



VIA EFILE

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February 21, 2017

FEI 2016 RATE DESIGN

EXHIBIT A-4

Ms. Diane Roy
Vice President, Regulatory Affairs
FortisBC Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8

Dear Ms. Roy:

Re: FortisBC Energy Inc.
2016 Rate Design Application

On December 19, 2016, FortisBC Energy Inc. (FEI) filed its 2016 Rate Design Application (RDA) with the British Columbia Utilities Commission (Commission) and on February 2, 2017, FEI provided a supplemental filing which included a review of the rate design for the Fort Nelson service area (together the 'Application'). The Application explains that FEI retained EES Consulting Inc. (EES Consulting), a third party expert in public utility rate design matters, to review and assist in developing the Cost of Service Allocation (COSA) study and FEI's rate design.

Commission staff has retained an independent consultant, Elenchus Research Associates Inc. (Elenchus), to produce two independent reports for the review of the Application. The reports will form part of the evidentiary record and will be subject to information requests and if an oral hearing occurs, Elenchus will be available for cross examination.

The first report will be a Cost of Service Allocation Report and is expected to be filed with the Commission by mid to late April. Commission staff developed the scope for the COSA Report to give Elenchus adequate time to prepare the report without delaying the proceeding. The scope is outlined in the Detailed Terms of Reference, attached to this letter, and will include a review of FEI's COSA studies and the supporting studies and analyses that are inputs into the COSA studies.

The second report will be a Rate Design Report and is expected to be filed with the Commission sometime after the COSA Report. The Commission will be seeking input from registered interveners and FEI before finalizing the scope for the Rate Design Report.

The Commission considers that it is more efficient for Elenchus to engage FEI and EES Consulting directly to request information necessary to produce the COSA Report and the Rate Design Report. All information used by Elenchus in the development of the two reports will be placed in the evidentiary record.

The Commission expects FEI to be cooperative with Elenchus and provide:

1. a functional electronic version of the COSA model(s) to Elenchus as soon as possible; and
2. additional information, in a timely manner, as needed by Elenchus for the production of the Cost of Service Allocation Report and the Rate Design Report. This includes information produced by EES Consulting for FEI during the development of the Application.

The Commission also encourages FEI to make the functional electronic version of the COSA model(s) available through the evidentiary record in a timely manner.

Yours truly,

Original signed by:

Erica Hamilton

ES/ad

Attachment

Detailed Terms of Reference for the Cost of Service Allocation Report

The First Report on Cost of Service Allocation (COSA Report) will review the:

1. COSA study included in FortisBC Energy Inc.'s (FEI) 2016 Rate Design Application, dated December 19, 2016; and the
2. COSA study for the Fort Nelson service area, which FEI indicates will be included in FEI's Supplemental Filing, scheduled to be filed with the Commission on February 2, 2017.

Elenchus Research Associates Inc. will examine the COSA studies for the reasonableness and appropriateness of the non-exhaustive matters listed below:

- FEI's objectives for the COSA studies
- FEI's COSA methodology(s)
- FEI's delivery and gas cost of service allocations, including the:
 - key assumptions and justifications;
 - treatment of existing major assets, such as Tilbury LNG Storage, Mt. Hayes LNG Storage and Southern Crossing Pipeline;
 - treatment of known and measurable changes, including the Tilbury Expansion Project and other such major capital projects;
 - functionalization of costs;
 - classification of costs;
 - allocation of costs; and
 - direct assignments.
- Revenue to Cost (R:C) ratio range and the R:C and margin to cost ratios resulting from the COSA studies
- Key changes in FEI's assumptions, justifications and methodologies from COSA studies previously approved by the Commission, including the 1993 BC Gas Rate Design Application
- The supporting studies and analyses that are inputs into FEI's COSA study, including the EES COSA Study Report; minimum system study; and customer weighting factor study. The supporting studies and analyses are found in Appendix 6 – Cost of Service Allocation of the FEI 2016 Rate Design Application
- Assessment of the impact of the omission of supporting studies and/or analyses that are typically included in a COSA study as standard industry practice

Elenchus is expected to provide:

- Expert knowledge on sound industry practices and alternatives utilized in other jurisdictions and how they compare to FEI's methodologies and proposals
- Impacts to the COSA study results if other reasonable alternative assumptions or methodologies were used
- Expert opinion on the reasonableness of results from the utility's COSA studies

When citing other jurisdictions, Elenchus will provide the referencing and the source documentation in the appendix of the COSA Report.

In the COSA Report, Elenchus would not be making any recommendations on the overall COSA studies presented by FEI.