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June 18, 2018

VIA ELECTRONIC MAIL

British Columbia Utilities Commission
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**Attention: Patrick Wruck, Commission Secretary
and Manager, Regulatory Support**

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Dear Sirs/Mesdames:

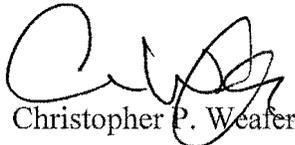
**Re: FortisBC Inc. ("FBC") 2017 Cost of Service Analysis and Rate Design Application ~
Project No. 1598939**

We are counsel to the Commercial Energy Consumers Association of British Columbia (the "CEC"). Attached please find the CEC's second set of Information Requests to FBC 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

**COMMERCIAL ENERGY CONSUMERS ASSOCIATION
OF BRITISH COLUMBIA**

INFORMATION REQUEST NO. 2 TO FORTISBC INC.

**FortisBC Inc. – 2017 Cost of Service Analysis and Rate Design Application
Project No. 1598939**

June 18, 2018

48. Reference: Exhibit B-13, CEC 1.2.1.2 and Exhibit B-8, BCUC 1.9.2

2.1.2 If it is not the optimal percentage does FBC believe that it could migrate customers do a different percentage over a period of time? Please explain.

Response:

Please refer to the response to BCUC IR 1.9.2. If a different percentage were chosen that created more significant changes between the current and proposed rates, then some sort of transition or "migration" could be contemplated. The number of years over which such a transition would occur would depend on the magnitude of bill impacts for each class. Similar to the RCR transition that is proposed in the Application, FBC would endeavour to manage bill impacts such that customers would not experience rate shock over a short period of time. At 55 percent, the only class that has a pronounced difference between the current and proposed Customer Charge is RS 21. However, for this class the Customer Charge is not a significant factor in the overall billing as reflected in the bill impacts.

9.2 Please explain the process that was undertaken and the factors that were considered in arriving at the recommendation of a minimum fixed cost recovery of 55 percent of customer related unit costs and 65 percent of fixed infrastructure related unit costs.

Response:

In determining the percentages of cost recovery to recommend in the Application, FBC compared the current rates for each rate class to the appropriate unit costs as determined in the COSA.

While there is no standard or "correct" level at which to set the recovery percentages, FBC believes that a more consistent level of recovery across the rate classes is desirable from an equity standpoint, would better reflect the costs derived in the COSA and would begin to

address the challenges that may emerge as customers gain the ability to reduce their contribution to the fixed costs of the utility system.

The target level of 65 percent for demand-related cost recovery was made in consideration of current levels. For example, as seen in Table 3-2, the current recovery percentages for the demand-related rates components of RS 21, RS 30, RS 31, RS 40 and RS 41 are 49 percent, 66 percent, 67 percent, 60 percent, and 98 percent respectively.

The determination is somewhat intuitive. In choosing 65 percent, FBC would increase the demand-related cost recovery of RS 21 and RS 40 to a percentage level quite close to RS 30 and RS 31 without having to lower the recovery of the latter two rates. As an extreme outlier, RS 41, which is applicable to the City of Nelson only, was not considered to be a factor. A similar process was used in the determination of the 55 percent Customer Charge recommendation.

- 48.1 Would FBC consider migrating customers to higher percentages of recovery such as 70% or 75% at some point in the future? Please explain why or why not.

49. Reference: Exhibit B-13, CEC 1.5.3

Response:

Small-scale distributed generation technology is gaining traction with customers for a few reasons, including the perception that distributed generation is “greener” than utility generation, the desire to become more energy independent, and the perception that they are saving money.

- 49.1 Please provide FBC’s views as to whether distributed generation is actually ‘greener’ than utility generation and whether distributed generation is actually more cost effective than utility generation.
- 49.2 Please compare and contrast quantitative evaluation of the above.

50. Reference: Exhibit B-13, CEC 1.9.3 and 1.9.4.1

- 9.3 Please identify any alternatives FBC considered for functionalizing General Plant, rather than on labour, and explain why FBC selected labour as the best methodology.

Response:

The Company consulted with EES to provide the following response.

FBC did not identify any alternatives. The use of labour ratios was the method approved by the Commission in the 2009 Rate Design Application and no changes in circumstances had occurred to warrant a change in the methodology.

- 9.4.1 If confirmed, why did FBC use FTEs assigned to each area instead of labour \$ values to functionalize General Plant?

Response:

The Company consulted with EES to provide the following response.

The number of FTEs was consistent with the approved methodology in the 2009 COSA and there were no changes in circumstances that would warrant a change in the method. Further, the number of FTEs was more readily available than the \$ values, and it was not expected that the salaries on a per FTE basis were significantly different between the generation, transmission and distribution functions.

- 50.1 Please identify and provide a brief discussion of any other metrics that FEI or EES is aware of that are typically used to functionalize general plant.
- 50.2 Despite the fact that no circumstances have changed as far as EES is concerned, please identify whether any of these alternatives could be a rationale alternative approach.

51. Reference: Exhibit B-13, CEC 1.9.2

- 9.2 BC Hydro's Functionalization process apportioned costs between Generation, Transmission, Distribution and Customer Care. Please explain why FortisBC uses only Production, Transmission and Distribution and discuss the merits of each method.

Response:

The Company consulted with EES to provide the following response.

FBC does not use Customer Care as a separate function but rather treats it as a distribution function. This is consistent with the approach used in the 2009 COSA and accepted by the Commission at that time. This reflects an unbundling of costs into the three main functions for use in the event that customers have retail access and can purchase power supply from an alternate source. BC Hydro does not allow retail access, while FBC does allow retail access in limited circumstances (although no customer has ever been provided with retail access). In the case of retail access, the Customer Care component would remain with the distribution utility. Whether or not Customer Care is treated as a separate function, the costs would be classified and allocated on the basis of customers. The amounts allocated to each class and included in the customer-related unit cost would be the same regardless of whether that separate function was used.

- 51.1 Please provide the circumstances under which FBC allows retail access.
- 51.2 Please confirm the CEC's understanding of this response that including Customer Care as a separate function would not necessarily impact the R:C ratios of the various customer classes.

52. Reference: Exhibit B-13, CEC 1.11.2

11.2 What is the total value and the proportion of power supply costs contributed by Kootenay River Plants?

Response:

The Company consulted with EES to provide the following response.

The 2017 mid-year net book value of the Kootenay River Plants is \$185.6 million.

The following table summarizes the various expense items from the 2017 COSA associated with the Kootenay River Plants:

	FBC Resource Expense
O&M	\$13,555,250
Depreciation	\$4,507,000
Return	\$15,716,433
Taxes	\$1,954,533
Total	\$35,733,215
Total Production Expenses (without return, depreciation and taxes)	\$152,159,234
Total Production Expenses (with return, depreciation and taxes)	\$174,337,200
FBC Resource Cost as a Percent of Total Production Expenses	20.5%

The total costs for the FBC Kootenay River Plants are 20.5 percent of the total cost associated with power supply. Note that these costs exclude any assigned share of general plant or A&G costs.

- 52.1 Please confirm that ‘return’ refers to Return on Equity.
- 52.2 Please breakout the Total Production Expenses of \$174,337,200 by O&M, Depreciation, Return and Taxes.

53. Reference: Exhibit B13, CEC 1.15.2

15.2 Please justify the assumption that market purchases provide 0 capacity.

Response:

The Company consulted with EES to provide the following response.

EES was correct that the purchases classified as energy-related did not provide any capacity. This is not to say that market purchases can never provide capacity, but the market purchases included as part of the analysis did not provide any capacity since they were not on peak hours.

- 53.1 Please provide an explanation as to the ‘market purchases that were included as part of the analysis’ and market purchases that were not included in the analysis, if any.

- 53.1.1 If there were any market purchases that were not included, please explain why not.
- 53.1.2 Please provide quantification of market purchases that were included and those that were not included, and quantify which purchases could be considered energy and which purchases could be considered as demand.
- 53.1.3 How many years of purchases did the analysis consider?
 - 53.1.3.1 If additional historical years were considered, would the analysis change? Please explain.
 - 53.1.3.2 If the analysis would change significantly, please provide quantification of how it might change.

54. Reference: Exhibit B-8, BCUC 1.26.2.1

A zero intercept method best matches the theory behind a minimum system, in that it reflects a smaller size than might actually exist. Unfortunately, the results do not make sense as the zero-intercept cost is often a negative number or the regression used does not have a high level of statistical significance.

- 54.1 Are there ways to modify the zero intercept approach (other than switching to the minimum system approach and PLCC adjustment such that the statistical significance could be improved? Please explain.

55. Reference: Exhibit B-13, CEC 1.22.2

It is incorrect to say that R/C ratios of unity are the preferred ratios. The Commission in its past decisions has directed utilities to use the RoR as a guide to rate setting and rebalancing proposals. In its recent decision on the FEI's cost of service allocation and revenue to cost ratios, the Commission said:

The panel finds that the R:C ratios should be used to inform rate design and rate rebalancing proposals.¹¹

The Panel directs FEI to use an R:C ratio range of reasonableness of 95 percent to 105 percent to inform rate design and rebalancing proposals in the current Application...

...The Panel accepts that in theory an R:C ratio of 100 percent for each rate schedule would indicate that the revenues recovered from each rate schedule are equal to the cost to serve them. However, due to the assumptions, estimates and judgements involved in a COSA study, the Panel considers it appropriate to use a range of reasonableness.¹²

As described in Section 3.2 of the Application, FBC's rate design review and proposals are also guided by the widely accepted rate design principles based on Dr. Bonbright's work. FBC believes that the use of a RoR for R/C ratios for a rate design process is based on the cost causation principle as articulated in Principle 2 (Fair apportionment of costs among customers) and represents an important foundation upon which cost allocation and rate design should rest.

Rate design is a complex balancing process, as it frequently requires the application of multiple, and sometimes conflicting, rate design principles and the consideration of viewpoints from various stakeholders. In addition, different rate design principles may have varying levels of importance in different contexts. FBC, therefore, applies its experience and judgement to consider and balance the most relevant principles in a given context when identifying rate design issues and proposing rate design solutions.

In FBC's view, the Commission takes into account all of these rate design principles and other considerations in evaluating a utility's rate design proposals and establishing the appropriate rates.

- 55.1 Please confirm FBC's view that it is equitable for a customer class to remain consistently above unity (but within the ROR) while other customer classes remain consistently below unity?
- 55.1.1 If not, please explain.
- 55.1.2 If yes, please confirm that it would be equally equitable from a cost causation perspective for the relative rate class positions to be switched such that those customer classes with R:C above unity could be moved to below unity, and vice versa.
- 55.2 Please confirm that the primary reason for rebalancing is fairness, and that it is only fair for customer classes to pay the cost of their service, subject to other considerations which may lead to not rebalancing.
- 55.3 Please confirm the Commission may have multiple considerations for not rebalancing such as:
- If it would not be cost-effective to do so at the time;
 - if the rate or bill impact exceeded a level deemed unacceptable;
 - if rate stability over time were negatively impacted;
 - if customer understanding and acceptance could not be managed.
- 55.4 Please confirm that Bonbright does not require a Range of Reasonableness in its accepted principles of rate design.
- 55.5 Please confirm that the Commission is not bound to rely on the calculated R:C ratios in making its determinations as to the appropriate rates.
- 55.6 Please confirm that the Commission has the discretion to balance the various principles of rate design following the calculation of the R:C ratios information, rather than by embedding an error set into the information itself. ie. For instance, the Commission could accept the R:C figures as is, and balance the importance of making adjustments with its view of fairness and other principles.
- 55.7 Please confirm that the Commission could account for its view of the accuracy of the R:C ratios by relying on the R:C figures as calculated, and adjust its weighting of cost

causation as a principle accordingly, rather than attempting to install an 'error threshold' of +/- some percentage or other figure.

- 55.8 Please confirm that there is no specific threshold that marks an end-point to the percentage error that can occur.
- 55.9 Would FBC agree that, in the absence of bias, consistent results over multiple cost of service analysis should indicate that the results are more likely to be consistently valid than if they were only conducted once.
- 55.10 Does FBC believe it has bias in its R:C ratio calculations? Please explain why or why not.
- 55.11 If yes, please discuss and identify the bias and how it is occurring.
- 55.12 Does FBC believe that electric utility costs can be more accurately assessed than those of gas utilities? Please explain and provide any references that FBC or FEI has made with regard to the comparative differences.

56. Reference: Exhibit B-13, CEC 1.23.2

- 23.2 Are there any legal or other requirements preventing FBC from rebalancing towards unity? Please explain.

Response:

There is an existing Commission Decision preventing FBC from rebalancing at all where a R/C ratio is within the currently approved RoR (95 percent - 105 percent).

In the Commission's G-156-10 Decision in FBC's 2009 COSA and RDA, the Commission determined the appropriate target R/C in each rate schedule was to be one, with future rebalancing necessary only when customer classes fell outside the range. (Emphasis added)

It is plausible that where a class R/C ratio falls outside of the RoR that rebalancing could occur such that the impacted class would target unity; however, moving these classes in isolation would not be equitable in the view of FBC.

- 23.4 Would FBC consider it fair if all rate classes were rebalanced either at once or over a period of time towards unity? Please explain why or why not.

Response:

In the view of FBC, rebalancing all customer classes to unity as a result of this COSA would not be fair since the Commission determined in the 2009 COSA process that such rebalancing

would not occur as long as a customer class remained within the established RoR. While the Commission is not bound by the precedent of its decisions, it would seem unfair to reverse a recent decision on a topic of this nature, in conflict with customer expectations, without a compelling change in circumstances.

- 56.1 Please confirm that Commission Order G-156-10 is not a law and does not bind the Commission.

- 56.2 Please explain why moving rate classes in isolation would not be equitable in FBC's view.
- 56.3 Please provide examples of what might constitute a 'compelling change of circumstances'.
- 56.4 Please confirm that a 'compelling circumstance' could include the Commission determining that it is unfair to leave one class with an R:C Ratio above others, and one class with an R:C ratio below others.

57. Reference: Exhibit B-8, BCUC 1.76.4.2 and 1.76.5.1.1

76.4.2 What are the lessons learned from the last 20 years?

Response:

FBC has not surveyed its existing TOU customers to determine whether or not their experience with TOU has been as expected, and since a large number of them enrolled in TOU while customers of Princeton Light and Power prior to its acquisition by FBC, their original motivation to join in TOU rates is not known. However, given the relatively low participation rates over the last 20 years it would appear that customers have a preference for a simple, stable rate structure. In the past decade, the general level of rates has risen, and the introduction of the RCR has raised the overall cost of energy for high consuming customers. This has raised interest in the availability of TOU rates, but it appears more as a bill mitigation opportunity than as a conservation measure.

Since the rates were originally put in place in anticipation of market reforms that did not fully materialize, FBC is of the view that the design of rates is best approached from a standpoint that considers costs that are known at the time rates are set, or with an expectation of known and measurable changes that have a greater certainty.

76.5.1.1 For those customers that signed up for these optional TOU rates and later opted out, what factors would explain why they opted out?

Response:

Please refer to the response to BCUC IR 1.76.5. There has been little to no historical change in the number of customers enrolled in TOU rates; therefore, there is no data to explain what factors may have led customers to opt out.

- 57.1 Would FBC consider surveying its customers for their experience and expectations with regard to TOU? Please explain why or why not.
- 57.2 Could a survey be implemented with relative ease and at little cost? Please explain and provide quantification for the possible timing and costs.

58. Reference: Exhibit B-8, BCUC 1.76.5.2

76.5.2 What would FBC do differently moving forward to increase customer uptake for each of the TOU rate classes?

Response:

The decision to enroll in a TOU rate rests with the customer, based on their particular goals and their consumption behaviour. The role of FBC is to provide information that can assist in that decision. With the implementation of AMI, the Company can provide a bill analysis utilizing hourly data to assess potential TOU bill impacts for customers.

FBC intends to continue to encourage customers to contact Customer Service directly if they have any questions about any of FBC's services, and will update communication materials such as on the Fortisbc.com website with additional information on the TOU rates.

58.1 Does FBC intend to do any advertising or take other proactive measures to encourage customers to try TOU rate?

58.1.1 If yes, please describe.

58.1.2 If no, please explain why not.

59. Reference: Exhibit B-13, CEC 1.37.4

37.4 Would FBC consider a phased-in approach? Please explain.

Response:

FBC is not proposing to phase-in the RS 21 rate changes because only 4.8 percent of the customers have an annual bill impact greater than 10 percent and there are a much higher number of customers that would benefit from the change. However, FBC is aware that the 4.8 percent of negatively impacted customers may have significant annual increases unless consumption habits change and load profile improves (the average load factor of this group is 5.6 percent).

Rather than phasing in the changes for all customers, FBC would prefer to work with these relatively few customers through its Key Account and Energy Management initiatives to seek ways to mitigate bill impacts.

59.1 Please provide a few examples of the manner in which FBC can assist customers to mitigate bill impacts.

59.2 Would FBC consider a phased in approach for those few customers with significant bill increases if other measures are not successful? Please explain why or why not.

60. Reference: Exhibit B-13, CEC 1.41.1 and Exhibit B-8, BCUC 1.55.1

41.1 Please provide an order of magnitude estimation of the 'minor impact' on other customers that would likely occur.

Response:

Please refer to the response to BCUC IR 1.55.1.

55.1 What is FBC's timeline and estimated resources/costs to complete the load forecast studies to determine the impact of addressing the request from the KID regarding irrigation TOU rates during non-irrigation season? Please discuss.

Response:

FBC has not indicated that load forecast studies are required in order to determine the impact of the requested change on the irrigation and non-irrigation customers. The Company has sufficient historical load information to build load profiles and conduct sensitivity analysis around potential load shifting to determine the impact that this may have on costs and the rates of other customers.

60.1 Please advise if there is a different response to which FBC was directing the CEC in response to CEC 1.41.1; and if so, what the correct response would be.