July 14, 2011

Via Email

Ms. Alanna Gillis
Acting Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Gillis:

Re: FortisBC Inc. Residential Inclining Block Rate Application – Response to BCUC letter L-55-11 regarding A. Shadrack’s Request that FortisBC Inc. answer all the questions in his Information Request No. 1

On June 7, 2011 FortisBC Inc. (FortisBC or the Company) responded to intervener information requests received in its Residential Inclining Block (RIB) Rate Application process. Among these, 22 questions were received from Mr. Andy Shadrack (Exhibit C9-4).

Of these, the Company declined to offer responses to eight questions, (numbered 2, 3, 5, 6, 7, 18, 19 and 21) for the reasons discussed below. FortisBC continues to believe these reasons are valid.

These questions all relate to the cost to serve residential customers, the derivation and level of the current customer charge, and rebalancing. The Company is of the opinion that these issues were fully explored during the FortisBC 2009 Cost of Service Analysis and Rate Design Application (2009 COSA and RDA) process that was concluded in the winter of 2010. Commission Orders G-156-10 and G-196-10 ordered no change was to the current level of the customer charge and approved the rebalancing scenarios for affected customer classes. The cost to serve residential customers, the current level of the customer charge, and rebalancing generally, are not at issue in the RIB Rate Application.

The Company is also of the opinion that as all of the Customer Charge amounts being explored either through the Application or information requests are not based on information...
from the 2009 COSA and RDA, any information gleaned from information requests in this regard cannot be determinative in the final level used if a RIB rate is approved.

However, despite the previous discussion, the Company has attached responses to Mr. Shadrack’s round 1 information requests in an effort to be accommodating to the regulatory process.

If further information is required, please contact the undersigned at (250) 717-0890.

Sincerely,

[Signature]

Dennis Swanson
Director, Regulatory Affairs
2. Is there a different cost of delivering residential service depending on whether a customer is using 100 AMP service, 200 amp service, 300 amp service or 400 amp service?

Response:

The 2009 COSA and RDA did not provide data that distinguishes the cost to serve residential customers based on their service size. The Company would not expect that there would be a material difference in delivery costs and notes that at the time of installation individual customers pay the incremental costs for larger services.

3. Are there any aspects of Basic Charge costs that could vary depending on the size of service being delivered or the amount of kWh required by a residential customer in any given billing period?

Response:

The costs assigned within the COSA as customer-related are considered to be the “Basic Charge” costs. By definition, costs that are considered as customer-related do not differ according to the amount of energy used and would not vary significantly with the size of service. Customer-related costs include the cost of the meter installed at each home, costs for the portion of the interconnection to the system that are related just to having a customer connection regardless of size, as well as costs for meter reading, sending out bills and customer service. Current customer charges are far below the costs in the COSA that have been assigned as customer-related.

5. Based on FortisBC's per unit cost of 8.9 cents, I advised the Commission in the last hearing that the then rate design ensured that any customer purchasing more than 1,900 kWh, in a given billing period, was in fact being subsidized by all of the customers purchasing fewer than 1,900 kWh. What, if any, is the kWh usage point, under the proposed inclining block rate design, at which a residential customer would be subsidized by those customers using less than them?

Response:

The analysis provided in the question originates with the intervenor and its conclusions are not shared by FortisBC. The Company does not agree that subsidization occurs within the residential class in the manner indicated. By extension, the Company does not draw similar conclusions for the RIB rate. Residential customers currently pay only a portion of the COSA based Customer Charge, which is collected on a postage-stamp basis without
consideration of load characteristics, time of consumption or location, with the balance of the class revenue requirement recovered through the variable usage charges. In effect, those customers with higher consumption can be viewed as subsidizing those who use less as long as the Customer Charge remains below its COSA cost derived amount.

6 Please provide an exact breakdown of what fixed cost increases go into causing the rate re-balancing within a residential customer's Basic Charge.

Response:

Rate rebalancing is based on the revenue to cost ratio for the customer class as determined by the cost of service study and is not related to individual component cost increases. Further, the amount of rate rebalancing was set by Commission Order G-196-10 and is effectively divorced from a cost-based approach.

7 Are there any circumstances under which any of these fixed costs could be construed as energy charge costs, and under what circumstances could their categorization change?

Response:

By definition the fixed cost does not vary with the level of consumption. In contrast, as the current Customer Charge is set at less than the COSA derived amount, some amount of fixed costs are being collected in the energy charges levied by the Company. Therefore, those customers who use more energy pay a higher proportion of the fixed costs and thus subsidize lower consumption customers.

18 Can you please explain why, given the age of FortisBC's generating infrastructure and the fact that the Canal Plant Agreement is nearly forty years old, BC Hydro Power and Authority has a basic charge of $0.13410 per day, whereas FortisBC's basic charge is $0.47556 ($28.93x6/365)?

Response:

The level of FortisBC's current Customer Charge reflects the amount approved pursuant to the 1997 COSA and the approved rate increases that have occurred since that time. The Customer Charge of both BC Hydro and FortisBC reflect the amounts approved by the Commission.

In addition, generation facilities are allocated to energy and capacity costs as opposed to the Customer Charge. Therefore the age of the generating facilities and the Canal Plant Agreement do not impact the Customer Charge.
19 Does BC Hydro Power and Authority use different criteria for creating its Basic Charge?

**Response:**

In the 2009 COSA and RDA proceeding, the following Information Request was made by the Okanagan Environmental Industry Alliance (OEIA) and answered by FortisBC:

**Q11.3.2** Please explain why there is such a difference between the FortisBC and BC Hydro basic charge.

**A11.3.2** Ideally, the Basic or Customer Charge levied by any utility should be cost-based and designed to adequately recover the appropriate costs identified by a fully allocated cost of service study. In the cases of both FortisBC and BC Hydro, the residential basic charges do not fully recover the allocated cost on a per-customer basis. As BC Hydro and FortisBC are distinct in their cost structure, the make-up and density of their customer base, and the geography of their service areas, as well as in the evolution of the basic charges as they exist today, it is reasonable to conclude that there would be variation in the amount of the respective basic charges.

21 If low consumption residential customers are not causing FortisBC to purchase more and more electricity under the BC Hydro 3808 agreement and on the spot market, why should their Basic Charge be subject to a rebalancing increase at all?

**Response:**

Rebalancing increases and their application to the rate components were set by the Commission by Order G-196-10 at the conclusion of the 2009 COSA and RDA and are not tied directly to the purchase of electricity, but rather to the calculated revenue to cost ratios. While low consumption customers do not cause the utility to purchase increasing amounts of electricity, they do require a significant capital investment of distribution facilities to provide service regardless of consumption level, and those costs are a significant portion of the FortisBC revenue requirement. Increases associated with rebalancing are tied to differences between rates and the cost of service, and are not a direct function of increasing costs from year to year.