holdings Inc.	22

8.	The Commission Panel finds it to be appropriate that all customers be phased in to postage stamp rates over a three-year period. The balance in the RSDA account will be used to phase-in the rate increases for the customers of FEI, as will the additional funds available from the phase-ins of the customers of FEW and FEVI.	27
9.	The Panel finds that rate changes for all customer groups should be phased in, and that there is no compelling reason to exclude Vancouver Island residents from a phase-in of the lower rates.	28
10.	The Panel therefore directs that rate decreases for FEW also be phased in over a three year period, to further mitigate the rate impacts for FEI customers, notwithstanding the lack of material impact on such rates, as is suggested by the FEU. The Panel directs the FEU to achieve the maximum contribution available over the three-year phase-in period, without increasing rates to FEW customers over that time.	28
11.	The Commission Panel finds that a final determination as to the appropriate ROE and capital structure for the amalgamated entity must be deferred to the Generic Cost of Capital Proceeding. However, from the evidence and submissions filed in this Proceeding, the Commission Panel would recommend that the capital structure and ROE remain the same for the amalgamated entity as for FEI, as the low risk benchmark utility.	30
12.	The Panel denies the proposed deferral accounts.	31

DATED at the City of Vancouver, in the Province of British Columbia, this 26 day of February 2014.



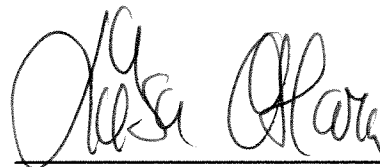
A.A. RHODES
PANEL CHAIR



C.A. BROWN
COMMISSIONER



D.A. COTE
COMMISSIONER



L.A. O'HARA
COMMISSIONER



R.D. REVEL
COMMISSIONER

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-21-14**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

Application by the FortisBC Energy Utilities
(comprising FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI),
and FortisBC Energy (Whistler) Inc. (FEW)) for Reconsideration and Variance of Commission Order G-26-13
on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application

BEFORE: A.A. Rhodes, Panel Chair/Commissioner
C.A. Brown, Commissioner
D.A. Cote, Commissioner February 26, 2014
L.A. O'Hara, Commissioner
R.D. Revel, Commissioner

O R D E R

WHEREAS:

- A. On April 11, 2012, the FortisBC Energy Utilities (FEU or the Companies) filed an Application (the Original Application) with the British Columbia Utilities Commission (Commission) seeking, among other things:
- i. A Commission determination pursuant to section 53 of the *Utilities Commission Act* (the Act) that the amalgamation of the FEU and Terasen Gas Holdings Inc. into a single entity (the Amalgamated Entity) is beneficial in the public interest, and the referral of the Commission determination to the Lieutenant Governor in Council for approval to amalgamate effective January 1, 2014; and
 - ii. The necessary approvals pursuant to sections 59 to 61 of the Act to adopt common rates for natural gas delivery and gas supply and uniform service offerings across all areas served by the FEU following amalgamation;
- B. On February 25, 2013, the Commission issued its Decision and Order G-26-13;

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- C. On April 17, 2013, the Commercial Energy Consumers Association of British Columbia (CEC) applied to the Commission for a Reconsideration of Order G-26-13;
- D. On April 26, 2013, the FEU applied for a Reconsideration and Variance of Order G-26-13, seeking a determination that the proposed amalgamation of the FEU is in the public interest and the proposed postage stamp rates for the amalgamated utility, excluding the service area of Fort Nelson, are approved;
- E. Specifically, the FEU sought to vary Order G-26-13 as follows:
 - i. The amalgamation of FEI, FEVI, FEW and Terasen Gas Holdings Inc. is beneficial in the public interest; and
 - ii. The FEU's proposal to adopt common rates for natural gas delivery amongst the service areas of FEI, FEVI and FEW, but excluding the service area of Fort Nelson, is approved effective on or before January 1, 2015;
- F. On May 8, 2013, the Commission established Phase One of the Reconsideration process, and on June 26, 2013, by Order G-100-13, the Commission determined that the Reconsideration process should proceed to Phase Two (the Reconsideration Applications), which considered new evidence, information requests, intervener evidence, and information requests on intervener evidence;
- G. The Commission has reviewed the Reconsideration Applications, the evidence filed and the submissions of all participants, and has determined that approval is warranted.

NOW THEREFORE the Commission determines, orders and directs as follows:

- 1. The Commission determines that the amalgamation of FortisBC Energy Inc. (FEI), FortisBC Energy (Vancouver Island) Inc. (FEVI), FortisBC Energy (Whistler) Inc. (FEW) and Terasen Gas Holdings Inc., as proposed, is beneficial in the public interest and the FortisBC Energy Utilities' (FEU) proposal to adopt common rates for natural gas delivery amongst the service areas of FEI, FEVI and FEW, but excluding the service area of Fort Nelson, is approved on a three year phase-in basis, effective upon confirmation that:
 - (1) The Lieutenant Governor in Council has, by order, consented to amalgamation, and
 - (2) The amalgamation has been effected.
- 2. The Commission will forthwith refer this determination and the accompanying Decision to the Lieutenant Governor in Council pursuant to section 53 of the *Utilities Commission Act* (the Act) for consideration.

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UTILITIES COMMISSION**

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- 3 Subject to the approval of amalgamation by the Lieutenant Governor in Council pursuant to section 53 of the Act, and effective upon amalgamation the Commission also approves the following:
- a. The discontinuance of:
 - i. The existing Standard Terms and Conditions and Rates for Gas Service of FEVI;
 - ii. The existing Standard Terms and Conditions and Rates for Gas Service of FEW; and
 - iii. All energy, delivery, and commodity rates of FEVI and FEW (not including special contracts and tariff supplements approved individually by the Commission which are addressed in section 2.d. below);
 - b. The amendments to the General Terms & Conditions (GT&Cs) of FEI to be applicable to the Amalgamated Entity, substantially in the form set out in Attachment 73.1 of Exhibit B-15, and all rate offerings set out in the approved GT&Cs for the Amalgamated Entity to be available to all eligible customers of the Amalgamated Entity as of the date of amalgamation, with the exception of:
 - i. The Customer Choice Program. This Program will be available to all customers at a later date, to be advised;
 - c. The use of a combined gas portfolio for the Amalgamated Entity as described in Section 7.4.3 of the Original Application and the gas supply cost allocation methodology for rate setting purposes as described in Section 9.3.4 of the Original Application, with commodity and midstream rates effective no sooner than the date the amalgamation is effective, to be determined by the Commission as part of a future gas cost filing;
 - d. The continuation of existing special contracts and tariff supplements approved individually by the Commission with amendments to reflect the name of the Amalgamated Entity and amendments to the following special contracts substantially in the form set out in Appendices E-18 and E-19 of the Original Application:
 - i. The Transportation Service Agreement and Peaking Gas Management Services Agreement, as amended, between FEVI and the Vancouver Island Gas Joint Venture; and
 - ii. The Transportation Service Agreement between FEVI and British Columbia Hydro and Power Authority (BC Hydro); the Peaking Agreement, as amended, between FEVI and BC Hydro; and Capacity Assignment Agreement, as amended, between FEVI, FEI and BC Hydro;
 - e. The discontinuance of the FEW main extension test and continuation of the FEI and FEVI main extension test (with the same established thresholds) for the Amalgamated Entity as described in Section 7.4.2.3 of the Original Application;

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- f. The use of a Rate Stabilization Deferral Account (RSDA) Rider, to permit the distribution of the balance in the RSDA to non-bypass customers in the current FEI service area over a three year period effective as of the date of the amalgamation;
 - g. The phase-in of all customers to common rates over a three year period;
 - h. The discontinuance of the FEVI Gas Cost Variance Account (GCVA) following the transfer of the outstanding balance in the GCVA to the RSDA;
 - i. The merger of the FEI and FEW Revenue Stabilization Adjustment Mechanism (RSAM) Accounts;
 - j. For clarity, the discontinuance of the following contracts among the FEU as amended from time to time:
 - i. The Wheeling Agreement between FEI and FEVI;
 - ii. The Transportation Agreement between FEVI and FEW;
 - iii. The Squamish Transportation Agreement between FEVI and FEI, as amended by the Squamish Gas Arrangements Termination Agreement;
 - iv. The Storage and Delivery Agreement (SDA) between FEVI and FEI, and the Amending Agreement to the SDA, for Mount Hayes LNG service;
 - v. The Contribution Agreement between FEW and FEVI in respect of Whistler Facilities; and
 - vi. The Shared Services Agreements between FEI and FEW and between FEI and FEVI; and
 - k. The discontinuance of the Corporate Services Agreement between FortisBC Holdings Inc. and each of FEVI and FEW, leaving the agreement with FEI to remain in place for the Amalgamated Entity as amended to include FEVI and FEW costs;
 - l. The adoption of FEI's approved Transfer Pricing Policy and Code of Conduct, as the Transfer Pricing Policy and Code of Conduct of the Amalgamated Entity; and
 - m. The adjustment of the conditions specified in Commission Order G-49-07 relating to the acquisition of Terasen Inc. (now FortisBC Holdings Inc.) by Fortis Inc. [the "ring-fencing" conditions] as necessary to reflect the amalgamation of the FEU.
4. The Commission will accept, subject to timely filing following approval of the amalgamation by the Lieutenant Governor in Council, and prior to the amalgamation date, the GT&Cs for the Amalgamated Entity and other special contract rates that are to be amended in accordance with the terms of this Order.

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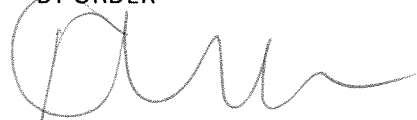
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5. The FEU is to file a rate design application for the Amalgamated Entity no later than two years after the effective date of the amalgamation of the FEU and Terasen Gas Holdings Inc.
6. Subject to approval of amalgamation by the Lieutenant Governor in Council pursuant to section 53 of the Act, and effective upon amalgamation, the FEU shall comply with directions of the Commission Panel in the Decision issued concurrently with this Order.
7. Amended FEI rate schedules and delivery rates for the Amalgamated Entity to be effective as of the date of the amalgamation or January 1, 2015, whichever is later, will be filed with the Commission for approval.

DATED at the City of Vancouver, in the Province of British Columbia, this 26th day of February 2014.

BY ORDER



A.A. Rhodes
Panel Chair/Commissioner

GLOSSARY

Application	Application for Reconsideration and Variance of Order G-26-13 in respect of FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application
AVICC	Association of Vancouver Island and Coastal Communities
BC Hydro	British Columbia Hydro and Power Authority
BCPSO	British Columbia Pensioners' and Seniors' Organization
CEC	Commercial Energy Consumers Association of British Columbia
Commission	British Columbia Utilities Commission
COSA	Cost of Service Allocation
FEI	FortisBC Energy Inc.
FEU or the Utilities	FortisBC Energy Utilities
FEVI	FortisBC Energy (Vancouver Island) Inc.
FEW	FortisBC Energy (Whistler) Inc.
FNCC	Fort Nelson & District Chamber of Commerce
GVCC	Greater Victoria Chamber of Commerce
LNG	Liquefied Natural Gas
MEM	Ministry of Energy and Mines
Original Application	Common Rates, Amalgamation and Rate Design Application
PLCC	Peak Load Carrying Capacity
RMOW	Resort Municipality of Whistler
ROE	Return on Equity
RSDA	Rate Stabilization Deferral Account
UCA	Utilities Commission Act

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

FortisBC Energy Utilities
[comprised of FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area,
FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc.]
Applications for Reconsideration and Variance of Order G-26-13 Common Rates, Amalgamation,
and Rate Design Application Phase 2

EXHIBIT LIST

Exhibit No.	Description
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated June 26, 2013 – Commission Order G-100-13 Establishing a Regulatory Timetable for Phase Two
A-2	Letter dated July 24, 2013 – Information Request No. 1 to Robinson
A-3	Letter dated July 24, 2013 – Information Request No. 1 to CEC
A-4	Letter dated July 24, 2013 – Information Request No. 1 to FEU
A-5	Letter dated July 24, 2013 – Information Request No. 1 to MEM
A-6	Letter dated July 25, 2013 – Amended Regulatory Timetable to Order G-110-13
A-7	Letter L-46-13 dated August 7, 2013 – Amended Regulatory Timetable
A-8	Letter dated August 28, 2013 – Information Request No. 2 to CEC
A-9	Letter dated August 28, 2013 – Information Request No. 2 to FEU
A-10	Letter L-50-13 dated September 5, 2013 – Amended Regulatory Timetable
A-11	Letter L-58-13 dated October 1, 2013 – Amended Regulatory Timetable
A-12	Letter dated October 4, 2013 - Commission Panel Information Request No. 1
A-13	Letter dated January 8, 2014 – Extension of Powers for Alison Rhodes

Exhibit No.	Description
<i>COMMISSION STAFF DOCUMENTS</i>	
A2-1	Letter dated July 24, 2013 – Commission Staff Filing Q & A West Coast Marine LNG Project
A2-2	Letter dated August 28, 2013 – Commission Staff Filing Excerpt from FEI's Greenhouse Gas Reduction Regulation Application

APPLICANT DOCUMENTS

B-1	FORTISBC ENERGY UTILITIES (FEU) Letter dated July 10, 2013 – FEU Submitting New Evidence
B-2	Letter dated August 12, 2013 – FEU Submitting Response to BCUC IR No. 1
B-3	Letter dated August 12, 2013 – FEU Submitting Response to AVICC IR No. 1
B-4	Letter dated August 12, 2013 – FEU Submitting Response to Robinson IR No. 1
B-4-1	CONFIDENTIAL Letter dated August 12, 2013 – FEU Submitting Confidential Response to Robinson IR No. 1 Attachment 1.0B
B-5	Letter dated August 22, 2013 – FEU Comments on Letter L-46-13 and Amended Regulatory Timetable
B-6	Letter dated September 11, 2013 – FEU Submitting Response to BCUC IR No. 2
B-7	Letter dated September 25, 2013 – FEU Submitting Rebuttal Evidence
B-8	Letter dated October 11, 2013 – FEU Submitting Response to BCUC Panel IR No. 1

INTERVENER DOCUMENTS

C1-1	COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC) Letter dated July 8, 2013 – Request for Intervener Status by Christopher P. Weafer
C1-2	Letter dated July 10, 2013 – CEC Submitting Evidence
C1-3	Letter dated August 14, 2013 – CEC Submitting IR No. 1 Responses

Exhibit No.	Description
C1-4	Letter dated September 11, 2013 – CEC Submitting Response to BCUC IR No. 2
C1-5	Letter dated September 25, 2013 – CEC Submitting Rebuttal Evidence
C2-1	FORT NELSON & DISTRICT CHAMBER OF COMMERCE (FNCC) Letter dated July 9, 2013 – Request for Intervener Status by Bev Vandersteen
C3-1	MINISTRY OF ENERGY AND MINES (MEM) Letter dated July 9, 2013 – Request for Intervener Status by Paul Wieringa and Les MacLaren
C3-2	Letter dated August 12, 2013 – MEM Submitting IR No. 1 Responses
C4-1	RANDY ROBINSON (ROBINSON) Letter and Online Registration dated July 10, 2013 – Request for Intervener Status by Randolph Robinson
C4-2	Letter dated July 10, 2013 – Robinson Submitting Evidence
C4-3	Letter dated July 24, 2013 – Robinson Submitting IR No. 1
C4-4	Letter dated August 13, 2013 – Robinson Submitting IR No. 1 Responses
C5-1	BRITISH COLUMBIA PENSIONERS' AND SENIORS' ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, BC COALITION OF PEOPLE WITH DISABILITIES, COUNSEL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCPSO ET AL) Letter dated July 10, 2013 – Request for Intervener Status by Tannis Braithwaite, James Wightman and Eugene Kung
C6-1	GREATER VICTORIA CHAMBER OF COMMERCE (GVCC) Letter dated July 10, 2013 – Request for Intervener Status by Oriane Fort
C7-1	ASSOCIATION OF VANCOUVER ISLAND AND COASTAL COMMUNITIES (AVICC) Letter dated July 15, 2013 – Request for Late Intervener Status by Iris Hesketh-Boles
C7-2	Letter dated July 24, 2013 – AVICC Submitting IR No. 1

INTERESTED PARTY DOCUMENTS

D-1	Resort Municipality of Whistler (RMOW) Letter and Online Registration Dated July 4, 2013 – Request for Interested Party Status by Ted Battiston
D-2	BRITISH COLUMBIA HYDRO AND POWER AUTHORITY (BC HYDRO) Letter dated July 10, 2013 – Request for Interested Party Status by Janet Fraser

Exhibit No.	Description
<i>LETTERS OF COMMENT</i>	
E-1	District of Lantzville - Letter of Comment Dated July 12, 2013
E-2	Sperling, L Letter of Comment Dated September 26, 2013
E-3	Armstrong, C Letter of Comment Dated October 8, 2013 – Redacted version on web only
E-4	Wodlinger, K Letter of Comment Dated September 25, 2013 – Redacted version on web only