BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT,

R.S.B.C. 1996, CHAPTER 473

and

FORTISBC ENERGY INC. 2016 RATE DESIGN APPLICATION
BCUC Project No. 3698899

RATE DESIGN and REBALANCING ISSUES

FINAL SUBMISSION OF TECK RESOURCES LIMITED, DOMTAR INC., WEYERHAEUSER COMPANY LIMITED, AND ZELLSTOF CELGAR LIMITED PARTNERSHIP (COLLECTIVELY "INDUSTRIAL CUSTOMER GROUP") (ICG)

10 April 2018

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I. INTRODUCTION

1. This argument is submitted on behalf of Teck Resources Limited, Domtar Inc., Weyerhaeuser Company Limited, and Zellstof Celgar Limited Partnership (collectively referred to as the "**Industrial Customer Group**").

2. In this submission, we comment on the following aspects of the FortisBC Energy Inc. ("**FEI**") 2016 Rate Design Application (the "**Application**").

   a. FEI's pre-application process

   b. Revenue shifts and rate rebalancing

   c. Rebalancing Rate Schedule 22A

   d. Rebalancing Rate Schedule 5/25.

II. FEI'S PRE-APPLICATION PROCESS – INFORMATION SESSIONS, NOT ENGAGEMENT

3. At page 4 of its submission[1], FEI describes its pre-application stakeholder engagement as "robust". While the engagement was lengthy, the process focused more on FEI explaining its position rather than FEI listening and adjusting its application.

4. In the past, FEI and customer groups have been able to negotiate solutions or at least narrow some of the issues so the application review would be more efficient. That opportunity was noticeably absent in workshops that FEI convened, which were essentially information sessions.

5. FEI used the pre-application process to identify customer issues, and then devote its resources to strengthening the positions that it intended to advance.

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[1] FEI Submission dated 27 March 2018

6. In the end, the process was time-consuming and expensive for participants with little chance to engage in a meaningful discussion of the issues that would help shape the rate design proposals in a collaborative manner. It would have been more efficient for FEI to have simply offered a couple of workshops to explain its application and then proceed to the BCUC review. Those information workshops were repeated at the outset of the Commission's review in any event.

III. REVENUE SHIFTS AND RATE REBALANCING – SETTING A 100% R:C RATIO FOR ALL RATE CLASSES IS FAIR

7. The Commission should direct FEI to rebalance all the rate classes to a 100% R:C ratio – i.e. the centre of the range of reasonableness, not the edge. This is the only fair approach for all customer groups.

8. At page 18 of FEI's 18 September 2017 submission, FEI refers to Mr. Gosselin's discussion of "the types of assumptions, estimates, simplifications, judgments and generalizations involved in the COSA".

9. Given the imprecision in the cost of service allocation study ("**COSA**"), rebalancing all the rate classes to the centre of the range of reasonableness is the best response to offset that imprecision. The risk associated with the imprecision in the COSA should be symmetrical for all customer groups, and that symmetry can only be achieved when all rate classes are set at a 100% R:C ratio.

10. FEI does not undertake a COSA often, because of the effort and cost. When FEI does undertake a COSA and rate rebalancing, it is fair to true all customer groups to a 100% R:C ratio to place them on equal footing related to the uncertainty. Moreover, the FEI system benefits by sending better economic price signals through the rates to promote efficient use.

11. The argument that a R:C ratio of 95% is the same as a R:C ratio of 105% is an exercise in sophistry. That esoteric argument ignores the economic reality that the customer rate set

at 105% is higher than a customer rate set at 95%, and higher than necessary based on the COSA results. All customers would prefer to be at the lower end of the range because the rate would be lower. Rebalancing the rates to 100% is the only practical way to be fair in the face of the uncertainty inherent in the COSA.

12. The historic record shows that the Rate Schedule 1 (residential) has been below 100% in all the FEI COSA studies since the early 1990's.[2] The remarkable consistency of this pattern reveals a systemic bias, and indicates this outcome is by design. The policy choice to keep residential customers below 100% is at the expense of other customer groups who are above 100% and cannot be justified as fair. It also harms British Columbia's economic competitiveness by imposing unnecessary cost on British Columbia business.

13. FEI would not likely be content to set all customer classes to a 95% R:C ratio on the strength of its argument that 95% is equivalent to 100% or 105%. FEI's business would fall short on revenue. Why then is it fair for commercial and industrial customers to accept that rebalancing their rates to a R:C ratio at the upper end of the range of reasonableness?

14. On page 51 of its submission, FEI offers the following justification for setting RS 22 at a R:C ratio of 100%.

> If an R:C ratio other than 100 percent were to be adopted for a new rate schedule or service, it would be equally reasonable to propose 95 percent at the lower end of the range of reasonableness as 105 percent at the upper end. FEI <u>therefore</u> selected 100 percent for the R:C ratio for the new RS 22 firm rate. [underlining added]

15. FEI's recognized the inconsistency in its decision to rebalance RS 22 to 100% while rebalancing other commercial and industrial rates to a higher R:C ratio. FEI attempts to explain away this inconsistency by saying it could have chosen 95% or 105% equally for RS 22. FEI's explanation is a logical fallacy; the false premise offers no justification for

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[2] See Exhibit B-17, page 2, FEI response to Industrial Customer Group #1

the decision. The customer rate impacts for RS 22 at 95%, 100% and 105% R:C are certainly not equal. The only fair choice – which FEI recognized – is to set the RS 22 rate at 100% to offset any imprecision in a balanced way.

16. FEI chose the centre of the range because it is the obvious and fair choice between the two end points of the range. The same logic must apply for all rate classes.

IV. REBALANCING RATE SCHEDULE 22A TO WITHIN THE RANGE OF REASONABLENESS

17. The Commission should direct FEI to rebalance Rate Schedule 22A to a 100% revenue-to-cost ratio.

18. At some point between the pre-application engagement and its final application, FEI decided that it would not rebalance Rate Schedule 22A to a R:C ratio within the approved range of reasonableness.

19. FEI's change in position was

    a. not based on any BCUC decision,

    b. not consistent with the treatment of RS 22A in past rate design reviews,

    c. not consistent with FEI's view of fairness expressed during the pre-application phase of this rate design application, and

    d. not justified on the basis of FEI's own COSA study, nor any principle of fairness

20. At page 52 of its 27 March 2018 submission, FEI attempts to justify its decision.

    > Although RS 22A is outside the range of reasonableness, FEI is not proposing to rebalance RS 22A as this is a closed rate schedule with a favourable rate compared to similar customers. Specifically, consistent with how this rate schedule was originally derived and its grandfathered status, FEI has not allocated the same level

> of distribution system costs to RS 22A that it allocates to RS 22.[3] FEI only allocates a portion of distribution costs to R22A as a direct assignment for industrial customer stations and service lines.[4] Rebalancing the charges under RS 22A would be inconsistent with continuing to grandfather the terms and conditions of service under this rate schedule.[5]

21. When asked by ICG to cite the BCUC decision that supported FEI's new approach on RS 22A rate rebalancing, FEI confirmed that its decision to not rebalance RS 22A is not based on any BCUC decision. Here are FEI's words.

> There are no BCUC decisions or orders and no specific guidance that requires FEI to rebalance or not rebalance RS 22A to within FEI's proposed range of reasonableness.[6]

22. During the pre-application, FEI had a different perspective on rebalancing RS 22A. For pre-hearing Workshop 3, FEI explained that it proposed to rebalance RS 22A to a R:C ratio within the range of reasonableness.

> Based on current COSA results, FEI notes that the revenue to cost ratio for Rate Schedule 22A is outside the range of reasonableness. <u>The appropriate revenue to cost ratio will not only be guided by the range of reasonableness for a rate class but also taking into consideration its cost impact on customers served under different Rate Schedules</u>. In section 4.1, FEI has calculated that adjusting revenues for Rate Schedule 22A to achieve revenue to cost ratio of 110% would shift $3.5 million of revenue responsibility to other rate schedules.[7] [Underlining added]

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[3] Transcript Vol. 5, p. 455, ll. 13 to 19; p. 456, ll. 6-13 and 23-25; Exhibit B-24, Catalyst-FEI IR 2.39.

[4] Exhibit B-33, Catalyst-FEI IR 3.22

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

[6] Exhibit B-26, FEI response to ICG IR #2, Question 2.

[7] FEI Application (Exhibit B-1), Appendix 5, Workshop 3, Rate Design and Segmentation, Discussion Guide, p. 52

23. In response to ICG IR No. 2 Question 3, FEI attempts to explain the change in its perspective from pre-application to application.

> At the time of pre-hearing Workshop the Company was considering proposing to rebalance RS 22A to 110 percent of its allocated cost that it had at that time as the revenue-cost ratio was 180 percent. This was during the pre-application consultation process and before FEI finalized its COSA studies and rate design proposals. Subsequent to that workshop, FEI discovered that there were errors in the derivation of the RS 22A firm and interruptible revenues. The correction of the errors affected RS 22A allocated cost of service and revenues.
>
> … <u>In view of rates that apply to RS 22A customers being well below the proposed RS 22 rates and because FEI is proposing in the Application to retain the previously-approved grandfathered status for RS 22A, FEI is not proposing any further adjustment to RS 22A rates to reduce its R:C ratio</u>. [Underlining added]

24. The correction in the COSA calculation doesn't explain or justify FEI's change in perspective on rebalancing. FEI shifted its rationale to other reasons not mentioned in the earlier explanation.

25. FEI should not be allowed to disregard the approved range of reasonableness this way. FEI's COSA shows that RS 22A is outside the range of reasonableness and is contributing far more than its reasonable share of revenue.

26. The revenue shift to rebalance RS 22A to within the range of reasonableness will also be much less than FEI proposed in Workshop 3 so the concern about impact to RS 1 is much less. The rebalancing will still have a substantial benefit for RS 22A customers and those customer are entitled to that rate reduction.

    a. A revenue shift of $554,500, instead of $5,700,000 as proposed in Workshop 3.

b. A rate reduction of 7.1% for Rate 22 A.[8]

27. The last underlined sentence in the FEI explanation quoted in paragraph 23 above reveals FEI's true motive for not rebalancing RS 22A to within the range of reasonableness. FEI's wants to let the RS 22A rate to increase to pressure RS 22A customers to move to RS 22.

28. At page 13 of its 18 September 2017 submission, FEI argued that

    a. its treatment of Rate Schedules 22A in FEI's COSA is consistent with the Commission determination to close these rate schedules in its 1993 Phase B Rate Design Decision.

    b. Rate Schedules 22A and 22B are grandfathered with respect to their terms and conditions of service and also with respect to how FEI <u>generally</u> allocates costs to them in the COSA. [underlining added.]

29. ICG disputes FEI's assertion that its decision to exempt RS 22A from rebalancing is consistent with the Commission's directions on Rate Schedule 22A and the grandfathering of the terms and conditions of that rate schedule. FEI acknowledges that the terms and conditions are grandfathered, but not the rates.[9]

30. FEI has, in fact, rebalanced the rates *and* adjusted terms of service for RS 22A over the years since RS 22A was grandfathered. In this proceeding, for example, FEI seeks to change the daily balancing tolerances for industrial customers, including RS 22A.

31. In FEI's submission dated 2 October 2017, at page 6, FEI notes the following points about how its operations have changed since 1993:

    > FEI's operations have changed since 1993, including major transmission additions such as the Southern Crossing Pipeline, which make it impossible to allocate costs

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[8] See the Table in See Exhibit B-35, page 2, FEI response to ICG IR #3, Question 1, page 2.

[9] See Transcript v.5 at page 441.

to Rate Schedules 22A and 22B in "exactly" the same way as in 1993. However, consistent with how the rates for these customers were originally derived, FEI did not allocate a portion of distribution costs to Rate Schedules 22A and 22B on a postage stamp basis. In summary, FEI's COSA study has appropriately treated Rate Schedules 22A and 22B consistent with past practice and their grandfathered status.

32. In its response to ICG IR No. 2, FEI cites the relevant decisions. Contrary to FEI's position in this application, those decisions explain the unique nature of RS 22A – including the obligation to supply peaking supply to the FEI system – and explain that rebalancing RS 22A to within the range of reasonableness is fair.

33. FEI's describes the relevant BCUC decisions as follows.

> There are two decisions that made comments on past COSA studies that have been used to guide FEI's allocation treatment for RS 22A. The first decision was the 1987 Inland Natural Gas (former predecessor company to FEI) Rate Design Decision and the second was the 1993 Phase B Rate Design. FEI's treatment of RS 22A is also consistent with the COSA studies in the 1996 and 2001 rate designs.
>
> **1. 1987 Rate Design Application, December 11, 1987, pg. 36 – 43.**
>
> The cost allocation studies from 1987 and onwards have used the large industrial CD for allocating the transmission costs. This treatment was noted on page 38 of the 1987 Rate Design Application Decision, as follows:
>
>> In the 1987 study Mr. Schultz made an additional change in the FACOS study methodology. He derived an allocation factor T to allocate transmission costs as 100 percent of the large industrial C.D. volume was firm even though industrial C.D.'s are curtailable up to 50 percent for five days each year (TR 32 5602).

The FACOS study, which included the large industrials that are included in RS 22A, was approved as stated on page 41 of the Decision: "The method employed by Inland is regarded as acceptable ..."

The use of the large industrial CD for allocating the transmission costs is reasonable because the Company calls upon the five half-day peaking resource only under extreme cold weather load conditions. On the sixth day and all days afterward the utility is required to deliver the firm full CD, even if extreme weather recurs. [Underling added]

2. 1993 Phase B Rate Design Application 5

For the 1993 Phase B Rate Design, the basis for allocating costs to RS 22A in the cost allocation study continued to be 100% of the large industrial customers' full CD, consistent with the 1987 study. The 1993 cost allocation study supported a need to shift revenue responsibility from the industrial classes to the residential and commercial classes of customers. The results of the study were accepted by the Commission as stated on page 15 of the 1993 Phase B Rate Design Decision:

> The Commission accepts the results of the FDC study showing that cost causation by customer class supports a shift of revenue responsibility from industrial customers to residential and commercial customers. [Underlining added] [10]

34. FEI dismisses the value of its right to call on 50 percent of RS 22A gas supply for five days each year because it is only for five days and FEI must deliver 100% of the 22A CD on the sixth day.

[10] See Exhibit B-26, FEI Response to ICG IR #2, Question 1, pages 1 and 2.

35. FEI assigns no value to the RS 22A peaking service in the COSA study.

    FEI does not include the peaking service as part of the COSA or in the calculation of the RS 22A R:C ratio.[11]

36. By any reasonable measure, the RS 22A peaking service offers substantial value to the FEI system – even if it is only for 5 days a year. The RS 22A customers must stand by their obligation to the FEI system and incur the related cost. If a reasonable value were assigned to that peaking service, the RS 22A R:C ratio would be much higher than 113%.

37. This point is relevant when FEI attempts to exempt RS 22A from rate rebalancing on some theory that it is not assigned the same costs as other classes. RS 22A is not assigned the full value of its economic contribution to the FEI system. RS 22A has different attributes than RS 22.

38. In the 1993 Decision, the Commission explicitly accepted that RS 22A should be rebalanced based on the FDC (COSA) study showing that RS 22A was over-contributing to the costs.

39. In the end, FEI's argument against rebalancing Rate Schedule 22A cannot be justified on basis of any BCUC decisions or any fairness principle. Moreover, FEI's argument defies FEI's own COSA analysis, which shows Rate Schedule 22A is paying more than its fair and reasonable share of its costs after FEI weighed all of the factors it deemed relevant.[12]

V. REBALANCING RATE SCHEDULE 5/25 – ADJUST THE DEMAND CHARGE INSTEAD OF THE BASIC CHARGE

40. The Commission should direct FEI to rebalance Rate Schedule 5/25 by adjusting the demand charge, instead of adjusting the basic charge.

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[11] See Exhibit B-26, FEI Response to ICG IR #2, Question 4, page 8.

[12] See Transcript v. 5 at page 442.

41. On page 5 of its submission, FEI notes that its rate design is guided by government policy.

> FEI considered government policy as reflected in published government energy policy documents, and the legislation and regulations implementing those policies.[13] One of the major developments since FEI's rate design proceeding in 2001 is the implementation of the provincial government's climate action and energy policies. The overall thrust of these policies for FEI is twofold: (i) to promote energy efficiency and conservation through demand side and tax measures to curb greenhouse gas (GHG) emissions; and (ii) to promote the role of natural gas in the transportation sector.[14]

42. On pages 1-6 and 1-7, FEI notes that RS 5/25 is designed to serve process load customers with efficient utilization of the system.

> FEI's General Firm Service (RS 5 and RS 25) is designed to serve process load customers with efficient utilization of the system. For this reason, RS 5 and RS 25 have a Demand Charge designed to provide lower average rates to higher load factor customers. Based on peak daily consumption information that was not available when the RS 5 and RS 25 Demand Charge was originally designed, FEI is proposing to update the multiplier in the peak day demand formula from 1.25 to 1.1 (the multiplier estimates the peak day demand from the average peak Monthly demand). As a result of the above change, FEI is also proposing to raise the Demand Charge for RS 5 and RS 25 by $3.00/GJ/Month to continue to provide a price signal for only high load factor customers to take General Firm Service. As the R:C ratio before rebalancing is 106%, FEI proposes to shift $1.093 million of revenue responsibility to RS 1 as explained in section 12.2.2. The R:C ratio after rebalancing is 105%, which is within the range of reasonableness directed by Order G-4-18.

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[13] Exhibit B-1-5, Application, section 5.4.

[14] Exhibit B-1-5, p. 5-3; Exhibit B-5, BCUC IR 1.5.1

> FEI is proposing to reduce the revenue responsibility of RS 5/25 by decreasing the Basic Charge by $118 per month.

43. FEI's proposal to rebalance Rate Schedule 5/25 by adjusting the basic charge favours customers at the low end (less efficient) end of the customer range by giving them a greater reduction in the rate.[15] This outcome runs counter to FEI's stated intent to:

    a. support government policy on energy efficient; and

    b. design RS 5/25 to serve process load customers with efficient utilization.

44. In response to ICG IR #3, FEI explained the relative customer impact as follows

> All customers will see the same reduction of $118 per month; however, the percentage decrease will vary from customer to customer depending on the customers' annual throughput and daily demand. Generally, it is expected that customers with larger annual throughput will have a lower percentage decrease.[16]

45. FEI elaborated that reducing the Basic Charge removes this price signal, leaving on the Demand Charge in place.

> Reducing the Basic Charge only keeps the price signal of the Demand Charge in place, which encourages customers to use the system efficiently.

46. In response to CEC IR #3, FEI acknowledges that adjusting the Basic Charge for RS 5/25 is based on other factors than aligning rates with cost causation.

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[15] See Exhibit B-35, page 2, FEI response to Industrial Customer Group #3, Question 2.4, page 4.

[16] See Exhibit B-35, page 2, FEI response to Industrial Customer Group #3, Question 2.5, page 4.

> Although adjusting the Basic Charge does not reflect greater alignment with cost causation, it is supported by the rate design principles of rate and revenue stability.[17]

47. To achieve energy efficiency (FEI's stated intent), FEI should not reduce the basic charge but reduce the demand charge, as set out in the response to ICG IR #3. This approach would favour the customers at the high end (most efficient end) of the range which should be the goal.

48. FEI does not wish to rebalance RS 5/25 in this manner because it does not want to shift more costs to RS 1. This rationale drives FEI to bend its principles on promoting energy efficiency to find another way to rebalance RS 5/25.

> Since RS 1 is already within the range of reasonableness with this adjustment, it is unnecessary to adjust the RS 5/25 Demand Charge, which results in additional revenue shifts to RS 1 from the impact on changing the Delivery Charge to RS 7/27 and RS 4 (refer to the response to ICG-FEI IR 3.2.4)[18]

49. If FEI were to rebalance RS 5/25 by reducing the demand charge instead of the basic charge,

    a. RS 1 would still remain below a 100% R:C ratio

    b. The fairness within RS 5/25 would align better with the energy efficiency objective, which also a British Columbia energy objective under the Act

    c. The implications for RS 7/27 and RS 4 would be minor

    d. The crossover signal between RS 3/23 and R 5/25 would remain reasonable.

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[17] See Exhibit B-25, page 2, FEI response to CEC IR #3, Question 2.5, page 5

[18] See Exhibit B-25, page 6, FEI response to CEC IR #3, Question 93.1.

VI. CONCLUSION

50. The ICG wish to thank the Commission and its Staff for their work on this application.

All of which is respectfully submitted on 10 April 2018 on behalf of the Industrial Customer Group by its counsel.

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