



VIA EFILE

April 26, 2017

FEI 2016 RATE DESIGN
EXHIBIT A-7

To: FortisBC Energy Inc.
Registered interveners

Re: FortisBC Energy Inc.
2016 Rate Design Application
Scope of the Independent Consultant's Rate Design Report

On February 21, 2017, the Commission issued a letter (Exhibit A-4) explaining that Commission staff retained an independent consultant, Elenchus Research Associates Inc. (Elenchus), for the review of FortisBC Energy Inc.'s (FEI) 2016 Rate Design Application, which included the rate design for the Fort Nelson service area (Application). Elenchus will produce two independent consultant reports, a Cost of Service Allocation Report and a Rate Design Report.

By Order G-30-17, the Commission established further regulatory process, which included a procedural conference held on April 5, 2017 to seek input from FEI and registered interveners on the key topics to be addressed by the independent consultant in the Rate Design Report. On March 31, 2017, the Commission issued a letter asking that, at the procedural conference, FEI and registered interveners provide input regarding any additions, deletions or changes to the list of key topics proposed by Commission staff as outlined in Attachment A to the letter (Exhibit A-6).

The following interveners participated in the procedural conference on April 5, 2017:

- Commercial Energy Consumers Association of British Columbia (CEC)
- British Columbia Old Age Pensioners' Organization et al (BCOAPO)
- B.C. Sustainable Energy Association and Sierra Club of B.C. (BCSEA)
- Industrial Customer Group (ICG)
- Fort Nelson & District Chamber of Commerce (FNDCC)

The Panel has finalized the scope for the Rate Design Report, which is outlined in Attachment A to this letter. Commission staff will manage the logistics and budget of the work being performed by Elenchus and will ensure that Elenchus adheres to the scope of the project. Commission staff will not take a position on any topic within the report and will not influence any opinion of the consultant. As outlined in Exhibit A2-1, Elenchus is expected to provide information on acceptable industry practices and relevant decisions made in other jurisdictions. Elenchus may provide its independent expert opinion on the advantages and disadvantages of FEI's proposal's and identified alternatives with regards to topics in the scope determined by the Panel. Elenchus will not be making any recommendations on any topics or rate design proposals by FEI. The consultant will be subject to information requests by all parties and if an oral hearing occurs, the consultant will be available for cross examination by all parties. If Elenchus is required to undergo cross-examination, Commission staff will not participate in the preparation of Elenchus' expert testimony.

At the procedural conference, interveners suggested the addition of several topics to the list of key topics proposed by Commission staff, including crisis intervention funds, load balancing on FEI's system and disconnection policies. The Panel considered all the suggestions brought forward at the procedural conference and the topics included in scope represent the areas where the Panel considers that the consultant's expertise would be most useful. The Panel expects that any suggested topic that has been excluded from the final scope would be explored by the parties through information requests.

The Panel expects Elenchus to use its professional expertise and judgment to produce a thorough independent report that addresses each of the topics outlined in the scope through well explained concepts, rationale and examples from other relevant jurisdictions within North America.

Yours truly,

Original signed by:

Patrick Wruck

ES/kbb

Enclosure

**British Columbia Utilities Commission
Detailed Scope for the Rate Design Report
by Elenchus Research Associates Inc.**

1. Rate shock

- What method do utilities and regulatory agencies in other jurisdictions use to quantify rate shock?
- In assessing rate shock, is consideration given to the total customer bill, each component (commodity rate, delivery rate, fixed basic charge), or a combination of charges?
- Does the assessment of rate shock differ for different types of customers?
- When commodity costs are flow-through to the commodity rate, are commodity costs typically included or excluded from rate shock considerations?

2. FEI rate design for residential customers

- A review of the different tools (example: basic charge, variable charge, demand charge) used in natural gas tariffs to recover fixed costs and variable costs and how these tools are used in the industry.
 - What are acceptable practices for the recovery of fixed costs using the tools identified?
- Is it acceptable practice to set the basic charge based on recovering a specific percentage or range of percentages of fixed costs?
- A review of acceptable alternatives to FEI's proposal for a one-time 5% increase in the residential fixed charge in order to improve the alignment between the fixed costs allocated to the residential rate schedule and the fixed charges recovered from residential customers as explained by FEI.
- A jurisdictional review of how low-volume residential customers are treated with regards to tariff charges or customer segmentation

3. FEI rate design for commercial customers

- When commodity costs are flow-through to the commodity rate, does the calculation of an economic crossover volume between two rate classes typically include the commodity rate?

4. FEI rate design for industrial customers

- A review of the benefits/disadvantages of requiring a minimum load factor to qualify for a specific rate for industrial rate classes
 - What is a typical minimum load factor used in other jurisdictions, if any?
 - An explanation of the benefits/disadvantages of different load factor levels.
- A jurisdictional review of how the rates for interruptible customers are typically determined, considering things such as cost causation, the risk of interruption, the benefits/disadvantages of having interruptible customers, and the benefits/disadvantages of having only firm customers.

5. Rate design for Fort Nelson

- A jurisdictional review of the use of bundled and unbundled rates in natural gas utilities.
- A review of the benefits/disadvantages of FEI's proposal to move to unbundled rates.
- A discussion of the considerations that are typically made when changing rate structures for different rate classes in the context of FEI's rate design proposals for Fort Nelson.
- A review of the benefits/disadvantages of FEI's proposal for removing a declining block rate structure and adopting a flat rate structure.
- A review of FEI's methodology used to calculate fixed (basic) and variable charges in a flat rate structure when moving from a declining block rate structure.

6. FEI's application of revenue to cost ratio range of reasonableness

Where not already fully addressed in the Cost of Service Allocation Report, the consultant should include:

- A discussion of how the concept of range of reasonableness is dealt with in other jurisdictions in relation to revenue to cost ratios and their application to rate design and rebalancing
- A discussion regarding the use of FEI's margin to cost ratio, instead of the revenue to cost ratio, to assess transportation customers' rate design, since these customers do not incur gas costs.

7. Transportation service review

- A discussion of the use of daily balancing versus monthly balancing for transportation service.
 - A discussion of the range of balancing tolerances used within the industry

8. Bypass customers and rates

- A discussion of how bypass rates are determined in other jurisdictions.
- A review of how other jurisdictions review bypass rates in an ongoing way.

9. Crisis Intervention Funds for residential customers

- A review of other jurisdictions that have a crisis intervention fund or similar program to assist ratepayers who are unable to pay their bills and are facing disconnection.
 - A discussion of how the program is funded, designed, and administered.

10. Disconnection Policies for residential customers

- A review of natural gas utility disconnection policies that are designed to mitigate any harm associated with disconnections, including winter shut-off restrictions and special circumstances with associated with medical issues.

11. Other topics with a significant impact to customer rates and/or customer classes

- Any other topic, identified by the independent consultant, which could result in a significant impact to customer rates or customer classes. The consultant must provide sufficient reasoning why this topic should be added to the report and obtain authorization from Commission staff before proceeding.