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September 7, 2017

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Sirs/Mesdames:

Re: FortisBC Inc. Appliction for Reconsideration and Variance of Order G-199-16 FBC Net Metering Program Tariff Update Decision – Phase 2
Project No. 3698875

We are counsel to the Commercial Energy Consumers Association of British Columbia (CEC). Attached please find the CEC's first set of Information Requests with respect to the above-noted matter.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned.

Yours truly,

OWEN BIRD LAW CORPORATION

Christopher P. Weafer

CPW/jj
cc: CEC
cc: FortisBC Inc.
cc: Registered Interveners

INTERLAW MEMBER OF INTERLAW, AN INTERNATIONAL ASSOCIATION OF INDEPENDENT LAW FIRMS IN MAJOR WORLD CENTRES

COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA

INFORMATION REQUEST #1

FortisBC Inc. Application for Reconsideration and Variance of Order G-199-16
FBC Net Metering Program Tariff Update Decision – Phase 2
Project No. 3698875

September 7, 2017

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1. Reference: Exhibit B-4, LTERP Response to BCUC IR 11.4 2016, Exhibit B-1, page 2 and page 20

Response:

On pages 26-27 of the LTERP, the Company lists cost (which should be interpreted as cost recovery) as a challenge, stating that the fixed charges in the current rate structures do not adequately recover the cost of connection to the distribution system.

Currently, for Residential customers, the fixed Customer Charge collects less than 50 percent of the costs allocated to this function in the Company's most recent cost of service analysis (COSA). The balance of these costs is collected through the variable charge portion of the rate.

That means that customers with DG, including net metered customers, pay lower variable consumption charges, and, since some of the Company's fixed costs are collected through the variable (energy and demand) charges, fixed charges are under-recovered. In the case of net metered customers, the compensation for net excess generation during a billing period may reduce the contribution toward fixed costs to zero or negative. While the avoidance of energy charges is fair because the customers did not use the power, it is problematic that they also avoid paying for all of the fixed costs of the grid that delivers power when they need it and/or takes the excess power they sell back to the utility. The costs are ultimately borne by other customers through higher rates.

Customers with low use due to reasons other than customer-owned generation cannot avoid paying fixed charges, although by virtue of low energy charges will contribute less to fixed charges than a customer with higher consumption.

(c) the panel majority has approved, without considering all relevant factors, NEG pricing that overcompensates NM customers without any valid justification and at the expense of other FBC rate payers. Further, the NEG compensation price the majority approved can and does result in FBC receiving less than a fair rate of return from residential NM customers when they are credited for NEG at Tier 2 rates in particular billing periods but only consume electricity at a Tier 1 level or not at all. The panel majority has therefore approved unjust and unreasonable rates contrary to the *UCA* (see pages 19-29, below).

(b) NEG can be and is compensated at the Tier 2 rate of over 15 cents per kWh, which is far in excess of the cost of other comparable resources available to FBC and is actually in excess of any measure of long run marginal cost (**LRMC**) even though NEG is not considered a long term resource; and

(c) the high compensation rate for NEG under the RCR incents generation above the levels needed to offset personal consumption contrary to the intent of the NM program.[46]

1.1 Please provide FBC's Long Run Marginal Cost of energy (LRMC).

1.2 Please elaborate on why NEG cannot be considered a long term resource.

1.3 Please confirm that revenues generated from Tier 2 customers contribute to reductions in the price for Tier 1 energy.

2. Reference: Exhibit B-4, LTERP Response to BCUC 2.70.1

70.0 Reference: INFORMING RATE DESIGN FILINGS

Exhibit B-8, Scarlett IR 1; British Columbia Utilities Commission, Report to The Government of British Columbia on the Impact of BC Hydro and FortisBC's Residential Inclining Block Rates (2017) (RIB Rate Report), p. 6; FBC 2014 Stepped and Standby Rates for Transmission Voltage Customers Decision dated May 26, 2014 and Order G-67-14 (FBC 2014 Stepped and Standby Decision), p. 54

DG subsidy

FBC states in Scarlett IR 1 (d): "… customers with low consumption, whether as a result of consumption habits or participation in DSM, still make a standard contribution towards the fixed costs of the system through the Customer Charge. Only customers with DG that have the ability to reduce bills to zero (or negative) can avoid this contribution completely. This means that DG customers, who still rely on and benefit from connection to the electric grid, are being subsidized by other non-DG customers."

2.1 Please confirm that in FBC's view there are no Bonbright principles supporting the subsidization of one customer group by another.

2.2 Please provide an analysis comparing the current NM compensation model and FBC's proposed compensation model as they relate to the Bonbright principles. The following provides an example however an alternative format that FBC deems appropriate is also acceptable.

Eg.

Current Situation	FBC Proposed Model	Bonbright Principle Considerations

3. Reference: Exhibit B-1, page 19 and page 20

55. Under the terms of RS 95, as approved in the 2009 NM Decision, if a NM customer is a net generator in any billing period, the NEG "shall be valued at the rates specified in the applicable Rate Schedule and credited to the Customer's account". As described in the Application, residential customers were served under a flat retail energy rate at the time the NM program was originally approved.[43]

56. However, with the implementation of the two-tiered RCR in 2012, pursuant to Commission Order G-3-12 and Decision (the **RIB Decision**), residential NM customers are now compensated for NEG at either the Tier 1 rate for generation up to the threshold of 1,600 kWh over two months or the higher Tier 2 rate for amounts over 1,600 kWh over two months.[44] This treatment is based on the pre-existing tariff language. There is no indication in the RIB Decision or the filings in that proceeding that the effect of the RCR on the NM program was given any consideration at the time.[45]

3.1 Please elaborate on how the Tier 2 rate was established relative to the Tier 1 rate.

4. Reference: Exhibit B-4, 2016 LTERP Response to Shadrack 1 i

1. FortisBC (FBC) stated in its application at 2.3.3 "Small Scale Distributed Generation" that:

   "...the fixed charges in current rate structures do not adequately recover the cost of connection to the distribution system".

   i. Please compare the average cost to FBC, by rate class if available, of connecting Net Metering (NM) customers with the average cost to FBC for connecting regular customers.

Response:

The majority of NM customers are already connected when they enroll in the net metering program. The physical requirements for interconnection are comparable to customers in general (although the ability of the utility to recover these common costs from the NM customer may be lessened as discussed in the response to BCUC IR 1.11.4).

There are, however, incremental costs associated with connecting a NM customer and with the ongoing administration of the program. FBC does not recover these costs from program participants and does not therefore separate them in a manner that can provide reporting. Costs prior to interconnection include any required site visit, review of the NM design and documentation by FBC staff, administering the Net Metering Application and Agreement and billing review to ensure eligibility. Post-connection, NM metering customers require manual billing and account reconciliation each billing period. Currently all of these costs are recovered from customers in general.

4.1 Please provide FBC's best estimate of the incremental costs associated with connecting a NM customer. A range or order of magnitude is acceptable.

4.2 Why does FBC not recover the administration costs from the NM customers?

5. Reference: Exhibit B-4, 2016 LTERP Response to BCUC 1.10.4

BC Hydro noted at page 15 of its 2013 Net Metering Evaluation Report #3 that, "Generally speaking, the economic value of customer self-generation to BC Hydro and non-participating customers is measured in terms of avoided costs because customers supply part or all of their own electricity." Thus, FBC concludes that BC Hydro has determined $99.90 per MWh is the avoided cost for power on its system for this purpose, whereas FBC considers that the most reasonable proxy for its avoided cost of power is the rate at which it is able to purchase power under its PPA with BC Hydro.

FBC notes that the Commission has previously provided context for the comparison of rates and programs of different utilities, stating:

> FortisBC operates with a different set of supply resources and with a different customer base in terms of geography, population density and the residential/commercial/industrial mix it faces. The Commission Panel has no mandate, nor does it find it appropriate, to require FortisBC to manage its utility business to produce rates or programs identical to those of BC Hydro. The Commission Panel believes that FortisBC's responsibility is to provide safe and reliable service in a cost-effective manner consistent with British Columbia's energy objectives. To do so, FortisBC must design and manage its system based on the resources available to it and the needs of its customers. This, at times, may result in rates that are greater than those of BC Hydro and potentially times when they are less.[1]

5.1 Please confirm that FBC is from time to time, able to purchase energy from the market at a lower cost than that from the BC Hydro PPA.

5.2 Please provide FBC's anticipated PPA purchase price (a range is acceptable) for the next 12 months.

5.3 Please provide FBC's anticipated market purchase price (a range is acceptable) for the next 12 months.

5.4 To the extent that FBC is able to purchase energy at a lower rate than the PPA, is it appropriate to consider the lower rate as FBC's avoided cost of energy? Please explain why or why not.

6. Reference: Exhibit B-4, FBC Evidence Part 2 and Exhibit B-1, page 4 and page 28

1

Consumption Characteristics					Billing Under Current Rates			Billing Under Proposed Methodology					Customer Impact	
Customer	Number of Billing Periods Receiving Power from FBC	Number of Billing Periods Delivering Power To FBC	Number of Billing Periods With Net Excess Generation	Annual Net Consumption (kWh)	Annual Net kWh Billed at Tier 1 Rates	Annual Net kWh Billed at Tier 2 Rates	Total Annual Energy Cost (Credit) including Customer Charges	Annual Net kWh Billed at Tier 1 Rates	Annual Net kWh Billed at Tier 2 Rates	kWh Remaining in Bank at March 31, 2016	Value of kWh Purchased from kWh Bank	Total Annual Energy Cost (Credit) including Customer Charges & kWh Bank	Bill Impact	Customer Outcome
1	6	6	6	-114,386	-9,600	-104,786	-$17,143	0	0	114,386	$5,563	-$5,371	$11,772	Worse Off
2	6	6	0	14,832	9,600	5,232	$1,981	9,600	5,232	0	$0	$1,981	$0	No Change
3	6	6	0	8,815	8,184	631	$1,119	8,184	631	0	$0	$1,119	$0	No Change
4	6	6	3	881	881	0	$282	881	0	0	$0	$282	$0	No Change
5	6	6	0	14,498	7,901	6,597	$2,022	7,901	6,597	0	$0	$2,022	$0	No Change
6	6	6	0	8,435	5,964	2,471	$1,182	5,964	2,471	0	$0	$1,182	$0	No Change
7	6	6	3	626	626	0	$256	626	0	0	$0	$256	$0	No Change
8	6	6	4	-1,461	-1,367	-94	$40	0	0	1,461	$71	$121	$82	Worse Off
9	6	6	0	8,921	8,815	106	$1,101	8,815	106	0	$0	$1,101	$0	No Change
10	6	6	1	9,224	5,431	3,793	$1,334	5,431	3,793	0	$0	$1,334	$0	No Change

A. Interpretation of RS 95

12. FBC respectfully submits that the Commission panel majority erred in its interpretation of RS 95 regarding the legal consequences of an NM customer producing consistent annual NEG. This erroneous interpretation led to the majority's direction that FBC propose an amendment to the tariff purportedly clarifying that customers cannot be removed from the NM program solely for producing annual NEG.[3]

(c) in over one third of the bills for these customers, NEG was compensated at Tier 2 rates without any consumption above the Tier 1 threshold, with in one case, the amount of generation compensated at Tier 2 exceeding 100,000 kWh with no corresponding Tier 2 consumption at all.

6.1 Are FBC customers who are consistently producing NEG and earning financial value for it required to pay income, GST or any other tax on those earnings? Please provide FBC's understanding of this issue.

6.1.1 If yes, does FBC issue the relevant tax statements for this revenue?

6.1.2 If no, is there any GST or other tax burden being borne by non-NM customers as a result of the NEG payments? Please explain.

7. Reference: Exhibit B-1 pages 10 and 11 and page 13

> 28. By stating that the NM program and tariff schedule were approved "as proposed in the Application" and "as filed", the 2009 Commission panel indicated itself to be in agreement with FBC's statements regarding the intent of the program and eligibility criteria in the 2009 Application and Submissions. The 2016 Majority Decision rightly concluded that these statements were consistent with FBC's intent that the NM program was not a means for customers to consistently produce NEG for sale to FBC, but the panel majority then erred in distinguishing that from the Commission's intent in approving RS 95.[18]

> 29. If the 2009 Commission panel had a different understanding of the "intent" of the NM program than what FBC had described in its Application and Submissions (as the 2016 panel majority suggested), then the 2009 panel would not have stated its approval in the terms described above and it would necessarily have explained in the Reasons for Decision how its views regarding customer eligibility differed from what FBC had clearly expressed in its filings.

> 30. FBC's intent for the NM program as expressed in the 2009 proceeding must have been shared by the Commission panel that originally approved the program. That intention, which is a key component of the factual matrix in these circumstances, is consistent with and supports FBC's right to remove customers who no longer satisfy the program eligibility criteria.

> 35. In order for the interpretation of RS 95 to be in harmony with the balance of the Electric Tariff and Rate Schedules, FBC must also necessarily have been able to remove customers from the NM program if they no longer satisfy the eligibility criteria. Customers that are not eligible for RS 95 simply have no entitlement to continue to receive service under that rate schedule and FBC has no continuing obligation to provide it. The same is true if customers become ineligible for any other FBC rate schedule.

7.1 Please confirm that it would have been appropriate for the Commission to have altered the Eligibility Criteria if it did not accept the intent of the NM program.

8. Reference: Exhibit B-1 pages 13-14 and page 14

> 39. This public interest rationale is inconsistent with the intention that the NM program be limited, to the greatest extent possible, to off-setting customers' own consumption. The Commission panel majority itself recognized the importance of this principle in approving the addition of clarifying language to the eligibility section of RS 95, which was said to be "within the original intent of the program".[24] On that basis, an NM customer's only reasonable expectation upon joining the program would be to minimize or reduce electricity costs and thereby off-set the initial investment in self-generation. There should be no expectation of using the NM program to turn a profit through sales of NEG to FBC and initial investment decisions should not be made on the expectation of receiving regular monetary compensation for NEG. As noted above the "risk" associated with removal is limited to the possibility of not receiving compensation for NEG. This risk could not objectively deter a potential NM customer's investment in self-generation unless the customer assumed a profit margin contrary to the intent of the program.
>
> 41. FBC's right to remove customers from RS 95 is also an important form of check on the NEG production of existing NM customers. Without the existence of this right, and the concomitant risk to existing NM program participants that their NEG may no longer be compensated in the future, there is effectively no disincentive against existing customers maximizing the NEG produced by their current systems for sale to FBC.

8.1 Please identify and discuss any different protocols that FBC follows when purchasing energy from a 'for profit' vendor than it follows when purchasing energy under the NM program.

9. Reference: Exhibit B-1, page 26

> 79. FBC's RCR is necessarily reflective of a fair and reasonable return based on the Company's approved revenue requirement in conformity with ss. 59-61 of the *UCA*.[61] By allowing customers in the NM program to be compensated for NEG at a price that is not actually equivalent to, and can be higher than, the value of the electricity consumed, the panel majority has approved an NM rate that provides less than the fair and reasonable return to FBC.

9.1 Please confirm that FBC will recover a fair return on its investment overall, meaning that other ratepayers are required to pay a larger share of that return than NM customers.