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April 10, 2018

Mr. Patrick Wruck
Commission Secretary and Manager, Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
V6Z 2N3

Re: FEI RDA 2016. Project No. 3698899 / Order G-6-17 2016 Rate Design Application

Dear Mr. Wruck:

Please find enclosed Catalyst Paper's Written Final Argument.

Sincerely,

Jouni Martiskainen
Energy Specialist

1.0 Overview

Catalyst Paper is part of the Vancouver Island Gas Joint Venture (VIGJV) that receives gas transportation service from FEI. The VIGJV is a contract customer that has contributed significant revenue for the Vancouver Island Natural Gas Pipeline system since 1991.

Historically, the VIGJV has purchased firm and interruptible gas **transmission** service from FEI and it predecessors FEVI, TGVI, Centra Gas, PCEC, and Westcoast. In previous COSA studies completed by FEI's predecessor's the VIGJV's firm revenue has more than covered its fair share of the firm cost of service from the high pressure transmission system (HPTS) [1]. The 1995 rate design for the VIGJV used the interruptible revenue as a credit back to the cost of service associated with the transmission system. More recently, the VIGJV interruptible revenue appears to have been allocated to; reduce the Revenue Deficiency Deferral Account (RDDA) on a non-permanent basis [2]; provide surplus revenue for FEVI's Rate Stabilization Deferral Account (RSDA); and provide surplus revenue for FEI's Flow Through deferral account; however, this revenue does not appear to have been allocated to the VIGJV for the purposes of calculating the historical revenue to cost ratio in COSA studies.

The historical practice of allocating solely transmission costs to the VIGJV, has been previously approved by the Commission, and the practice is still valid today under the amalgamated utility. The historical practice of allocating solely transmission costs to large, firm service industrial customers in RS22A and RS22B, has also been previously approved by the Commission and is still valid today.

FEI's proposal to selectively allocate distribution plant costs to the VIGJV and BC Hydro IG is unprecedented, unjustifiable, and inconsistent with previous Commission determinations with respect to VIGJV's cost allocation.

FEI has proposed "postage stamp rates" for industrial customers in RS22, but the proposal would create "regional rates" with unfair, unprecedented cost allocation methodologies. FEI's proposed RS22 would result in similar large, firm service customers in the Inland and Columbia regions receiving similar service for far less cost than the VIGJV and BC Hydro IG receive on Vancouver Island and the Sunshine Coast. Additionally, the FEI proposal would maximize the firm transportation rate for all future industrial customers that choose to locate operations near the existing gas transmission pipelines, rather than provide the lowest average cost of transmission service to these new customers.

2.0 Inappropriate Selective Distribution Cost Allocation for the VIGJV and BC Hydro IG in RS22 Proposed

FEI's rate base can be categorized as shown below [3],

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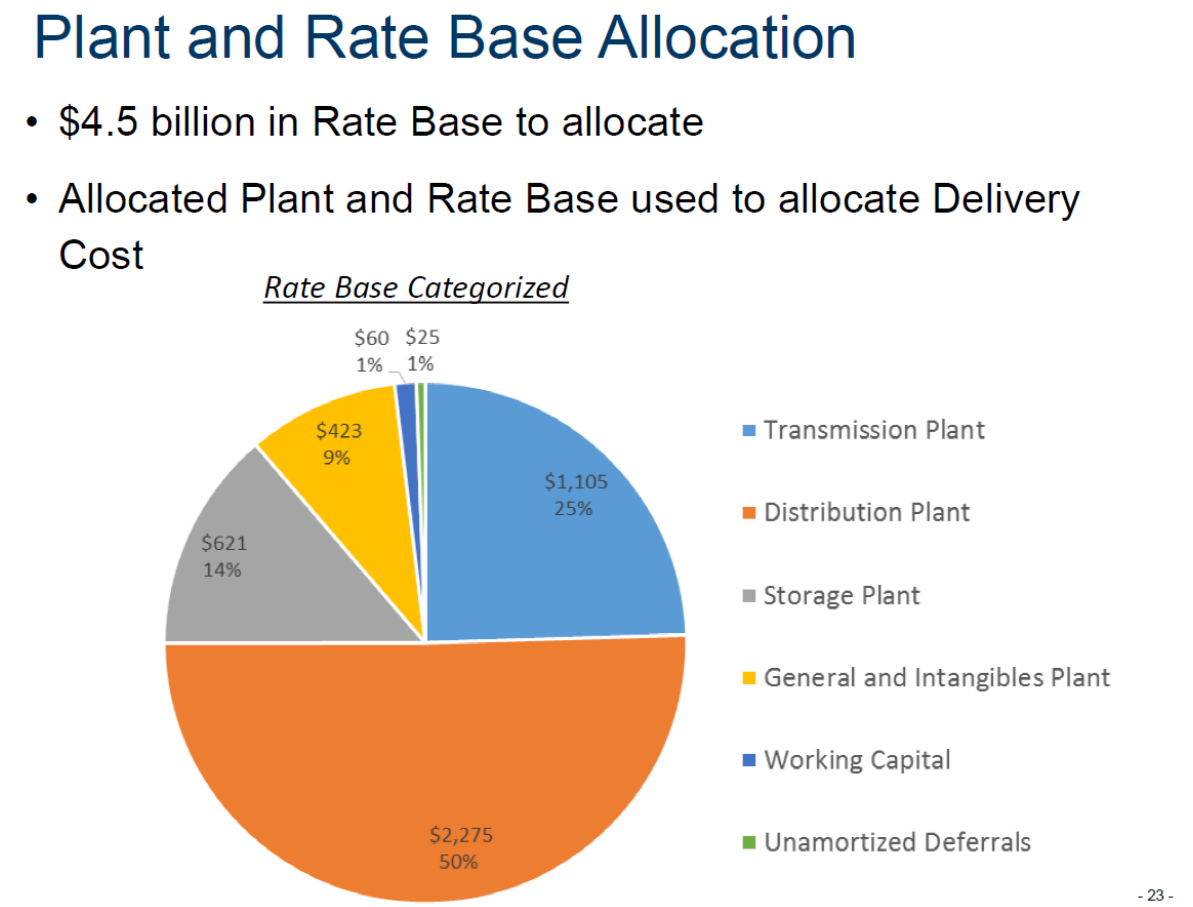

Using the historical Commission approved practice of allocating solely transmission costs to the VIGJV, the VIGJV and BC Hydro IG only attract costs from the "Transmission Plant" blue portion of the pie chart shown above. Similarly, customers in RS22A and RS22B would also mainly attract costs from the same "Transmission Plant" blue portion.

Customers in RS22A, RS22B, VIGJV, and BC Hydro IG have never had demand-related costs from the "Distribution Plant" orange portion of the pie allocated to them.

The single largest component of the $2.275 billion Distribution Plant rate base is $ 1.123 billion in Distribution Mains as shown below, [4],

Plant and Rate Base Allocation

Account	Plant Description	Amount ($million)	Function	Classify	Allocate
475	Distribution Plant - Mains	$ 1,123.4	Distribution	70/30 - Demand/Customer from MSS	Demand - PLCC Adj Peak Day, Customer - Avg Customer

	Minimum System Study	Cost Allocation
Customer	30%	$ 340.1
Demand	70%	783.3
Total	100%	$ 1,123.4

Rate Schedule	Peak Day Demand	PLCC	Peak Day Demand adjusted	Precentage	Demand Cost Allocation
RS 1	636	182	453	44.4%	$ 347.6
RS 2	247	17	230	22.5%	176.0
RS 3	134	1	133	13.0%	101.9
RS 4	-	-	-	0.0%	-
RS 5	13	0	13	1.3%	10.1
RS 6	0	0	0	0.0%	0.1
RS 7	-	-	-	0.0%	-
RS 22 Firm	60	0	60	5.9%	46.0
RS 23	67	0	66	6.5%	50.8
RS 25	67	0	66	6.5%	50.9
RS 27	-	-	-	0.0%	-
Total	**1,223**	**201**	**1,022**	**100.0%**	**$ 783.3**

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The $ 1.123 billion in Distribution Mains is classified as 70 % demand and 30 % customer. The Distribution Mains Demand Cost Allocation is $ 783.3 million as shown in the table above.

In FEI-Catalyst IR 3.25, Catalyst asked FEI to justify allocating distribution costs to the VIGJV by showing how much of this Distribution Main asset could be allocated or attributed to the VIGJV. Unfortunately, FEI did not provide that detail in their response.

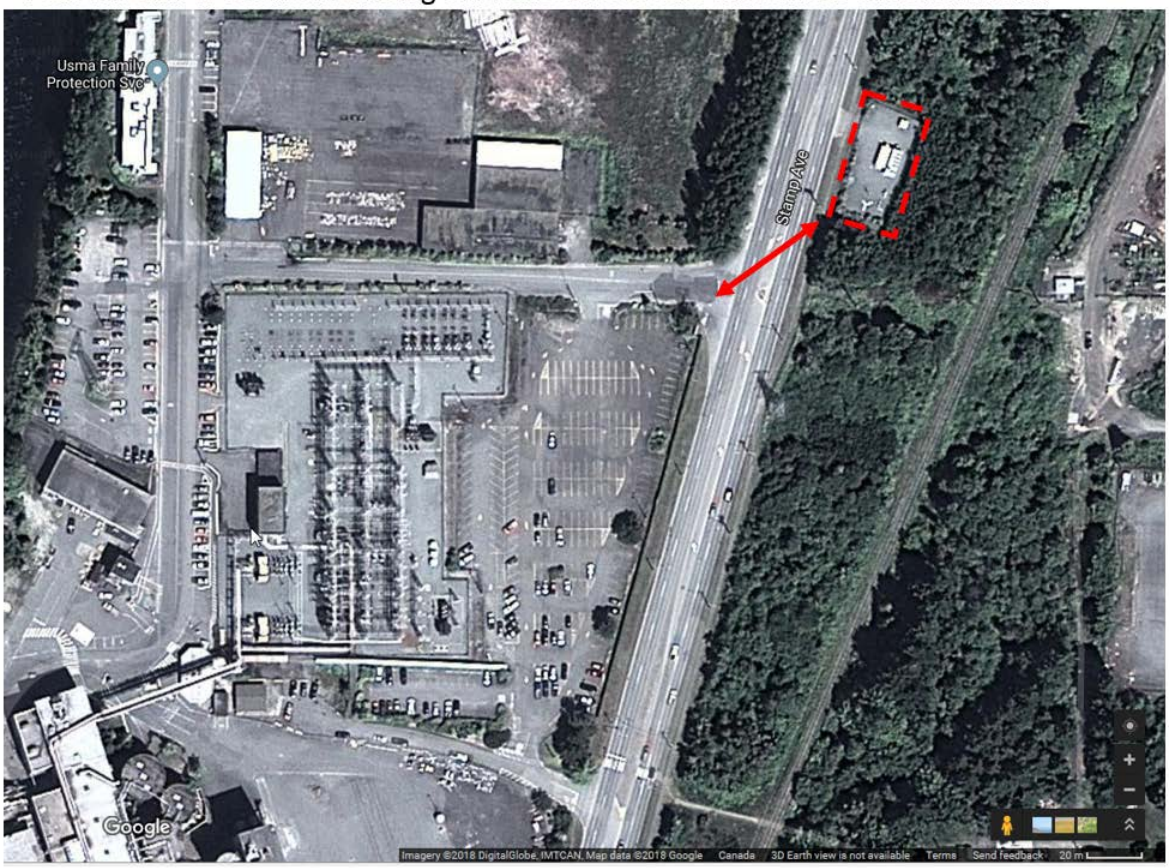
All the VIGJV sites have pressure reducing valve/meter stations either directly on or adjacent to their sites. The HPTS operates up to 2,000 psi, and these pressure reducing stations reduce the gas to "distribution" pressure levels. In other words, FEI's transmission infrastructure terminates either directly on, or adjacent to, VIGJV properties with very short distances to the VIGJV's own piping systems. As Catalyst noted in FEI-Catalyst IR 3.25, the entirety of FEI's Distribution Mains shown in the Minimum System Study is 25,481,880 meters and that represents the Distribution Mains rate base allocation of $ 1.123 billion.

Relative to the 25,481,880 meters of Distribution Mains in FEI's service area, the amount of "distribution" pressure pipe that Fortis employs to deliver gas to the VIGJV appears to be less than 0.001 %, which is the information Catalyst Paper was attempting to extract from FEI in FEI-

Catalyst IR 3.25. FEI claims that the VIGJV attracts, "1.27 percent of Distribution demand-related costs …" [5], but that seems inconsistent with FEI's deployment of less than 0.001 % of Distribution Mains for the VIGJV.

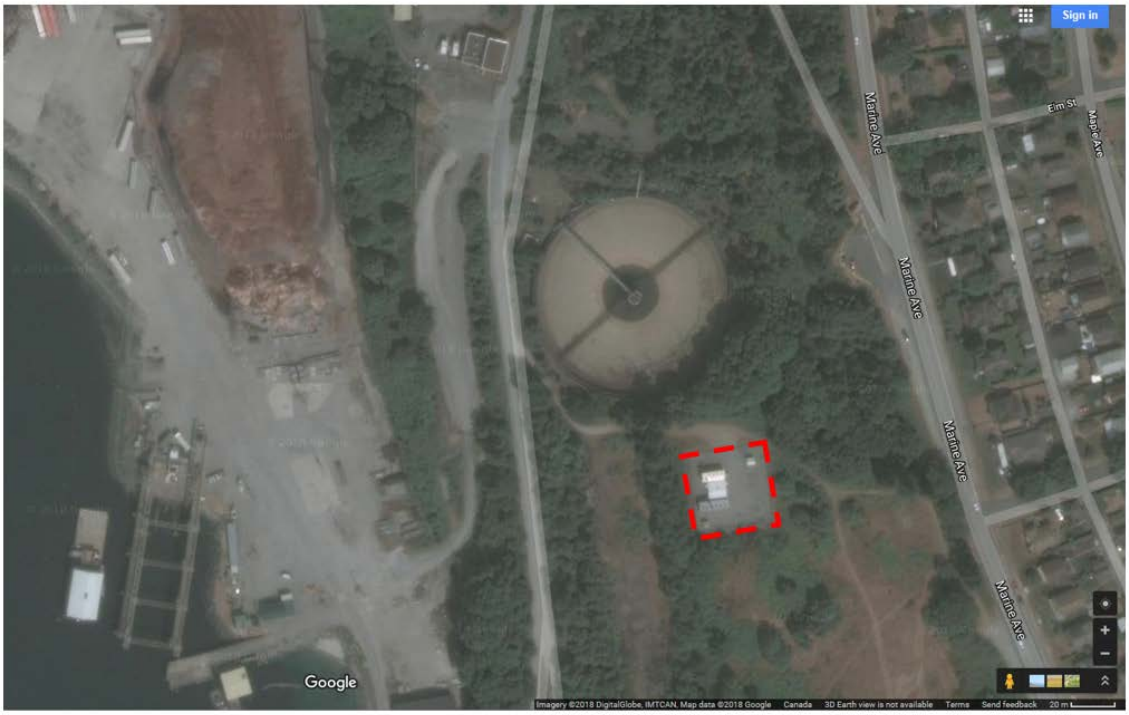
The amount of FEI Distribution Mains physically in service for the VIGJV is de minimis. The photos below show the FEI meter stations, denoted by the red boxes, located either directly on or adjacent to VIGJV sites. The bar in the lower right of each map shows the scale at 20 - 50 m for these photos. Since the physical distance from these FEI pressure reducing/valve stations to the customer's site is negligible (the distance from the FEI transmission system to the customer is negligible), it is physically impossible for FEI to employ any material amounts of Distribution Mains or Distribution Service Lines to service the VIGJV relative to the 25,481,880 meters of Distribution Mains in the amalgamated service area.

Port Alberni Pressure Reducing Station Serves Core Customers of Port Alberni



Crofton Pressure Reducing Station Serves Other Industrial Loads (sawmills) and Core Customers in Crofton and Chemainus

Powell River Pressure Reducing Station Serves Core Customers on Upper Sunshine Coast



Howe Sound Pressure Reducing Station

Harmac Pressure Reducing Station Serves Residential Customers of Cedar

Historically, VIGJV and BC Hydro IG have not been allocated any distribution costs due to their de minimis use of Distribution Mains and Distribution Service Lines.

However, FEI is currently proposing to selectively apply full distribution costs to the VIGJV, BC Hydro, and all future large, firm service customers that may locate operations in close proximity to existing gas transmission pipelines.

In response to FEI-Catalyst IR 3.25, FEI states, " … *in VIGJV's case, its firm demand of 13 TJs is used to allocate … distribution function demand-related costs*."

Demand-related Distribution Mains costs should not be allocated to the VIGJV since these <u>are directly related to</u> the Distribution Mains and FEI employs de minimis amounts of Distribution Mains to service the VIGJV. This position is consistent with what the Commission has approved in previous cost of service studies and rates for the VIGJV [6].

The second largest component of the $ 2.275 billion Distribution Plant Rate Base, is the customer-related Distribution Plant – Service Lines & Meters, which represents $ 962.7 M [7], see below. These customer-related Distribution costs are related to Distribution Service Lines (small diameter pipe that is used to connect small core customers to Distribution Mains) and Meters. FEI is proposing to allocate $ 8.5 M of costs across 7 sites ($1.2 M per site) which is hard to fathom given the fact that the VIGJV and BC Hydro utilize negligible Distribution Service Lines. In contrast, 14 large, firm industrial customers on RS22A and RS22B are allocated ZERO costs for Distribution Service Lines & Meters, see zero allocation for 22A/22B below.

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Account	Plant Description	Amount ($million)	Function	Classify	Allocate
473/478	Distribution Plant - Service Lines & Meters	$ 962.7	Distribution	Customer	Avg Customer adj by CWF-Meters & Services

Rate Schedule	Customers	Weighting Factor for Svcs & Meters	Weighted Customers	Precentage	Cost Allocation
RS 1	886,652	1.0	886,652	79.6%	$ 766.0
RS 2	84,737	1.7	146,934	13.2%	126.9
RS 3	5,040	7.0	35,204	3.2%	30.4
RS 4	18	13.6	245	0.0%	0.2
RS 5	230	11.1	2,547	0.2%	2.2
RS 6	15	13.3	199	0.0%	0.2
RS 7	5	132.5	662	0.1%	0.6
RS 22 Firm	7	1,400.7	9,805	0.9%	8.5
RS 23	1,669	10.3	17,199	1.5%	14.9
RS 25	566	17.6	9,981	0.9%	8.6
RS 27	108	46.2	4,991	0.4%	4.3
Total	**979,047**		**1,114,420**	**100.0%**	**$ 962.7**

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Customers in RS22A and RS22B that consume large volumes, require firm service, are located in close proximity to transmission pipelines, and physically utilize de minimis amounts of Distribution Mains and Service Lines <u>should not</u> and <u>do not pay</u> for full Distribution costs. The Commission has approved this concept and cost allocation method for these 14 large, firm service industrial customers since 1993. The Commission has also approved the same concept and cost allocation for the VIGJV and BC Hydro IG since 1991. FEI has not provided any justification to change the cost allocation methodology for Vancouver Island and Sunshine Coast customers, nor is one evident. Introducing an additional cost allocation <u>just for</u> Vancouver Island's regional customers while not

applying the same burden to 14 large, firm interior customers is inconsistent with Bonbright's principle of undue discrimination among customers.

With regards to FEI's Proposed RS22 combining interruptible RS22 customers with firm service customers (VIGJV and BC Hydro IG,), FEI has stated, " .. *that meant bringing all the industrial customers together, and in some cases they do have distribution costs and in* <u>*other cases they don't*</u>", emphasis added [8]. FEI is clearly contradicting the previous principle that customers that do not utilize Distribution Mains and Distribution Service Lines assets should not be allocated these distribution costs.

In Catalyst Paper's opinion, the allocation of $ 2.2 million and $ 1.7 million in distribution demand and customer related costs; when we do not utilize Distribution Mains and Service Lines is unjustified and unfair.

Throughout this Application the VIGJV current R:C ratio and proposed R:C ratio in Proposed Rate Schedule 22 has been unclear. Below is a table summarizing the VIGJV R:C ratios presented in this Application and Proceeding. As shown, the R:C ratio varies from "Not Applicable" to 163.6 %.

Using the previously Commission approved cost allocation methodology of solely allocating transmission plant costs to the VIGJV and BC Hydro IG, the VIGJV's current R:C ratio is 163.6 % as shown in Row 2 of the table. Any reduction of this R:C ratio, by manipulating the denominator of Cost, would need to be justified by an unprecedented, inconsistent, and arbitrary allocation of distribution plant assets upon the VIGJV and BC Hydro IG. Any reduction of this R:C ratio, by reducing the numerator of Revenue, is justified by using the previously Commission approved cost allocation methodology. The latter is the approach taken with Vancouver Island core sales customers post-Amalgamation.

Please note, in FEI's latest R:C ratio estimate, FEI stated that VIGJV's <u>current</u> R:C ratio is 76.5 % [9], see Row 5 in the table. This is incorrect as FEI is allocating full Distribution Plant costs in their estimate. Full Distribution Plant cost allocation for the VIGJV has never been included in any Commission approved cost of service study for the VIGJV; therefore, it cannot represent a current R:C. Note, FEI did not offer the revenue and cost values associated with their latest R:C ratio estimate of 76.5%, but Catalyst has used the known firm revenue of $ 4.572 M in the table below, which results in an apparent cost of service for the "current" rate that is $ 0.139 M higher than FEI's fully loaded Distribution cost of service stated in Row 8. Catalyst Paper is uncertain as to why the RS22 Proposed cost of service appears to be less than FEI's latest current estimated cost of service.

Row	FEI's Description of "Existing" or "Current" VIGJV R:C Ratio from <u>Initial</u> COSA	FEI's Stated R:C Ratio (as a percent)	Reference	Date	Data Including Distribution Cost Allocation	Revenue ($ M)	Costs ($ M)
1	"Not Applicable"	"Not Applicable"	FEI-BCUC IR 1.34.3	9-Jun-17		N/A	N/A
2	FEI disagrees with the premise that the cost allocation in the question is appropriate	163.6%	FEI-Catalyst IR 2.1	7-Nov-17	**No. Transmission Costs Only.**	4.572	2.794
3	"Not Applicable"	"Not Applicable"	FEI-BCUC IR 2.71.2	7-Nov-17		N/A	N/A
4	"..no cost allocation was made to .. contract customers"		FEI-BCUC IR 2.71.3.1	7-Nov-17	No		0.0
5	"It has come to FEI's attention that the response to Catalyst-FEI IR 2.4 was inadvertently ommitedd from Exhibit B-24"	76.5%	FEI-Catalyst IR 3.25	20-Mar-18	Yes.	4.572	5.976

6	FEI's Description of "Future" VIGJV R:C Ratio from <u>Proposed Final</u> COSA (currently not approved)	FEI's Stated R:C Ratio (as a percent)	Reference	Date	Data Including Distribution Cost Allocation	Revenue ($ M)	Costs ($ M)
7	Cost allocation from the Final COSA	100%	Application Table 1-1	19-Dec-16	Yes		
8	" .. including IT revnue."	121.7%	FEI-BCUC IR .35.1	9-Jun-17	Yes	7.106	5.837

Catalyst Paper requests that the Commission deny FEI's request for the Proposed RS22 and FEI's proposed cost of service allocation for VIGJV and BC Hydro IG.

4.0 RS22 Proposed Customer Segmentation and Postage Stamp Rates

FEI is proposing to combine the firm, transmission service customers, VIGJV and BC Hydro IG, with mainly interruptible only RS22 customers from the Lower Mainland, into a single rate schedule. Catalyst feels that the proposed grouping is inconsistent with good rate design principles. FEI's proposal is also inconsistent with the 1993 Commission decision to separate firm service industrial customers in RS22A and RS22B from interruptible service Lower Mainland customers.

As shown in the photos in Section 3.0, the FEI transmission pipelines are located directly on or adjacent to VIGJV sites. Conversely, RS22's current single firm service customer, Creative Energy, is not located in close proximity to the FEI transmission pipeline, see map below [10]. Note, only the red pipeline shown in the map is part of the Transmission Plant, the yellow lines are part of the Distribution Plant for cost allocation. Creative Energy in downtown Vancouver receives its gas service through a significant network of Distribution Mains and Distribution Service Lines (approximately 10,000 to 20,000 m distance from Fraser and Coquitlam Gate Stations), hence Creative Energy should be allocated costs from the Distribution Plant Rate Base, and the VIGJV and BC Hydro IG should not. These customers are not the same, and they do not attract similar Distribution costs. Similarly, many large industrial customers in RS22A and RS22B near FEI transmission pipelines, do not attract and do not receive, full Distribution cost allocation. This made sense in 1993 when those rate schedules were closed and it still makes sense today.

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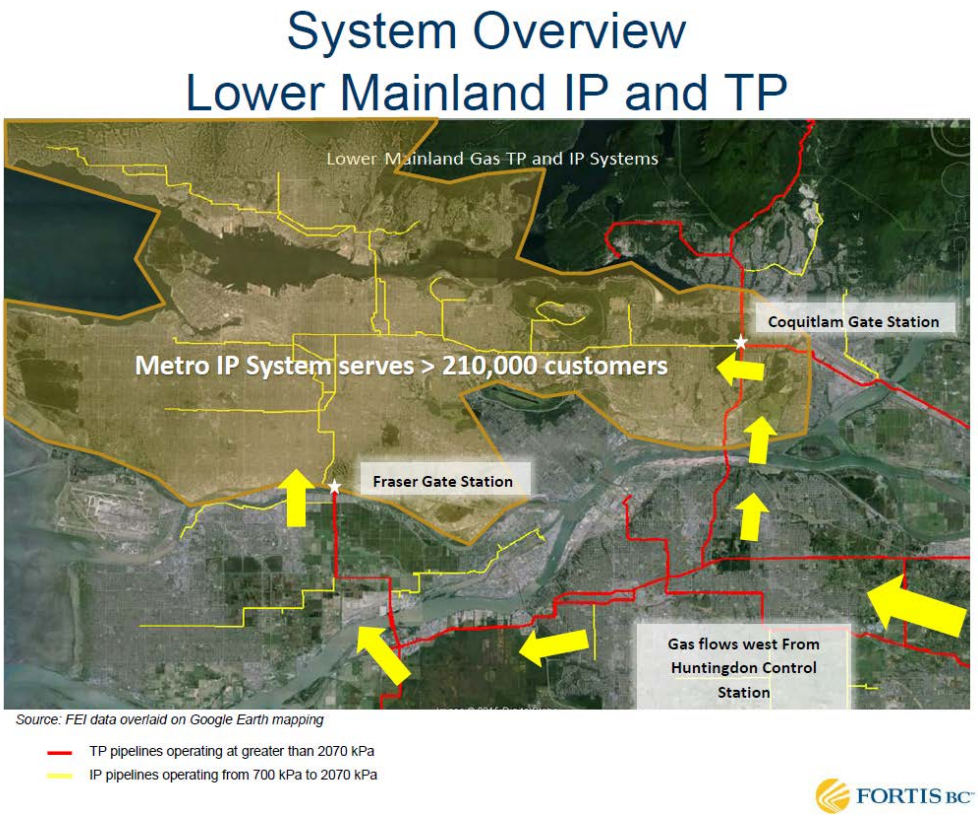

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FEI is proposing to charge the VIGJV, BC Hydro IG, and any new customers that locate next to an existing transmission pipeline $ 0.97/GJ, while charging Inland and Columbia customers located next to an existing transmission pipeline, receiving identical service and attracting identical Transmission Plant only costs, $ 0.63/GJ and $ 0.44/GJ respectively. Moreover, FEI's proposal would have customers that rely extensively on Distribution Plant assets receiving the same rate as those that do not. This represents unfair treatment among industrial customers across the service area and within the proposed rate class.

FEI described the above Industrial Rate Design as, "… *strikes the right balance amongst competing rate design principles and considerations*" [11]. In Catalyst Paper's opinion, FEI's proposed Industrial Rate Design is inconsistent with several Bonbright principles. Using FEI's nomenclature and description [12], FEI's proposed rate design is violating,

1) **Principle 2: Fair apportionment of costs among customers (appropriate rate recovery should be reflected in rates).** Distribution Plant costs have not been allocated to the VIGJV and BC Hydro in COSA for over 28 years, and their Commission approved rates and R:C ratios acknowledge this fact. The VIGJV and BC Hydro IG do not utilize Distribution assets for receiving their service, and are regarded as "transmission service" customers. However, FEI is proposing to allocate full Distribution Plant costs to just these customers even though the customers do not utilize Distribution Plant assets.
2) **Principle 4: Customer understanding and acceptance.** None of the VIGJV members have accepted FEI's proposed RS22.
3) **Principle 8: Avoidance of undue discrimination (interclass equity must be enhanced and maintained).** FEI is asking the VIGJV and BC Hydro IG to pay for Distribution Plant costs that cover Distribution assets that the VIGJV and BC Hydro IG do not utilize. FEI appears to be asking the VIGJV and BC Hydro IG to contribute to core sales customers' Distribution Plant costs (including Creative Energy as a transportation customer), while not asking similar industrial customers in RS22A and RS22B to provide the same. This creates a significant difference in rates for similar industrial customers, in the same industries within the same service area.

A true postage stamp rate would charge VIGJV, BC Hydro IG, RS22A, RS22B, and any new customers that locate adjacent to transmission pipelines a common rate. This rate would be based on Transmission Plant costs alone for the amalgamated area. This cost was disclosed by FEI to be $ 0.579/GJ [13].

The benefit of a true postage stamp rate for large, firm transmission transportation service is that <u>all</u> customers are treated fairly and equitably. All new customers can receive the same rate.

In Catalyst Paper's opinion, a large, firm service industrial transmission rate that applies commonly to VIGJV, BC Hydro IG, RS22A, RS22B, and all future customers that locate adjacent to transmission pipelines strikes the right balance among competing rate design principles. Customers that only require interruptible service and customers that heavily rely on Distribution Plant assets should be handled in a separate rate class or classes.

This approach is consistent with FEI's process to transfer Vancouver Island core sales customers into FEI through Amalgamation. The Vancouver Island core sales customers' cost allocation was identical to Lower Mainland customers, hence a true postage stamp rate that reflected an Amalgamated Distribution and Transmission Rate Base was developed. The reduction in rates was purely the result of reductions in the per unit cost of distribution and transmission service due to Amalgamation (relative to FEVI). Similarly, since the per unit cost of transmission service has

decreased for VIGJV and BC Hydro IG due to Amalgamation, it is reasonable to expect a reduction in cost of service for the VIGJV and BC Hydro IG.

If the distribution and transmission per unit cost of service reduction from Amalgamation was fair for FEI's Vancouver Island core customers, then it follows that a comparable reduction in the per unit cost of transmission is fair for the VIGJV and BC Hydro IG.

Catalyst Paper requests that the Commission deny FEI's proposed customer segmentation for RS22.

Catalyst Paper requests that the Commission deny FEI's proposed postage stamp rate for industrial customers.

5.0 FEI's Proposed Treatment of VIGJV With Respect to Amalgamation and RSDA Contributions

As shown in FEI-Catalyst IR 2.24, the VIGJV's cumulative IT revenue from 2003 through 2016 is $27.252 M.

As shown in FEI-Catalyst IR 3.9, the VIGJV pays for 100 % of its System Gas, so the Utility has never paid for the single largest variable cost of the VIGJV's interruptible service (and firm service).

It follows that the VIGJV IT revenue attracts relatively little costs, and it appears that most of the $27.252 million in IT revenue received by the Utility since 2003 went directly to the RSDA.

The RSDA was established to benefit <u>all</u> Vancouver Island gas customers, not just core sales customers. For Amalgamation, the $99 M RSDA surplus was transferred from FEVI to FEI to mitigate core customer rate impacts in the Amalgamated Utility. Because of Amalgamation, FEVI's core sales customers that had contributed to the RSDA received a 38 % reduction in rates.

The VIGJV for its significant contributions to the same RSDA has to-date received no similar additional benefit.

If the Commisison approves FEI's RS 22 Proposed, then the VIGJV will have received no benefit from its apparent $27.252 M contribution to the RSDA balance, while Centra Distribution Customers (FEI's core sales customers on Vancouver Island) will have received a 38 % reduction in rates. This is inconsistent with the spirit and intent of the Commission's decision to create the RDDA when it stated, "*The reduction to the RDDA balance will substantially benefit the CDS* [Centra Distribution System] *and other HPTS* [High Pressure Transmission System*] customers over time*".[14].

Catalyst Paper requests that the Commission consider the VIGJV's substantial contributions to the RDDA/RSDA/2009 Revenue Surplus accounts and FEVI's transfer of the $ 99 M RSDA balance to FEI, which resulted in no additional benefit to the VIGJV, when determining the fairness of the Proposed RS22 with respect to the VIGJV and BC Hydro IG.

6.0 VIGJV and BC Hydro IG Customer Classification

FEI has previously acknowledged that the VIGJV and BC Hydro IG are **"transmission"** customers and in FEI's Amalgamation request FEI indicated to the Commission that FEI was committed to, "*the continued provision of service to FEVI's two significant **transmission** transportation customers, the Vancouver Island Gas Joint Venture and BCHydro*" [15][16], see below.

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- FEVI Rate Schedule LCS-13: Transportation Service – FEVI Rate Schedule LCS-13 is available to customers served off the distribution system with a minimum annual consumption of 6,000 GJ. To date no customers have elected service under this rate schedule[152].

[152] FEVI also provides Transportation Service to two transmission customers, BC Hydro and the VIGJV, who are served off the transmission pipeline.

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5. Currently, FEVI's Standard Terms and Conditions contain provisions relating to a transmission transportation service offering. After amalgamation, these services are required to be maintained to facilitate the continued provision of service to FEVI's two significant transmission transportation customers, the Vancouver Island Gas Joint Venture and BC Hydro.171 An addition to the proposed GT&Cs is thus necessary for FEI Amalco to continue to provide the transmission transportation service offering upon amalgamation.

In this Application FEI is proposing to combine VIGJV and BC Hydro IG into RS22 and treat these two significant **transmission** transportation customers as "distribution" customers in cost allocation.

Catalyst Paper requests that the Commission deny FEI's Proposed RS22 on the basis that the VIGVJ and BC Hydro IG are not distribution customers as FEI has previously stated.

Catalyst Paper requests that the Commission direct FEI to continue to acknowledge and treat VIGJV and BC Hydro IG as transmission service customers.

7.0 FEI Specific Arguments

7.1 Closing of RS22A and RS22B

In FEI's Final Argument, FEI states the Commission closed these rate schedules, citing "*the many special circumstances and negotiated agreements underlying the existing rates for these interior customers*" [17]. Catalyst Paper disagrees with FEI's interpretation of this history and submits that the Commission segregated and closed these rates from Lower Mainland customers primarily based on Interior customers having firm service, while Lower Mainland customers were only interruptible service [18], see below.

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10.2.2 Large Volume Firm Rates: Schedules 22, 22A and 22B

BCGUL proposed that existing large volume transportation customers in the Inland and Columbia service areas ("interior customers") maintain their existing rates, but generally adopt terms and conditions similar to those in Schedule 22. These existing rates would not be available to new interior customers or for significant load increases by existing interior customers. BCGUL proposed that the tariffs be named Schedules 22A (Inland) and 22B (Columbia) to indicate the similarity to Schedule 22. The rationale was that since virtually all of these interior customers moved their direct purchase gas on firm service, and used only small amounts of interruptible gas, they differed significantly from Lower Mainland large volume customers, who had historically been interruptible sales or service customers only and had no firm gas sales or transportation. Under these circumstances, considering that most of these interior customers had either individually negotiated rates (Inland by-pass customers) or a uniquely linked rate design (Columbia customers) and few if any were likely to be requiring load increases, closed rates were argued to be appropriate. BCGUL also proposed that any new customers requiring firm transportation could

7.2 FEI's Status Quo Option 1 for Large Industrials

In FEI's Final Argument, FEI states that the status quo Option 1 in its Application "*as well as updates to RS22 to reflect FEI's proposed changes to RS 5 and RS 25*" [19] would result in existing RS22 customers experiencing a rate shock of more than 35 %.

Catalyst Paper disagrees with the message that the status quo for VIGJV and BC Hydro IG would result in a rate shock of more than 35 % for existing customers in RS22. More precisely, the "*updates to RS22 to reflect FEI's proposed changes to RS5 and RS 25*" are the source of the rate shock, not the treatment of VIGJV and BC Hydro IG.

FEI goes on to state, " … *the merits of FEI's RS 22 proposal demonstrate that it is preferable to the status quo*" [20]. Catalyst Paper suggests that there are many other options, other than the ones simply proposed by FEI in the Application, that can better handle existing RS 22 customers.

7.3 FEI's Proposed Cost-Based Rates for RS 22

In FEI's Final Argument, FEI states, "*FEI proposes that RS 22, VIGJV and BC Hydro IG be grouped together for rate design purposes … FEI proposes a firm rate equal to the allocated costs in the approved COSA Model and interruptible rates based on the firm rate.*" [21], emphasis added.

The Commission did not approve the Final COSA model in Order G-4-18 [22], see below, and the Final COSA model is the only model which includes the VIGJV and BC Hydro IG in the proposed RS22; therefore, there is no approved COSA as FEI suggests in their statement. There is simply a "proposed" COSA model applicable for FEI's Proposed RS22 Firm. The referenced COSA Model is not approved.

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Commission determination

The Panel finds the issues raised by Catalyst Paper are not within the limited scope of this decision. Catalyst Paper's issues stem from FEI's industrial rate design proposals for RS 22 and its Contract Customers. The Panel notes that when making its foregoing submissions, Catalyst Paper refers to the "cost allocation in FEI's Final COSA results and R:C ratios."[62] The Application contains two sets of COSA financial schedules: Initial COSA Financial Schedules and Final COSA Financial Schedules. The scope of this Decision is the initial COSA studies and revenue to cost ratios before rate design proposals and rate rebalancing proposals. Both Catalyst Paper and FEI will have an opportunity to address the issues raised by Catalyst Paper in their arguments for the rate design phase of this proceeding.

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7.4 FEI's Balance of Rate Design Principles and Considerations for RS 22

In FEI's Final Argument, FEI states, "*Large Industrials Are Similar*", "*The VIGJV and BC Hydro IG fit within the consumption levels of RS 22 customers*", "*RS22 … industrial customers with… consumption ranging from approximately 150 TJ to 2000 TJ per year*", and, "*The VIGJV … average consumption per site of 1,498 TJ is within the range of consumption of RS 22 customers*.", emphasis added [23].

Virtually all of their existing RS22 customers have zero firm demand (except for Creative Energy), and VIGJV/BC Hydro IG have a combined firm demand of 58,000 GJ/day. FEI fails to reconcile this with the Commission's 1993 decision to segregate firm service customers from interruptible service customers as shown above in 7.1.

FEI attempts to make a comparison of the VIGJV group "average" with RS22's "range". A valid comparison might be one group's average versus another, or one group's range versus the other, but the comparison of one's average to the other's range is inconsistent and confusing. These groups are very different according FEI's referenced Table 9-22 in the Application; the average RS22 consumption is 507 TJ per year while the VIGJV's average is 1,498 TJ per year.

7.5 FEI's Mix of Interruptible and Firm Comparison for Proposed RS22

In FEI's Final Argument, FEI states, "*While Creative Energy is the only RS 22 customer that has chosen to negotiate a firm service contract, … customers have expressed interest in firm service*". [24].

As noted in 7.1 above, in 1993 the Lower Mainland large volume customers were described by the Commision as having, " ... *no firm gas sales or transportation*".

Catalyst Paper suggests that a single customer plus "interest" over the last 25 years does not constitute an appreciable change in the Lower Mainland large volume industrial customer base, and

that the conditions surrounding the 1993 Commission decision to segregate the non-firm Lower Mainland large volume customers from firm service customers remain largely intact.

7.6 FEI's Existing and Proposed Rates Are Similar in for Proposed RS22

In FEI's Final Argument, FEI states, "*FEI's comparison of revenues from VIGJV and BC Hydro IG under existing rates and FEI's proposed RS 22 rates also shows reduced revenue from the VIGJV* ..." [25].

Catalyst Paper disagrees with FEI's comparison and analysis. As shown below, FEI's referenced analysis shows FEI's revenues from RS22 Proposed in line 7 as $ 7.312 M, and under contract rates FEI's revenue is $ 7.169 M. This represents an increase in FEI revenue, not a decrease.

Line No.	Particulars	2016 Actual Volumes at 2016 Rates ($000)	2016 Actual Volumes at RS 22 Proposed Rates ($000)
		Column 1	Column 2
1	***BC Hydro IG***		
2	Firm Revenue[1]	$15,778	$13,545 - $16,016
3	Interruptible Revenue	$0	$0
4	***VIGJV***		
5	Firm Revenue[2]	$4,599	$4,659
6	Interruptible Revenue[3]	$2,570	$2,653
7	Total Revenue	$7,169	$7,312
8	Estimated Customer's System Gas	$972	N/A
9	Total Estimated Revenue	$8,141	$7,312

As FEI has stated and represented in numerous tables in this Application, FEI does not consider System Gas "revenue", does not represent System Gas in any revenue data submitted in the tables with the Application (even when the table states System Gas is included), and does not record, allocate, or consider System Gas in any of the Financial Schedules submitted with this Application.

Additionally, FEI has stated in this Application that it expects to collect $ 1.6 M in balancing charges if its proposed changes to balancing provisions are accepted by the Commission. At the same time, FEI shows nothing allocated to balancing revenue in its comparison of revenue above.

FEI's inclusion of System Gas as "revenue" in its Final Argument, while omitting System Gas in the entirety of its Application; combined with FEI's request for an additional $ 1.6 M in revenue from balancing charges in its Application while at the same time recording no revenue in its Final Argument cost comparison represents inconsistent analysis in Catalyst's opinion.

7.6 FEI's Treatment of Interruptible Revenue

In FEI-Catalyst IR 3.15, FEI estimates the cost of RS 22 interruptible service as $ 0.08/GJ and FEI states it sets the interruptible rate to ensure, "*interruptible customers do not become "free riders" on FEI's Transmission and Distribution Mains system.*"

In FEI-Catalyst IR 3.9, FEI states, "… *VIGJV provides 100 percent of their allocated portion of system gas required for the VIGJV's service*". Essentially, FEI's variable cost to service both the firm and interruptible volume for the VIGJV is negligible.

Using VIGJV's Tier I interruptible rate of $ 0.97/GJ and applying virtually no variable cost (as the VIGJV pays for its own System Gas, Line Heater Fuel, etc…), one concludes that the R:C ratio on VIGJV's interruptible service is approaching infinity.

Since the RS22 and VIGJV's interruptible service R:C ratio is somewhere between 1425 % and almost infinity, and the interruptible rate is regulated, **Catalyst Paper suggests that the allowable R:C ratio for interruptible service should be further scrutinized in this Application.**

FEI is requesting that the Commission approve removal of RS 22 and VIGJV Interruptible Revenue from the proposed COSA. Catalyst Paper fears that removal of the interruptible revenue from the COSA will not allow proper scrutiny of the R:C ratio for IT service and will reduce transparency for all customers.

Catalyst Paper requests that the Commission deny FEI's request to remove Interruptible revenue from any future or proposed COSA.

8.0 Summary

In summary,

1) **Catalyst Paper requests that the Commission deny FEI's request for the Proposed RS22 and FEI's proposed cost of service allocation for VIGJV and BC Hydro IG.**

2) **Catalyst Paper requests that the Commission deny FEI's proposed customer segmentation for RS22.**

3) **Catalyst Paper requests that the Commission deny FEI's proposed postage stamp rate for industrial customers.**

4) **Catalyst Paper requests that the Commission consider the VIGJV's substantial contributions to the RDDA/RSDA/2009 Revenue Surplus accounts and FEVI's transfer of the $ 99 M RSDA balance to FEI, which resulted in no additional benefit to the VIGJV, when determining the fairness of the Proposed RS22 with respect to the VIGJV and BC Hydro IG.**

5) **Catalyst Paper requests that the Commission deny FEI's Proposed RS22 on the basis that the VIGVJ and BC Hydro IG are not distribution customers as FEI has previously stated.**

6) **Catalyst Paper requests that the Commission direct FEI to continue to acknowledge and treat VIGJV and BC Hydro IG as transmission service customers.**

7) **Catalyst Paper requests that the Commission deny FEI's request to remove Interruptible revenue from any future or proposed COSA.**

References

1. TGVI 2010 – 2011 Revenue Requirements, Exhibit B-1, TGVI Application for Approval of 2010 and 2011 Revenue Requirements, Rates, Cost of Service, Rate Design and Revenue Deficiency Deferral Account Balance as at December 31, 2008, Financial Schedule 43B-10, page 554 of 1487.
2. Document G-42-03, Centra Gas British Columbia Inc. 2002 Rate Design Application; Decision, p. 37.
3. Letter dated March 9, 2017 – FEI Submitting Workshop No. 2 Presentation, Exhibit B-4, slide 23.
4. Letter dated March 9, 2017 – FEI Submitting Workshop No. 2 Presentation, Exhibit B-4, slide 26.
5. FEI RDA 2016, Exhibit B-24, Letter dated November 7, 2017 – FEI Submitting IR No. 2 Response to Catalyst, page 4, lines 16-20.
6. TGVI 2010-2011 Revenue Requirements, Exhibit B-1, TGVI Application for Approval of 2010 and 2011 Revenue Requirments, Rates, Cost of Service, Rage Design and Revenue Deficiency Deferral Account Balance as at December 31, 2008, Financial Schedule 43B-10, page 554 of 1487.
7. Letter dated March 9, 2017 – FEI Submitting Workshop No. 2 Presentation, Exhibit B-4, slide 27.
8. FEI RDA 2016, Transcript Volume 5, Transcript Streamlined Review Process VOLUME 5, September 12, 2017, p. 541, lines 19-22.
9. FEI RDA 2016, Letter dated March 20, 2018 – FEI Submitting IR No. 3 Response to Catalyst, Exhibit B-33, page 20, line 19.
10. FEI Lower Mainland Natural Gas Intermediate Pressure System Upgrade Projects, BCUC Workshop – CPCN Overview, February 3, 2015, slide 2.
11. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 3.
12. FEI RDA 2016, FEI Final Argument, March 27, 2018, pages 5-6.
13. Letter dated November 7, 2017 – FEI Submitting IR No. 2 Response to Catalyst, Exhibit B-24, page 12, line 31.
14. Centra Gas British Columbia Inc. 2002 Rate Design Application. Order No. G-42-03; Decision, page 37.
15. FEU Common Rates, Amalgamation and Rate Design Application, Exhibit B-3, page 120.
16. FEU Common Rates, Amalgamation and Rate Design Application, Exhibit B-3, page 135.
17. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 39.
18. BCUC Phase B Rate Design Decision, October 25, 1993, pages 44-45.
19. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 41, item 99.
20. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 41, item 100.
21. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 42, item 101.
22. FEI RDA 2016, Order G-4-18, page 15 of 38.
23. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 43-44, item 105.
24. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 44.
25. FEI RDA 2016, FEI Final Argument, March 27, 2018, page 45.