

November 22, 2018

**VIA E-FILING**

Patrick Wruck  
Commission Secretary  
BC Utilities Commission  
6th Floor 900 Howe Street  
Vancouver, BC V6Z 2N3



Reply to: Leigha Worth  
lworth@bcpiac.com  
Ph: 604-687-3034  
Our File: 7664

Dear Mr. Wruck,

Re: FortisBC Inc. 2017 Cost of Service Analysis and Rate Design Application  
Project No.1598939  
Submission on Exhibit A-19

Please be advised that we make these submissions on behalf of the following coalition of antipoverty, seniors', tenants' and disability advocacy organizations: the British Columbia Old Age Pensioners' Organization, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre, known collectively in FortisBC Inc. ("Fortis" or "FBC") processes as BCOAPO et al. or BCOAPO. These groups have intervened in this rate design process representing the interest of FBC's low and fixed income residential electricity ratepayers and as such they have a material interest in this outcome of this matter.

On November 16, 2018, the British Columbia Utilities Commission (BCUC) issued a Submission Request (Exhibit A-19), in response to an e-mail received by the BCUC from a registered intervener, the Kaslo Senior Citizens Association Branch #81 (KSCA).

In light of the issues raised in KSCA's email, the BCUC requested submissions from FBC and registered interveners on the following items.

- Whether FBC has to date complied with Directive 5 of Order G-3-12 regarding an in-depth analysis of the LRMC based on the specific requirements outlined in the FBC RIB Rate Decision.
- If FBC has not complied with Directive 5 of Order G-3-12, the implications, if any, this has on FBC's approvals sought in the current Application and on the Panel's ability to render a decision on specific items in the Application.
- Whether the evidentiary record should be reopened to address any of the issues raised in KSCA's email, including whether corrections are required to be made to the Application and, in particular, to the COSA study.

BCOAPO's position regarding the above items is outlined below.

**Item 1: Whether FBC has to date complied with Directive 5 of Order G-3-12 regarding an in-depth analysis of the LRMC based on the specific requirements outlined in the FBC RIB Rate Decision.**

BCOAPO submits that FBC has not fully complied with Directive 5 of Order G-3-12.

Directive 5 of Order G-3-12 stated:

*FortisBC is directed to provide a RIB Rate Evaluation Report (Report) covering the period from the date of implementation to December 31, 2013. This Report should provide the utility, the Commission and Interveners the opportunity to evaluate the effectiveness of the RIB program, in particular with respect to its impact on conservation. The Report is to include, but not be limited to, the following:*

- a. The energy consumption reductions achieved;*
- b. Whether the consumption reductions persist or are temporary;*
- c. How the rate design impacts electric heat customers; and*
- d. The resulting operating cost reductions to the utility.*

*The Report should also include an in-depth analysis of the full long-run marginal cost of acquiring energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer, and how that cost compares to the Block 2 rate; the combined effect of integrating TOU and RIB rates on the conservation achieved by the RIB, should that information be available; an update of the Conservation Potential Review and report on the potential effects of interaction between RIB rates and Demand Side Management targets; comparison of energy usage of indirect customers with the energy usage of direct customers; and an analysis of the potential effect of a two-tier wholesale rate on the consumption of its wholesale customers. This Report should be submitted to the Commission no later than April 30, 2014.*

(Emphasis added)

In order to fully understand the genesis of Directive 5 of Order G-3-12, it is useful (for context) to look at the related FBC RIB Rate Decision where the BCUC stated<sup>1</sup>:

*While the Panel considers the most appropriate referent to be the cost of acquiring energy through new resources, we note that all of the above marginal costs represent only the cost of acquiring the energy. Thus, there is ambiguity between the LMRC as defined by FortisBC and the true long-run marginal cost of new supply to the customer. The Block 2 rate is a delivered rate, while the LRMC is a cost of acquisition – it only relates to the cost of procuring energy but does not include the LRMC of transporting that energy to customers through transmission and distribution networks. FortisBC estimates the LRMC at \$125.80 per MWh, or 12.58 cents per kWh, which includes line losses of 11 percent, but does not include other delivery costs. FortisBC has provided no further information about the cost to deliver this additional energy acquired from market purchases or new resources. Accordingly, the Panel finds that there is insufficient evidence to support the position of the BCOAPO that there is “...no need for FortisBC to implement a RIB rate in order to send the proper price signals to customers.”*

---

<sup>1</sup> G-3-12 FBC RIB Decision, page 41

*FortisBC's proposed Block 2 rate is 12.408 cents per kWh, assuming a 2012 implementation date, which is below its estimated LRMC cost of 12.58 cents per kWh, which includes line losses but excludes other delivery costs. Thus, the Panel is satisfied that this Block 2 rate is below the actual delivered LRMC. Because of the uncertainty of the actual LRMC, the Panel does not agree that the Block 2 rate be capped at this time. **However, FortisBC is directed to provide an update of the full long-run marginal cost of acquiring energy from new resources, including the cost to transport and distribute that energy to the customer as part of the reporting to be submitted in 2014.***

*(Emphasis in original)*

Based on Directive 5 of Order G-3-12 and the supporting discussion in the Decision, it is clear that what the BCUC was looking for was a long-run marginal cost ("LRMC") value that included the cost of both the cost of acquiring *and the cost of delivering energy* (i.e., transmission, distribution and losses) to customers. As is the case in most circumstances, one number reflecting the entire price of an item is preferable for clarity. No one wants to go Christmas shopping this year and be forced to go to two or more separate locations within the mall to find amount they will have to pay to buy their child a teddy bear. Ratepayers and interveners need as much clarity as possible, and we cannot blame the Commission Panel that issued G-3-12 if it too preferred the simplicity and clarity to one combined price instead of the organizational resource drain it would take to "treasure hunt" the various components and puzzle them together.

In its November 20, 2018 submission regarding Exhibit A-19, FBC has indicated that it is of the view that it has complied with Directive 5 of Order G-3-12. In its submission, FBC outlines the chronology of events and BCUC determinations that resulted in the filing date for the LRMC information being changed to coincide with the Company's filing of its 2016 LTERP and Long-Term DSM Plan<sup>2</sup>. Further, FBC outlines its next steps, as follows:

*10. FBC filed the 2016 LTERP and Long-Term DSM Plan on November 30, 2016. Section 9 of the 2016 LTERP contained the summary of potential values for the LRMC, while Appendix K was a 10-page detailed analysis and discussion of the derivation of the values. The regulatory process associated with the LTERP explored the LRMC through numerous information requests and submissions.*

*11. The 2016 LTERP and Long-Term DSM Plan also incorporated the information contained in the Company's 2017 Demand Side Management (DSM) Expenditures Application which included an updated DCE study, filed as Appendix C in that process. As noted in that Application, "...the DCE study reviewed the methodologies and best practices to determine a utility specific DCE value and determined a new value based on the present value of the anticipated growth related transmission and distribution capital upgrades over the planning horizon." The study determined a DCE value of \$79.85 per kW-yr.*

*12. Both the energy LRMC and DCE are grossed-up by the avoided transmission and distribution energy losses (also referred to as "line losses").*

---

<sup>2</sup> Paragraphs 2-9

13. These filings, inclusive of the 2016 LTERP and Long-Term DSM Plan and the related 2017 Demand Side Management (DSM) Expenditures Application, fulfil the Company's obligation from the G-67-14 Decision that the basis for determining FBC's LRMC should be explored in conjunction with FBC's next Resource Plan, including the requirements of the G-3-12 Decision that FBC must include the long-run marginal cost to transport and distribute energy to the customers.

*(Emphasis added)*

BCOAPO acknowledges that FBC has filed updated values for the LRMC of acquiring energy and (separately) filed a value for the LRMC to transport and distribute that energy. However, the company has also made it clear that it is of the view that the two are not additive – i.e., they cannot be combined so as to establish a “full long-run marginal cost of acquiring energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer”. This can be seen from the following response to BCOAPO Information Request No 2, wherein FBC stated<sup>3</sup>:

*FBC does not have an established methodology for combining the LRMC of reliable power, which is a system level number, with marginal transmission and distribution costs. As stated in the DCE report, “T&D [Transmission and Distribution] costs will only be reduced if a significant amount of load reduction is attained in an area where the utility expansion plans can be altered”. FBC views the LRMC of power supply and the Deferred Capital Expenditures relating to infrastructure as two separate values expressed in different units and that apply to separate parts of the system. They cannot be readily combined and if summed together, would not be consistent with the established definition of “Long Run Marginal Cost”.*

As a result, BCOAPO submits that FBC has not fully complied with Directive 5 of Order G-3-12 which required it to file “an in-depth analysis of the full long-run marginal cost of acquiring energy from new resources, including the long-run marginal cost to transport and distribute that energy to the customer” (emphasis added). In BCOAPO'S view, the provision of two separate marginal costs which cannot be combined to establish a “full” LRMC does not meet the objective and spirit of Directive 5 which was to establish a value for the “full” LRMC of supply to a customer that could be used in assessing Residential rate design and, more specifically, the appropriateness of any value proposed for the Block 2 rate of the Residential Inclining Rate.

**Item 2:** If FBC has not complied with Directive 5 of Order G-3-12, the implications, if any, this has on FBC's approvals sought in the current Application and on the Panel's ability to render a decision on specific items in the Application.

As noted in the response to item 1 above, the purpose for establishing a “full” LRMC was to assist the BCUC and interveners such as BCOAPO et al. in determining the appropriateness of a Residential inclining block rate structure and the appropriate value for the Block 2 energy rate under such a structure.

---

<sup>3</sup> Exhibit B-23, BCOAPO 2.76.1

In its November 7, 2018 final argument BCOAPO set out its position regarding FBC's Residential default rate design<sup>4</sup>. This involved consideration of a number of rate making principles, including Principle #3 that price signals encourage efficient use and discourage inefficient use where reference to marginal costs comes into play. When discussing the implications of Principle #3, BCOAPO noted the uncertainty that existed regarding the full marginal cost of delivered energy and implication<sup>5</sup>.

While more information is always useful, in January 2012 the BCUC was able to render a Decision regarding FBC's Residential Inclining Block Rate Application without that information about the marginal cost of delivery. At the time of Order G-3-12, there was only a minor difference between FBC's proposed Tier 2 rate (\$124.08/MWh) and FBC's marginal cost of supply which included line losses but excluded other delivery costs (\$125.80/MWh). Because the proposed rate was just marginally less than an LRMC value, the BCUC was satisfied that, although there was uncertainty as to the delivery costs, Block 2 rate is below the actual delivered LRMC.

In the current application, as outlined in BCOAPO's submission<sup>6</sup>, the implications of including considerations regarding the marginal cost of delivery and transport are much less determinative than they were in 2012. In fact, the LRMC for new supply (\$95.15/MWh<sup>7</sup>) is materially less than FBC's Block 2 rate and FBC's proposed flat rate of \$117.49/MWh. As a result, it is not readily obvious that the Block 2 rate or even FBC's proposed flat rate is below the actual delivered LRMC.

Overall, while uncertainty regarding the "full" LRMC of supply to a customer may require more judgement to be exercised by the BCUC, it does not negate the Panel's ability to render a decision on the specific items in the Application.

**Item#3:** Whether the evidentiary record should be reopened to address any of the issues raised in KSCA's email, including whether corrections are required to be made to the Application and, in particular, to the COSA study.

For the record, BCOAPO did not rely on the value of FBC's marginal cost when assessing the Company's proposals regarding the Cost of Service Analysis or, more specifically, the application of the Minimum System Study (MSS) method and the PLCC variant. That renders the LRMC, "full" or not, irrelevant to the position we took in regards to FBC's COSA. As a result, BCOAPO does not see any need to reopen the evidentiary record with respect to the COSA study due to the lack of a value for the "full" marginal cost of delivering energy to customers.

In its submissions, BCOAPO did identify: i) specific areas where the methodology should be changed<sup>8</sup> and ii) a number of areas where simplifications and/or generalizations had been made by FBC<sup>9</sup>. However, BCOAPO does not see these as requiring the evidentiary record to be reopened. The issues falling in the first category are now before the BCUC and are matters to be determined by the Panel. With respect to the second category, in its submission, BCOAPO

---

<sup>4</sup> BCOAPO Final Argument, pages 39-54

<sup>5</sup> *Ibid*, pages 46-50

<sup>6</sup> *Ibid*, pages 49-50

<sup>7</sup> Adjusted LRMC, see: *Ibid*, pages 46-47

<sup>8</sup> For example, the treatment of GRТА see: *Ibid*, pages 11-13

<sup>9</sup> For examples, see: *Ibid*, pages 15-16

accepted that some degree of simplification/generalization is inevitable when performing a COSA and was not suggesting that any “correction” is required.

As a result, despite the fact that our submission appears to have been relied upon by KSCA in an attempt to reopen the evidentiary record due to its dissatisfaction with the methodology used in that COSA or how FBC’s COSA was calculated, BCOAPO does not see any reason to have the evidentiary record in this case re-opened. We have made our submissions, comments, and suggestions for this Commission Panel to consider in its Decision as others have in this process and we see no real need to reopen the evidentiary record in this particular process to deal with the LRMC issue we identified in our Final Submission for the reasons we have outlined above.

ALL OF WHICH IS REPECTFULLY SUBMITTED,

**BC PUBLIC INTEREST ADVOCACY CENTRE**

*Original on file signed by*

Leigha Worth  
Executive Director | General Counsel

*Original on file signed by*

Irina Mis  
Staff Lawyer