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August 10, 2017

Elenchus Research Associates, Inc.
34 King Street East, Suite 600
Toronto, Ontario M5C 2X8
C/O: Commission.Secretary@bcuc.com
Attn: John Todd and Michael Roger

Dear Sirs:

Re: FortisBC Energy Inc. 2016 Rate Design Application ~ BCUC Project No.3698899

Pursuant to the regulatory timetable set out in Commission Order G-109-17 [Exhibit A-11], attached please find Information Request No. 2 to Elenchus by the interveners BC Sustainable Energy Association and Sierra Club BC. Please respond in accordance with the regulatory timetable. Please contact me if you have any questions.

Yours truly,

William J. Andrews
Barrister & Solicitor

Encl.

REQUESTOR NAME: **BC Sustainable Energy Association and Sierra Club BC**
INFORMATION REQUEST ROUND NO: 2
TO: **Elenchus Research Associates**
DATE: **August 10, 2017**
PROJECT NO: **3698899**
APPLICATION NAME: **FortisBC Energy Inc. 2016 Rate Design Application**

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1.0 Topic: Rate shock
Reference: Exhibit A2-10, Elenchus Rate Design Report

Elenchus says that the definition of rate shock requires the balancing of two concepts of fairness:

(a) rates that, taking into account considerations other than rate shock, are fair and equitable in terms of the share of costs recovered from each class and from individual customers within each class, and

(b) an increase in a customer's average monthly bill due to justified rate changes that "can result in real or perceived hardship for customers that are sufficiently severe that the increase is considered inequitable."

1.1 Would Elenchus agree that rate shock is often considered with the Bonbright principle of customer understanding and acceptance as distinct from the Bonbright principle of fairness? If so, does this distinction make any difference to Elenchus's conclusions?

2.0 Topic: Residential daily basic charge
Reference: Exhibit A2-10, Elenchus Rate Design Report

Regarding the advantages of <u>no</u> one-time 5% increase in the residential fixed charge, Elenchus explains the effect on encouraging reduction of gas consumption as follows:

> "When a customer undertakes conservation and reduces consumption, the customer expects that its bill will be lower reflecting lower consumption. The fixed charge in the bill is unaffected by consumption changes, therefore<u>, the larger the proportion of fixed charge in a bill, the less benefit that the customer will see as a result of conservation</u>." [p.14, underline added]

Elenchus also states that having a fixed charge that is lower than an amount that would fully mirror customer-related and fixed costs "can <u>encourage increased penetration in terms of the number of customers connected</u> although this is arguably accomplished by embedding a cross-subsidy of low-volume users by the higher volume users in the same rate class." [p.13, underline added]

2.1 Please confirm, or otherwise explain, that these two factors associated with an increase in the residential fixed charge have directionally opposite effects on the volume of gas consumption.

2.2 In Elenchus's view, would FEI's proposed one-time 5% increase in the residential fixed charge have a material effect on the volume of gas consumed due to

2.2.1 reducing the incentive for customers to take conservation and efficiency measures, or

2.2.2 reducing the penetration of gas service?

2.3 In Elenchus's view, which of these directionally opposite effects would predominate over the other, in the case of FEI's proposed one-time 5% increase in the residential fixed charge?

3.0 Topic: Range of reasonableness
Reference: Exhibit A2-10, Elenchus Rate Design Report, 7. FEI's Application of Revenue to Cost Ratio Range of Reasonableness

"FEI applied a range of reasonableness of 90% to 110% for the revenue to cost ratios for all rate schedules to evaluate the appropriateness of R:C ratios. The R:C ratios include gas and transportation costs." [p.31, underline added]

The R:C Ratio range of reasonableness for six comparator utilities shown in Table 4 indicates that the widest range of reasonableness is 95% to 105% based on the R:C Ratio.

"Regulators typically accept rates within a range as constituting full recovery since it is recognized that cost allocation studies are not precise. Hence, unless the level of cost recovery is outside the specified range of reasonableness, differential rate increase would not be considered equitable since small deviations from 100% are as likely to be the results of the imprecision of the methodology as they are to be the results of true cost difference." [p.34]

"Rebalancing is done to bring all customer classes within the accepted range of R:C ratios." [p.34]

3.1 In Elenchus's view, is FEI's R:C ratio range of reasonableness of 90% to 110% an outlier compared to the comparator utilities?

3.2 In Elenchus's view, can R:C ratios of 90% and 110%, respectively, be characterized as "small deviations from 100%" (each being 10 percentage points away from 100%)?

3.3 To determine the extent to which the R:C ratios of two customer classes are not significantly different from each other, isn't it more appropriate to compare the two ratios rather than to compare each ratio separately to 100%?

3.4 If a ten percentage point difference between a customer class's R:C ratio and 100% is the largest deviation that cannot be attributed to a "true cost difference," then please confirm that a twenty percentage point difference between customer class R:C ratios of 90% and 110% is necessarily an indication of a true cost difference. Alternatively, please explain.

3.5 Is Elenchus saying that the methodology for estimating R:C ratios is so imprecise that there is no statistically significant difference between an R:C ratio of 90% and one of 110%?

3.6 If there is no statistically significant difference between R:C ratios of 90% and 110%, what is the margin of error associated with a statistical significance of, say, 90% (e.g., nine times out of ten).

3.7 Is there something about the methodology for estimating R:C ratios that makes the results unsuitable for conventional tests of range of error and statistical significance?

3.8 In Elenchus's view, what would be the downside of the Commission requiring FEI to use a 95% to 105% R:C ratio range of reasonableness?

3.9 In Elenchus's view, when should rate rebalancing to bring all customer classes within the accepted range of R:C ratios be conducted: only during a rate design application, or in routine revenue requirements applications?