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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

**Re: FortisBC Alternative Energy Services Inc. 2018/2019 Revenue Requirements and
Cost of Service Rates Application for the Thermal Energy Service to Delta School
District No. 37 ~ Project No.1598949**

We enclose for filing in the above proceeding the Supplemental Reply on Phase-in of FortisBC Alternative Energy Services Inc, dated March 5, 2019.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Matthew Ghikas
Personal Law Corporation

MTG/gvm
Encl.



BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE UTILITIES COMMISSION ACT (THE "ACT")
R.S.B.C. 1996, CHAPTER 473

FortisBC Alternative Energy Services Inc.
Application for Approval to Charge the Cost of
Service Rate to Delta School District No. 37

FortisBC Alternative Energy Services Inc.
Supplemental Reply on Rate Phase-In

March 5, 2019

MATTHEW GHIKAS
FASKEN MARTINEAU DUMOULIN LLP
Legal Counsel to FAES

A. INTRODUCTION

1. As directed, FortisBC Alternative Energy Services Inc.'s (FAES) Supplemental Submission addresses only the issue of how a phase-in to the Cost of Service (COS) Rate would be implemented if the BCUC considers a phase-in to be appropriate. FAES continues to hold the view that a phase-in is unwarranted, and that the COS Rate should be effective July 1, 2018 as sought in the Application.

2. The DSD's position is "that the switch to the Proposed COS Rate should occur effective July 1, 2019 and should not be delayed or phased-in over a longer period of time."¹ [Emphasis added.] Although the DSD states that there should be no delay, the effect of its request would be a one year delay. The DSD's proposal would mean that it remains on the Market Rate (MR) for the duration of the test period covered by this Application, and only move to the COS Rate in the next rate year. FAES submits that making the switch effective July 1, 2018, as proposed by FAES's Application, is more consistent with the DSD's own stated desire to avoid the adverse financial impacts of a phase-in.

B. THE DSD'S PROPOSAL TO DELAY THE SWITCH TO JULY 1, 2019 WOULD HAVE ADVERSE CONSEQUENCES

3. The longer-term adverse impacts on the DSD of delaying a switch to the COS Rate are well documented in FAES's Initial Submissions and are conceded by the DSD. We will not repeat them. Simply put, the delay contemplated by the DSD's proposal, although only a one-year delay, would increase intergenerational inequity and amplify the future challenges for the DSD.

4. Despite the DSD's professed desire to avoid the negative impacts of a phase-in, the DSD's proposal to delay the switch until July 1, 2019 suggests that it is prepared to accept compounding the long-term issue for another year in order to achieve what it thinks would be short-term gain. Specifically, the proposal appears designed to avoid a short-term impact of the DSD receiving additional invoices for service dating back to July 1, 2018 as part of the true-up required under Order G-77-18 – an implication about which the DSD had been duly warned.²

¹ DSD Written Argument on a Potential Phase-In, February 26, 2019.

² Exhibit A-3, Order G-77-18, Reasons for Decision, page 7: "The Panel emphasizes that its approval of the market rate on an interim basis is in no way determinative of its final rulings on the Application and that any difference between the interim market rate and the permanent rate established in the Panel's decision on the Application will be subject to refund or recovery by FAES to/from DSD. Further, the Panel cautions DSD that in the event that the COS rate, or some other rate that is higher than the market rate, is approved at the conclusion of the proceeding, the impact of maintaining the existing market rate mechanism on an interim basis will be a further increase to the balance in the DDA, which will result in future increased rates for DSD." [Emphasis added.]

5. The point that the DSD seems to be overlooking with its delay proposal is that the associated adverse consequences would commence almost immediately. The DSD's proposal will, other things being equal, yield a 2019/2020 unit rate that is higher than the \$0.253/kWh that the DSD seems to believe it will pay starting on July 1, 2019 (and, more importantly, a higher total thermal energy cost). The \$0.253/kWh rate, which FAES provided in the Application, is the 2018/2019 unit rate calculated based on moving to the COS Rate effective July 1, 2018. The DSD's proposal would yield a higher 2019/2020 unit rate than \$0.253/kWh and a higher total thermal energy cost (other things being equal) because of the combination of (a) the additional unrecovered amount from 2018/2019 that would have to be deferred to the District Deferral Account ("DDA"), (b) one more year of AFUDC on the growing DDA balance, and (c) the amortization of the DDA over a period that is one year shorter. The forecast COS Rate for the 2019/2020 rate year will be re-calculated in the 2019 Revenue Requirements Application, to be filed in the next few months.

C. FORM OF ORDER IN THE EVENT DSD'S APPROACH IS ACCEPTED

6. In the event that the BCUC is nonetheless minded to allow the DSD to avoid the impact of the COS Rate in the 2018/2019 rate year, the following order would achieve this outcome:

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act*,

1. The switch from the Market Rate to the COS Rate is approved, effective July 1, 2018.

2. However, as a transitional measure, the existing rate, which was approved on an interim basis effective July 1, 2018 by Order G-77-18 will be made permanent for the 2018/2019 rate year.

3. Any difference between the actual annual cost and the actual annual revenues in the 2018/2019 rate year, plus an amount for AFUDC,³ are to be recorded in the District Deferral Account for recovery over the remaining years of the Rate Design Agreement term beginning July 1, 2019.

4. Future revenue requirements applications will be based on the COS Rate.

7. FAES would be concerned if a phase-in order were to be misinterpreted by the DSD as an invitation to re-argue its allegations relating to the recoverability of the DDA balance in the next revenue requirements application. Any approval of a phase-in or delay should be accompanied by explicit BCUC findings on the reasonableness of the cost of service and the DDA balance, and a clear indication that the DSD's arguments to the contrary have been considered and rejected.

³ This wording reflects Order G-213-15.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:

March 5, 2019

[original signed by Matthew Ghikas]

Matthew Ghikas

FASKEN MARTINEAU DUMOULIN LLP

Counsel for FortisBC Alternative Energy
Services Inc.
