

**British Columbia Utilities Commission**

**FortisBC Energy Inc. 2016 Rate Design Application**

**BCUC Project No.3698899**

**Final Argument of  
B.C. Sustainable Energy Association and Sierra Club B.C.**

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## Table of Contents

Part I – INTRODUCTION .....	1
Overview .....	1
BCSEA and SCBC .....	1
FEI’s Requested Orders .....	2
Decision and Order G-4-18 .....	2
Outline .....	3
Part II – FEI’s Approach to Rate Design .....	3
Part III – Residential Rate Design .....	5
Part IV – Commercial Rate Design .....	6
Part V – Industrial Rate Design .....	8
A. General Firm Service (RS 5 and RS 25) .....	8
B. Interruptible Service .....	9
C. Seasonal Service .....	10
D. Large Industrial .....	11
Part VI – Revenue Shifts and Rebalancing .....	12
Part VII – Other Matters .....	14
Part VIII – Fort Nelson Rate Design .....	14
Part IX – CONCLUSION .....	19

## Part I – INTRODUCTION

### Overview

1. This is the final argument of the interveners B.C. Sustainable Energy Association and Sierra Club B.C. in the Commission's proceeding regarding FortisBC Energy Inc.'s (FEI) 2016 Rate Design Application (Application, or RDA). This final argument is filed by April 10, 2018 in accordance with the regulatory timetable set out in Order G-5-18.<sup>1</sup>
2. This argument responds to FEI's March 27, 2018 Final Submission.<sup>2</sup>

### BCSEA and SCBC

3. BCSEA is a non-profit association of citizens, professionals and practitioners committed to promoting the understanding, development and adoption of sustainable energy, energy efficiency and energy conservation in British Columbia. BCSEA supports the province's transition to a lower-carbon economy. BCSEA has five chapters across B.C. and approximately five hundred individual and corporate members. Many of BCSEA's members are ratepayers of FEI. BCSEA represents individuals and corporations in BC who care about energy sustainability and climate change, and who want the energy they purchase and use to be sustainably produced and transmitted.
4. SCBC is a non-profit organization of British Columbians from all walks of life. SCBC represents individuals in BC who care about a broad range of environmental issues, including climate change and clean energy, and who want the energy they purchase and use to be produced and transported in ways that minimize harm to the natural environment. SCBC has five local groups and over 12,000 members and supporters across the province. Many of SCBC's members are ratepayers of FEI.

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<sup>1</sup> Exhibit A-18.

<sup>2</sup> [http://www.bcuc.com/Documents/Arguments/2018/DOC\\_51170\\_03-27-2018\\_FEI-Final-Submission.pdf](http://www.bcuc.com/Documents/Arguments/2018/DOC_51170_03-27-2018_FEI-Final-Submission.pdf)

5. BCSEA-SCBC's interests in this proceeding are as non-profit public interest environmental and energy policy organizations, and as representatives of their members' interests as ratepayers. BCSEA-SCBC's objectives include energy conservation and efficiency, greenhouse gas (GHG) emissions reductions, fair rates, regulatory efficiency, and social justice.
6. BCSEA and SCBC participated in FEI's stakeholder engagement process prior to the December 19, 2016 filing of the Application.<sup>3</sup> They then participated actively in the Commission's proceeding. They participated in the March 2 and March 9, 2017 workshops and the April 5, 2017 procedural conference. They made a May 11, 2017 information request to FEI,<sup>4</sup> and a May 24, 2017 information request to Elenchus on its Cost of Service Allocation (COSA) Report.<sup>5</sup> They participated in the July 5, 2017 procedural conference, the September 12, 2017 Streamlined Review Process (SRP) on the COSA and Revenue to Cost ratios,<sup>6</sup> and the November 22 and 27, 2017 SRP on Transportation Service.<sup>7</sup>

#### **FEI's Requested Orders**

7. FEI sets out its requested orders in Appendix 1-2 of Exhibit B-1-5.
8. BCSEA-SCBC do not oppose FEI's request that the effective date for the rate design changes be determined as part of the compliance filing following the Commission's final decision on the Application.<sup>8</sup>

#### **Decision and Order G-4-18**

9. In Decision and Order G-4-18, the Commission Panel found that, with the exception of two specific issues, Tilbury Expansion costs and the VIGJV

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<sup>3</sup> Exhibit B-1.

<sup>4</sup> Exhibit C8-2.

<sup>5</sup> Exhibit A2-2.

<sup>6</sup> BCUC Decision and Order G-4-18.

<sup>7</sup> The Commission panel has said that it will provide its decision regarding the Transportation Service issues together with its decision regarding the remaining issues, which are the subject of this final argument.

<sup>8</sup> Exhibit B-32, BCUC-FEI 3.91.1

treatment, “FEI’s COSA methodology generally follows standard practice, which both EES Consulting and Elenchus view as being reasonable and acceptable for setting just and reasonable rates.”<sup>9</sup>

10. In addition, the Commission panel directed FEI to use a revenue to cost ratio (R:C) range of reasonableness (RoR) of 95 percent to 105 percent to inform rate design and rebalancing proposals in the current Application. FEI had proposed a R:C RoR of 90% to 110%. BCSEA-SCBC’s position had been that consideration of rate rebalancing should be triggered where R:C ratios vary from unity, or, alternatively, a RoR of 95% to 105%.

### **Outline**

11. For convenience, the argument follows the outline used by FEI in its Final Submission. Headings are paraphrased.

### **Part II – FEI’s Approach to Rate Design**

12. With reference to paragraph 6 of FEI’s Final Submission, BCSEA-SCBC acknowledge that FEI’s approach to rate design in the current proceeding has been informed by stakeholder engagement, detailed data analysis, government policy and a “principle-based review of rates.”
13. Re FEI’s para.9, BCSEA-SCBC agree with FEI that “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.” However, they differ with FEI as to the “overall thrust of these policies for FEI.”
14. In BCSEA-SCBC’s view, the overall thrust of BC’s provincial climate action and energy policies for FEI is to require substantial reductions in the GHG emissions caused by the end use of natural gas by FEI customers, by the delivery of natural gas by FEI, and by the upstream production of natural gas sourced by FEI.

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<sup>9</sup> Order G-4, 18, Appendix A, p.11.

15. BCSEA-SCBC agree that government policy affects FEI through (i) promoting energy efficiency and conservation through demand side and tax measures to curb GHG emissions from the combustion of natural gas; and (ii) promoting natural gas as a substitute for higher-carbon fossil fuels in the transportation sector. BCSEA-SCBC would add that government policy also affects FEI through (iii) promotion of low-carbon electrification, and (iv) encouragement of zero-carbon renewable natural gas (biomethane).
16. BCSEA-SCBC agree with FEI in para. 9 that the BC government's support for postage stamp rates is a significant factor to be considered in the design of FEI's rates.
17. With reference to FEI's paras. 10-12, BCSEA-SCBC agree that FEI appropriately identified and applied the standard Bonbright principles during the rate design process.
18. BCSEA-SCBC agree with FEI that rate design is a complex balancing process, where FEI states:

"Rate design is a complex balancing process as it frequently requires the application of multiple, and sometimes conflicting, principles and the consideration of viewpoints from various stakeholders. In addition, different rate design principles may have varying levels of importance in different contexts."<sup>10</sup>
19. Further, BCSEA-SCBC accept that rate design requires the application of experience and judgment in striking the appropriate balance, where FEI states:

"FEI, therefore, applies its experience and judgment to consider and balance the most relevant principles in a given context when identifying rate design issues and proposing rate design solutions. Rate design should strive to strike a balance among competing rate design principles based on specific characteristics of customers in each rate schedule."<sup>11</sup>

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<sup>10</sup> Exhibit B-1-5, Application, p.1-3, cited by FEI Final Submission, para.18.

<sup>11</sup> *Ibid.*

### Part III – Residential Rate Design

20. The residential rate class includes RS 1, RS 1U, RS 1X and RS 1B (often referred to collectively as RS 1). FEI explains:

“The differences in RS 1, RS 1U, RS 1X and RS 1B pertain to the commodity portion of residential rates. In all cases the transportation and storage service (also called midstream service) and the delivery service are provided by FEI. Under RS 1 customers receive conventional natural gas from FEI as their commodity. Under RS 1U, customers receive their commodity from a licensed natural gas marketer. In the event that there is a Marketer failure, customers that had been served by a Marketer under RS 1U, may be served under 1X. Under RS 1B customers receive commodity service from FEI, but have elected to receive a percentage of their natural gas as renewable natural gas (also called biomethane) with the balance being conventional natural gas.”<sup>12</sup>

21. For the residential rate class, FEI proposes to maintain the current flat rate structure. FEI also proposes a 5% increase in the Basic Charge with a corresponding decrease in the volumetric Delivery Charge (the per GJ charge) to maintain class revenue neutrality. This translates to an increase of \$0.0195, from \$0.3890 to \$0.4085, per Day for the Basic Charge, and a decrease of \$0.086 per GJ in the Delivery Charge.

22. On balance, considering the various factors, BCSEA-SCBC support retention of the flat residential rate structure. During the stakeholder engagement and the IR process they explored the merits of moving to an inclining block structure for the residential class, as well as for the commercial and industrial classes. The same factors apply to each customer class, albeit in somewhat different ways.

23. BCSEA-SCBC believe the current flat rate structure sends the appropriate price signal to support conservation and efficiency at the present time. The message is simple and well understood: ‘The more gas you use, the more you pay; the less you use, the less you pay.’

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<sup>12</sup> Exhibit B-1-5, footnote 102, p.7-1, pdf p.127.

24. An inclining block rate for FEI's gas service would not have the same benefit of the inclining block residential rates for electricity provided by the BC electricity utilities. BC Hydro's residential inclining block rate (RIB) and FBC's residential conservation rate (RCR) price consumption on the margin at a relatively high rate reflecting the utility's relatively high long-run marginal cost of supply. However, FEI purchases on the market the gas it delivers to its customers.
25. FEI provided a detailed explanation of why it is not proposing inclining block rate structures in the RDA.<sup>13</sup> With respect, BCSEA-SCBC do not agree with all aspects of FEI's explanation. However, on balance BCSEA-SCBC support retention of the flat rate structure at the present time.
26. Regarding the revenue-neutral 5% increase in the residential Basic Charge, BCSEA-SCBC do not oppose the proposal. FEI's residential Basic Charge is quite low in relation to the allocated fixed customer costs. And, it is low in comparison with the fixed residential charges imposed by other gas utilities. The size of the proposed increase – 5% – is modest: less than 60 cents per month.<sup>14</sup> It would not have significant adverse bill impacts. Nor would it significantly diminish the price signal given by the volumetric charge, which would have been a concern for BCSEA-SCBC.<sup>15</sup>

#### **Part IV – Commercial Rate Design**

27. For rate design purposes, FEI's commercial rate schedules are divided into small commercial (RS 2 RS 2U, RS 2X and RS 2B 3, referred to as RS 2) and large commercial (RS 3, RS 3U, RS 3X, RS 3B (referred to as RS 3) and RS 23<sup>16</sup>).

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<sup>13</sup> Exhibit B-9, BCSEA 2.3.

<sup>14</sup> Exhibit B-9, BCSEA 3.2.

<sup>15</sup> Exhibit B-9, BCSEA 3.1.

<sup>16</sup> RS 3 and RS 23 differ in that RS 3 is for sales customers (who purchase the gas commodity from FEI) and RS 23 is for transportation customers (who make their own arrangements for purchasing gas.) The same numbering protocol is used for rates such as RS 5 and RS 25, and RS 7 and RS 27.

28. FEI proposes to retain the existing flat volumetric charge for both the small commercial and large commercial rate classes. BCSEA-SCBC support that approach. The commercial rate classes are too diverse for an inclining block rate to be feasible at this time.
29. FEI acknowledges that there is a bill differential for customers close to the 2,000 GJ per year threshold between the small commercial and the large commercial rate classes. The economic cross-over point (at which a customer would have the same bill under the small commercial rate as under the large commercial rate) is approximately 1,400 GH/year, which is below the 2,000 GJ/year threshold.
30. BCSEA-SCBC agree with FEI that the misalignment between the economic cross-over point and the threshold creates three problems: inefficient price signals, rate instability, and revenue instability.
31. FEI proposes to retain the 2,000 GJ/year threshold, and to address the misalignment by increasing the Basic Charge for both small and large commercial classes, reducing the volumetric Delivery Charge for the small commercial class, and increasing the Delivery Charge for the large commercial class. The proposal includes maintaining revenue neutrality for the combined small and large commercial rate classes.
32. BCSEA-SCBC support this proposal. It provides a balanced solution that is compatible with the Bonbright principles, as summarized in FEI's paragraph 38. The proposed solution is preferable to the identified alternative methods of addressing the misalignment. It would cause less disruption to customers and lower administration costs to FEI. It avoids changing the well established 2,000 GJ/year threshold. And it would lead to less potential movement of customers between the two rate classes.

## Part V – Industrial Rate Design

33. FEI's industrial rate classes include General Firm Service (RS 5 and RS 25), Interruptible Service (RS 7 and RS 27), Seasonal Service (RS 4), and Large Industrial (RS 22, RS 22A, RS 22B, and special contract customers).

### A. General Firm Service (RS 5 and RS 25)

34. BCSEA-SCBC support FEI's two proposals for General Firm Service, both relating to the Demand Charge:

(a) to change the multiplier from 1.25 to 1.10, to more accurately estimate the peak Daily Demand of customers, and

(b) to increase the Demand Charge by \$3.00 per month per GJ of Daily Demand, to continue the incentive for low load factor customers to take service under Large Commercial (RS 3 or RS 23) rather than General Firm Service.

35. The multiplier is used to calculate a deemed peak Daily Demand from the known peak monthly demand. The peak Daily Demand is the billing determinant to which the Demand Charge is applied. The current multiplier (1.25) was established in 1996, before daily peak demand was routinely measured. The current multiplier over-estimates daily peak demand for most customers. This is shown in Table 9-6.<sup>17</sup> It is explained further in FEI's responses to BCUC IR 1.27.<sup>18</sup> The proposed multiplier of 1.10 is supported by actual daily demand data that is now available.

36. FEI examined four alternatives to the proposal to change the multiplier from 1.25 to 1.10. BCSEA-SCBC agree that the proposed approach is superior to the alternatives. It avoids the complexity and anomalous results associated with using each customer's actual daily peak demand.

"Anomalies" refers to very low non-representative values that do not match

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<sup>17</sup> Exhibit B-1-5, Table 9-6, p.9-14, pdf p.198.

<sup>18</sup> Exhibit B-5, BCUC-FEI 1.27, pdf p.134, *et seq.*

the customer's general demand on cold weather days.<sup>19</sup> The possibility of anomalies stems from reduced demand on Sundays, statutory holidays or short term seasonal holidays.<sup>20</sup> The proposal to change the multiplier to 1.10 is simple and has the least annual bill impact among the options.

37. FEI's proposal to increase the General Firm Service Demand Charge (by \$3.00 per month per GJ of Daily Demand) is intended to send a price signal in support of relatively high load factor operations.
38. BCSEA-SCBC agree with FEI that, in general, a commercial customer with a load factor less than 40 percent should be better off taking service under RS 3/23, which has no demand charge, than under RS 5/25, which has a demand charge but a much lower delivery charge."<sup>21</sup> The proposal to increase the Demand Charge for the General Firm Service class will increase the economic crossover point between RS 3/23 and RS 5/25 so that lower load factor customers will have an appropriate price signal to take service under RS 3/23.
39. BCSEA-SCBC are satisfied that raising the demand charge is a better option than the other options for retaining the incentive for low load factor customers to be on RS 3/23, for the reasons summarized in FEI's paragraph 56 and 59-65.

## **B. Interruptible Service**

40. FEI's General Interruptible Service rate class is RS 7 and RS 27. The General Interruptible Service rate design is a discount from the General Firm Service (RS 5/25) rate to account for the interruptibility. BCSEA-SCBC support this concept.
41. In this RDA, FEI proposes changes to RS 7/27 aimed at maintaining the discount with RS 5/25 taking into account the proposed changes to RS 5/25 discussed above.

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<sup>19</sup> Exhibit B-11, CEC-FEI 1.42.1, pdf p.102.

<sup>20</sup> FEI, Final Submission, para.51, second bullet, p.24.

<sup>21</sup> FEI, Final Submission, para.54.

42. BCSEA-SCBC agree with FEI's articulation of the factors that guide and justify the appropriate discount for interruptible service compared to firm service. These include the risk and cost to the interruptible customer of incurring an interruption in service, the price signal being set at the right level, minimizing migration between interruptible and firm service, providing good value for the interruptible service, and providing net savings for other non-bypass customers.<sup>22</sup>
43. In order to preserve the discount between General Interruptible Service and General Firm Service, FEI proposes adjustments to the parameters used in the calculation of the GIS Delivery Charge. BCSEA-SCBC take no issue with the proposed adjustments and they support the objective of maintaining the appropriate discount between the General Interruptible Service rate and the General Firm Service rate.

### **C. Seasonal Service**

44. FEI's Seasonal Firm Service is provided under RS 4. It is for customers who typically do not use natural gas during the winter and so do not contribute to the system peak demand. Seasonal customers use gas primarily in the Off-Peak Period of April 1 to October 31. They may also use gas on an interruptible basis in November and March when there is available capacity and gas, referred to as the Extension Period. They do not take service during December through February. Examples of Seasonal Firm Service customers are paving companies with asphalt plants and municipal swimming pools.<sup>23</sup>
45. The Seasonal Firm Service is derived from aspects of both General Firm Service (RS 5) and General Interruptible Service (RS 7). FEI proposes updates to RS 4 consequent upon the proposed changes to RS 5/25 and RS 7/27. This involves increasing the Seasonal Firm Service Off-Peak

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<sup>22</sup> FEI Final Submission, para.72.

<sup>23</sup> Exhibit B-1-5, pp.9-33 to 9-34.

Delivery Rate by \$0.114/GJ and decreasing the Extension Period Rate by \$0.018/GJ.

46. BCSEA-SCBC agree with continuation of the existing method of determining rates for Seasonal Firm Service. And, BCSEA-SCBC support approval of the proposed changes to the Seasonal Firm Service as described above.

#### **D. Large Industrial**

47. For Large Volume Transportation Service, FEI describes its proposal as being “to establish new cost-based firm and interruptible rates for all large-volume, non-grandfathered transportation customers that are currently served under RS 22 or special contracts.”<sup>24</sup>
48. FEI’s term “grandfathered” transportation customers refers to Inland Service Area customers in RS 22A, and Columbia Service Area customers in RS 22B. These rate schedules are only available to large industrial customers that were receiving transportation service prior to 1993. Both RS 22A and RS 22B are now closed by Commission order.
49. The non-grandfathered large industrial customers include VIGJV, BC Hydro IG, each of which have specially negotiated contracts, and RS 22 customers. RS 22 has an interruptible delivery rate and if RS 22 customers want firm service they can negotiate a contract for firm service, subject to BCUC approval.
50. Unlike RS 22 customers, the VIGJV and BC Hydro IG contracts, respectively, require the customer to be responsible for a portion of system gas associated with transporting gas to Vancouver Island, and to pay a commodity toll for odorant and motor fuel tax.
51. Creative Energy is the only RS 22 customer that has a tariff supplement for firm service. Notably, when the Commission approved Tariff Supplement G-21 for service to Creative, it said it was not persuaded of the merits of the

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<sup>24</sup> FEI Final Submission, para.89.

derivation of the rate for firm service but that it should be approved until the rates can be reviewed in a rate design proceeding.

52. The Commission's concerns, FEI says, are addressed by FEI's proposal to establish what it calls "a postage stamp, cost of service firm rate for all large industrial customers."<sup>25</sup>
53. BCSEA-SCBC have decided to take no position regarding FEI's proposed changes to RS 22, VIGJV and BC Hydro IG. FEI provides a considerable amount of information and argument in favour of its proposal, particularly in its response to the Commission's IR No. 3. However, BCSEA-SCBC are aware that they haven't yet had the opportunity to read the final submissions of VIGJV, BC Hydro, and any other current or potential RS 22 customers that may be directly affected. It is also apparent from information requests and submissions in the COSA and Transportation Service streamlined review processes that various parties' current positions may rely in part on the terms and conditions of specific contracts as well as historical understandings and practices that BCSEA-SCBC are not familiar with and that may not be on the evidentiary record.

### **Part VI – Revenue Shifts and Rebalancing**

54. As noted above, in Decision and Order G-4-18 the Commission generally approved FEI's COSA methodology and directed FEI to use a R:C range of reasonableness (RoR) of 95% to 105% to inform rate design and rebalancing proposals in the current Application.
55. FEI's Final COSA results after rate design changes are shown in Table 12-2.<sup>26</sup> Three rate classes have R:C ratios exceeding 105%:
- (a) RS 5/25 (General Firm Service), which is slightly over at 106.3%,
  - (b) RS 6/6P (Natural Gas for Transportation), which is substantially over, with a R:C ratio of 131.7%, and

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<sup>25</sup> FEI Final Submission, para.98; Exhibit B-32, BCUC-FEI 3.94.3.

<sup>26</sup> Exhibit B-1-5, Table 12-2, pdf p. 314.

- (c) RS 22A (Inland Service Area Transportation Service (Closed), which is over at 113%.
56. None of the other rate classes has a R:C ratio below 95%. The Residential class (RS 1), at 96.4%, is the only class with a R:C ratio below 100%.
57. FEI proposes to rebalance downward the RS 5/25 and RS 6/6P rates and to correspondingly rebalance upward the RS 1 rates. The bill impact on RS 1 customers is an approximate annual bill increase of 0.2%.<sup>27</sup> This rebalancing would increase the RS 1 R:C ratio to 96.6%.
58. In BCSEA-SCBC's view, rebalancing to bring the RS 5/25 and RS 6/6P rates down to a R:C ratio of 105% and increasing the RS 1 rates correspondingly (to a R:C ratio of 96.6%) is desirable. This is based primarily on consideration of the Bonbright principle that rates should send price signals that encourage efficient use and discourage inefficient use.
59. If the rebalancing is approved, FEI proposes to adjust the RS 5/25 rates by decreasing the Basic Charge (by \$118 per month to \$469 per month). This achieves the rebalancing without changing the demand and delivery charges, thereby avoiding cascading changes in the rates in other rate classes. BCSEA-SCBC agree with this approach.
60. If the rebalancing is approved, FEI proposes to adjust the Natural Gas for Transportation rates by reducing the volumetric Delivery Charge (by \$1.622/GJ). This approach is desirable because it sends the appropriate price signal by making natural gas for transportation somewhat less costly per GJ than more carbon intensive fossil fuels.
61. BCSEA-SCBC have no objection to FEI's proposal in paragraph 115 to set the Delivery Charge for RS 6P equal to the Delivery Charge for RS 6 after all the other rate design proposals and rebalancing are effected.

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<sup>27</sup> Exhibit B-1-5, p.12-8, pdf p.317.

62. BCSEA-SCBC accepts FEI's rationale for proposing not to rebalance the R:C ratio for RS 22A.<sup>28</sup>
63. As stated above, BCSEA-SCBC take no position regarding FEI's proposed new RS 22 rate and rate structure.

#### **Part VII – Other Matters**

64. BCSEA-SCBC support FEI's proposed wording amendments to the General Terms and Conditions and Rate Schedules.
65. BCSEA-SCBC also support FEI's proposed adjustments to the Standard Fees and Charges Schedule, including the reduction in the Application Charge and the Returned Payment Charge.

#### **Part VIII – Fort Nelson Rate Design**

66. BCSEA-SCBC support FEI's proposal to unbundle the Fort Nelson rates. This change will allow Fort Nelson customers to participate in the Renewable Natural Gas program in the future (discussed further, below). The bills will provide customers with better information about how much they are paying for what components of their service. In addition, it appears from the results of FEI's survey of residential customers that more customers support, than oppose, moving to a bill that is in the same form as other FEI bills across the province.
67. BCSEA-SCBC also support FEI's proposal to move Fort Nelson from a declining block rate structure to a flat rate structure. As FEI points out, its declining block rate structure was eliminated in the rest of its service territory in 1993. The move to a flat rate sends a better price signal and it is easier for customers to understand. Also, the proposed flat rate is joined with a proposed fixed Basic Charge, in contrast with the existing minimum charge that is based on the cost of 2 GJ per month prorated daily, which is inherently variable.

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<sup>28</sup> FEI Final Argument, p. 52.

68. FEI's specific proposal for the Fort Nelson residential rate design is a flat volumetric Delivery Charge with a fixed daily Basic Charge, similar to FEI's RS 1 residential rate structure in the rest of its service territory. In addition, being unbundled, the bill would include separate commodity charges, i.e., Storage and Transport, Cost of Gas, and, if applicable, Renewable Natural Gas. BCSEA-SCBC support this proposal.
69. FEI calibrated the Fort Nelson residential Delivery Charge and the Basic Charge to achieve the lowest maximum dollar amount bill increase for any individual customer. BCSEA-SCBC consider this an acceptable approach. The bill impacts will be minimal for most customers, and low consumption customers will see a bill decrease. From Figure 13-10, it appears that no customers would have an annual bill increase of greater than 10%.<sup>29</sup> Applying FEI's residential Basic Charge to Fort Nelson would cause significant adverse bill impacts, which BCSEA-SCBC agree would not be appropriate.
70. For the Fort Nelson commercial customers, FEI proposes a Commodity Cost Recovery Charge, a Storage and Transport Charge, a volumetric Delivery Charge, and a fixed daily Basic charge. FEI proposes a threshold of 2,000 GJ/year between the small commercial rate class (RS 2.1) and large commercial rate class (RS 2.2) in Fort Nelson. BCSEA-SCBC support the intention of these changes to make the Fort Nelson commercial rates similar to, and consistent with, the commercial rates in the rest of FEI's service territory.
71. The current threshold between small and large commercial in Fort Nelson is 6,000 GJ/year. BCSEA-SCBC agree with FEI's proposal to change it to 2,000 GJ/year. A threshold of 2,000 GJ/year is supported by COSA results in terms of load factor and consumption. The current threshold of 6,000 GJ/year is not supported by data. A threshold of 2,000 GJ/year creates

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<sup>29</sup> Exhibit B-1-5, Figure 13-10, pdf page 355.

materially different customer groups.<sup>30</sup> In addition, a 2,000 GJ/year threshold is consistent with other jurisdictions, while the 6,000 GJ/year threshold is not.

72. BCSEA-SCBC agree with FEI's criteria for determining the Basic Charge and the Delivery Charge for the flat, unbundled Fort Nelson small commercial and large commercial rate classes, as set out in FEI's para. 150. BCSEA-SCBC take no position on the actual rates proposed in Table 13-22.<sup>31</sup>
73. For the industrial rate class in Fort Nelson, FEI proposes to use the RS 5/25 rate structure applicable in the rest of FEI's service territory, if the existing bundled, declining block rate structure is eliminated.
74. BCSEA-SCBC agree with FEI's reasons for adopting the RS 5/25 rate structure in Fort Nelson, set out in FEI's para.153. In addition to producing consistency with the rest of the FEI system, as it happens there is only one customer in the rate class and the change would have no impact on the other rate classes.
75. FEI proposes to phase out the Rate Stabilization Adjustment Mechanism (RSAM) for both the Fort Nelson Industrial class and the RS 25 rate class. FEI explains the RSAM as follows:

“The RSAM stabilizes delivery margin received from customers on a Use Per Customer (UPC) basis. If customers' actual UPC varies from the forecast UPC used to set rates, whether due to weather variances or other causes, FEI records the delivery charge differences in the RSAM deferral account for refunding or charging through a rate rider to the RSAM rate schedules over the ensuing two years.”<sup>32</sup>
76. FEI says that, with the proposed rate structure, phasing out the RSAM for the Fort Nelson Industrial rate class would be reasonable and consistent with the treatment of RS 5/25:

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<sup>30</sup> Exhibit B-5, BCUC-FEI 1.49.1.

<sup>31</sup> Exhibit B-1-5, Table 13-22, pdf p.366.

<sup>32</sup> Exhibit B-1-5, p.13-46, pdf p.369.

“It would no longer be reasonable for the RSAM to apply to Fort Nelson’s Rate 3.1 and RS 25 since a very large portion of the revenues will now be recovered through fixed charges – the Basic Charge, Administrative Charge and Demand Charge. This treatment of exclusion from the RSAM is consistent with FEI’s exclusion of RS 5 and 25 from the RSAM mechanism.”<sup>33</sup>

77. BCSEA-SCBC accept that rationale, noting that FEI says it may need to continue temporarily the RSAM Rider for the single Fort Nelson Industrial customer – a point on which BCSEA-SCBC take no position.
78. With reference to FEI’s paras. 157-158, BCSEA-SCBC support FEI’s proposed amendments to the Fort Nelson Gas Tariff.
79. As noted above, BCSEA-SCBC see the potential availability of the Renewable Natural Gas (biomethane) to Fort Nelson customers as an important feature of unbundling. Asked about the timing of implementation of biomethane rate schedules for Fort Nelson, on the assumption that the Commission approves the proposed unbundling, FEI says:
- “...Although dependent on a number of factors, including the timing of the Commission Decision on the Application, the implementation of the Decision, and the Commission Decision itself, it is FEI’s intention to file an FEI Fort Nelson Gas Tariff amendment application to include biomethane rate schedules approximately six months after implementation of the Decision on the Application. A six-month period is consistent with the timing used for similar tariff changes for Vancouver Island and Whistler. FEI’s view is that six months allows enough time for customers to understand unbundled rates prior to introducing the concept of Renewable Natural Gas.”<sup>34</sup>
80. BCSEA-SCBC do not object to a six month period after implementation of the Commission’s Decision before the Renewable Natural Gas program is introduced and marketed in Fort Nelson.

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<sup>33</sup> *Ibid.*

<sup>34</sup> Exhibit B-9, BCSEA-FEI 6.1, underline added.

81. As shown in Table 13-26,<sup>35</sup> the final COSA R:C ratios for Fort Nelson after the proposed changes to the rate structures show that the Residential class (91.7%) and the General Firm Transportation class (91.5%) are below the RoR of 95% to 105%, and the Small Commercial class (108.2%) and the Large Commercial class (115.8%) are above the RoR.
82. FEI proposes to rebalance the revenue responsibilities of these four rate classes to bring the rates for the Residential and General Firm Transportation classes up to a R:C ratio of 95%, and the rates for the Small and Large Commercial rate classes down to a R:C ratio of 105%.<sup>36</sup> This rebalancing is supported by the Bonbright price signal principle and BCSEA-SCBC support it.
83. For the Residential class, the rebalancing produces an approximate average annual bill increase of \$66.50 or 5.4%.<sup>37</sup> The combined Residential bill impacts of the rate design change and the rebalancing are shown in Figure 13-18. Most of the customers see an annual bill increase (presumably due to the rebalancing). However, for a large majority of the customers the annual bill increase is less than 10%, the traditional hallmark of rate shock. At the low end of the consumption spectrum the annual bill impacts of the combined changes vary widely from large decreases to large increases. In view of the fact that there may be some Fort Nelson Residential customers who would see an annual bill increase due to unbundling, flattening and rebalancing of greater than 10%, BCSEA-SCBC do not oppose a phase-in mechanism, which is discussed further, below.
84. For the Small and Large Commercial classes in Fort Nelson, FEI proposes basic and volumetric delivery charges that optimize for reducing the economic cross-over point to the 2,000 GJ/year threshold and for minimizing any individual customer's annual bill impact.<sup>38</sup> Few customers

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<sup>35</sup> Exhibit B-1-5, Table 13-26, p.13-50, pdf p.373.

<sup>36</sup> Exhibit B-1-5, Table 13-27, p.13-51, pdf p.374.

<sup>37</sup> *Ibid.*

<sup>38</sup> Exhibit B-1-5, Figures 13-19, 13-20, 13-21, pdf p.376 *et seq.*

see adverse annual bill impacts, and these are less than 5%. BCSEA-SCBC support this proposal.

85. For the proposed new RS 25 Industrial Transportation rate class for Fort Nelson, FEI proposes to achieve the rebalancing by increasing the Demand Charge. This results in an annual bill increase of 4%. BCSEA-SCBC support this proposal.
86. FEI says it will reassess the need to phase in the rate structure and rebalancing proposals for Fort Nelson in conjunction with the potential rate changes resulting from the anticipated 2019/2020 Fort Nelson Revenue Requirements Application.<sup>39</sup> BCSEA-SCBC support this approach.

### **Part IX – CONCLUSION**

87. BCSEA-SCBC support Commission approval of the aspects of FEI's Rate Design Application addressed above.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

April 10, 2016



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William J. Andrews  
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Sierra Club B.C.

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<sup>39</sup> FEI Final Submission, para.165.