

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-87-07

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473
and
An Application by FortisBC Inc.
for a Rate Design on the Big White Supply Project

BEFORE: L.A. Zaozirny, Panel Chair August 7, 2007

O R D E R

WHEREAS:

- A. On March 9, 2006, FortisBC Inc. ("FortisBC") applied to the British Columbia Utilities Commission ("Commission") for a Certificate of Public Convenience and Necessity ("CPCN") to construct and extend a 34 km, 138 kV transmission line from the Joe Rich Substation to a new substation to be built at the Big White Village at a cost of \$20.32 million, including approximately 23 km of new transmission line (the "Project"); and
- B. Following an Oral Public Hearing process the Commission, on September 14, 2006 by Order No. C-17-06 and Reasons for Decision, granted a CPCN to FortisBC for the construction of the Big White Supply Project subject to a condition related to a risk sharing mechanism; and
- C. Commission Order No. C-17-06 and Reasons for Decision also directed FortisBC to file, within 90 days of the Decision, an application for a rate design for the Project which considers the circumstances and conditions pertaining to the Project, and which would be the subject of a separate proceeding and a determination by the Commission as to how the costs of the Project will be recovered; and
- D. On October 10, 2006 and October 12, 2006, Big White Ski Resort Ltd. and FortisBC, respectively, applied for a reconsideration of certain aspects of the Commission's Decision related to a CPCN for the Big White Supply Project; and
- E. By Order No. G-154-06 and Reasons for Decision, the Commission denied the Reconsideration Applications and clarified that the intent of the direction in the Reasons for Decision attached to Order No. C-17-06 was that FortisBC, in a first stage of the process, would make an application to the Commission addressing two primary questions: (1) should some or all customers of the Big White area, as distinct from all FortisBC ratepayers, be required to fund some or all of the costs of the Project; and (2) if total funding from all FortisBC ratepayers is not required, then how should the funding from the customers of the Big White area be determined and allocated?; and
- F. On March 6, 2007, FortisBC filed a Rate Design Application for the Project (the "Application") pursuant to Orders No. G-17-06 and G-154-06 and requested that a Procedural Conference be convened to address procedural matters and to establish a Regulatory Timetable and, in particular, to address the process for public consultation necessary prior to the Company making its recommendations on cost recovery methodology and the disposition of the Application; and

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-87-07

2

- G. By Order No. G-30-07, the Commission determined that a Public Notice should be issued and a Procedural Conference be held on April 16, 2007 in Kelowna, B.C. to consider the further process to be established to review FortisBC's Rate Design Application; and
- H. On April 13, 2007, as required by Order No. G-30-07, FortisBC filed its response to an initial Commission Information Request; and
- I. FortisBC, in its opening remarks during the Procedural Conference, suggested that its Application and the responses to the Commission's Information Request constitute new information that raises a preliminary issue of "whether or not there is still a serious question as to whether Big White customers should be paying some or all of those project costs" ("Preliminary Question") and FortisBC proposed that a written submission process be established to consider this new information and Preliminary Question.
- J. On April 23, 2007, following the Procedural Conference, and after having heard submissions from parties concerning the regulatory process and FortisBC's Proposal, the Commission issued Order No. G-46-07 issuing a Revised Regulatory Timetable for a written submission process to review the new information and the Preliminary Question; and
- K. Submissions on the Preliminary Question were received from FortisBC on June 8, 2007, and from BCOAPO on June 21, 2007, and from Big White Ski Resort Ltd. and Mr. Alan Wait on June 22, 2007. FortisBC filed its Reply Submission on June 28, 2007; and
- L. The Commission has considered the evidence and submissions of FortisBC, BCOAPO, Big White Ski Resort Ltd. and Mr. Wait and issues its Reasons for Decision.

NOW THEREFORE the Commission approves the inclusion of the Project costs in the FortisBC rate base as proposed by FortisBC and as set out in the Reasons for Decision, attached as Appendix A.

DATED at the City of Vancouver, in the Province of British Columbia, this 9th day of August 2007.

BY ORDER

Original signed by

L.A. Zaozirny
Commissioner

Attachment

**AN APPLICATION BY FORTISBC INC.
FOR A RATE DESIGN ON THE BIG WHITE SUPPLY PROJECT**

REASONS FOR DECISION

1.0 BACKGROUND

1.1 The Big White Supply Project

On March 9, 2006 FortisBC Inc. (“FortisBC”, “Company”, “Utility”) applied to the British Columbia Utilities Commission (“Commission”, “BCUC”) for a Certificate of Public Convenience and Necessity (“CPCN”) for the Big White Supply Project (the “CPCN Application”). The Big White Supply Project involved the construction of 23 km of new 138 kV line, the reinsulation of 11.3 km of an existing section of line from the Joe Rich substation, a new substation located at the Big White development area (“Big White”) and distribution upgrades at Big White (“the Project”). The capital cost associated with the Project is estimated by FortisBC at \$20.32 million.

Big White is a community located approximately 50 km southeast of Kelowna. Big White Ski Resort Ltd. (“BWSR”) owns and operates a ski resort at Big White (Exhibit C5-1, T1:37).

1.2 The Review of the CPCN Application and the Related BCUC Decision

Following receipt of the CPCN Application the Commission, by Order No. G-44-06, established a Regulatory Agenda and Oral Public Hearing to review the Application. The Oral Public Hearing commenced on July 4, 2006 and concluded on July 5, 2006. After the hearing and the submission of argument and reply argument, the Commission issued its Decision dated September 14, 2006 (“CPCN Decision”) and Order No. C-17-06 granting a CPCN for the Project subject to FortisBC agreeing to accept a risk sharing mechanism for the Project.

The CPCN Decision also stated, on page 27, that:

“The Commission Panel determines that the circumstances and conditions found at Big White are sufficiently unique that it should not be considered a community in the same sense as many other communities in the FortisBC service area.

Accordingly, for purposes of determining the appropriateness of sharing the costs of the Project amongst all ratepayers, special consideration is warranted.”

On page 35, the Decision stated that:

“FortisBC is directed to file, within 90 days of this Decision, an application for a rate design for the Project which considers the circumstances and conditions pertaining to this Project. That application will be the subject of a separate proceeding and a determination by the Commission as to how the costs of the Project will be recovered.

FortisBC is directed to establish a deferral account for the Project. The deferral account will accumulate the costs of the Project, together with related AFUDC, to be recovered by FortisBC as determined by the Commission in conjunction with the application for a rate design for the Project.”

1.3 Reconsideration Applications and the BCUC Decision

On October 4 and October 12, 2006, BWSR and FortisBC, respectively, applied to the Commission for reconsideration and variation of Order No. C-17-06 and the Decision. FortisBC applied for reconsideration of, among other things, reconsideration of the Decision with respect to the directions regarding the Rate Design Application to be filed by the Utility and the establishment of a deferral account for the accumulation of the costs of the Project. Among the submissions in its Reconsideration Application, BWSR submitted that the Order did not accord with the CPCN Application and that there was inadequate notice of the cost recovery issue and a lack of jurisdiction to order a contribution from customers.

The Commission established a written comment process to determine whether or not BWSR and FortisBC had established a *prima facie* case sufficient to warrant full reconsideration of the matters by the Commission. On December 6, 2006, the Commission issued Order No. G-154-06 and Reasons for Decision denying the BWSR and FortisBC Reconsideration Applications (“Reconsideration Decision”). However, in its Reasons for Decision the Commission stated that FortisBC had raised issues in the course of its reconsideration application that the Commission would address by way of clarification.

In the Reconsideration Decision, the Commission noted that while the need for the Project had been established to warrant approval and the issuance of a CPCN, the Commission did not in the CPCN proceeding receive sufficient evidence on which to make a decision on the appropriateness of, and/or a methodology for, sharing the costs of the Project amongst all or any specific group of ratepayers or customers. Consequently, the Commission ordered that the issue of recovery of some or all of the costs of the Project should be brought forward by way a separate application and proceeding. With respect to its use of the term ‘rate design’, at page 35 of the September 14, 2006 Decision, the Commission stated that this term, as used in the Decision, was generic and was purposefully non-specific regarding what FortisBC should bring forward, other than it should focus on “... the circumstances and conditions pertaining to this Project”.

The Commission further commented that because of the unique aspects of this Application, it was not persuaded that a Fully-Allocated Cost of Service study leading to a general consideration of regional rates is required at this time:

“Simply put, FortisBC is enhancing its service to Big White in large part by upgrading a distribution service to a transmission service, to service a discrete area that appears to be unique insofar as the enhanced service appears to primarily support continued development driven by BWSR. Therefore, the direction of the Commission was intended that FortisBC, in a first stage of the process, would make an application to the Commission addressing two primary questions:

1. Should some or all customers of the Big White area, as distinct from all FortisBC ratepayers, be required to fund some or all of the costs of the project?
2. If total funding from all FortisBC ratepayers is not required, then how should the funding from the customers of the Big White area be determined and allocated?

FortisBC may wish to consider the cost of the Project and the degree to which those costs are likely to be recovered from the ratepayers in Big White in the future. FortisBC may also wish to consider the basis on which the project costs for the initial and/or enhanced distribution and/or transmission services to like areas and facilities in its service territory have been recovered in the past.”

With that clarification, the Commission directed FortisBC to file its Application for a rate design for the Project within 90 days of the date of the Reconsideration Decision.

1.4 Process for Review of the FortisBC Rate Design Application

On March 6, 2007, FortisBC filed its Rate Design Application (“Application”) for the Project. In the Application, FortisBC requested that a Procedural Conference be convened to address procedural matters and to establish a regulatory timetable “... and, in particular, to address the process for public consultation necessary prior to the Company making its recommendations on cost recovery methodology and the subsequent disposition of the application” (Exhibit B-1, p. 4).

The Commission Panel assigned to consider the Application issued Order No. G-30-07 (Exhibit A-1) on March 16, 2007 and established a Procedural Conference to be held in Kelowna on April 16, 2007 and an initial round of Commission Information Requests for which FortisBC was required to file a response by April 13, 2007. At the Procedural Conference FortisBC, relying upon information contained in its Application and responses to Commission Information Request No. 1, proposed “... that there be a written process, given that there is new information in front of the Commission on whether or not there is still a serious question as to whether Big White customers should be paying some or all of those project costs” (T1: 9-10) (“FortisBC Proposal” or “Preliminary Question”).

Neither BWSR, nor the B.C. Old Age Pensioners Organization et al. (“BCOAPO”), nor any other party, were opposed to the procedure suggested by FortisBC; however, BCOAPO wanted the opportunity to ask Information Requests about the information already filed (T1:34). BWSR also indicated that, if dealing only with the question put forward by FortisBC, a written process would suffice (T1:73).

Following the Procedural Conference, the Commission Panel issued Order No. G-46-07 (Exhibit A-3) dated April 23, 2007, which established a written process to consider the FortisBC Proposal. The written process allowed for Information Requests by Intervenor and the Commission and responses thereto by FortisBC, and then FortisBC submissions followed by Intervenor submissions and concluding with reply from FortisBC by June 29, 2007.

2.0 THE FORTISBC APPLICATION

In its Application filed March 9, 2007, FortisBC explained that it had retained EES Consulting (“EES”) to develop a Cost of Service (“COS”) Study to separate the costs and revenues of the Big White area from the rest of the service area, forecast the impact of the Project on the Big White COS and, based on those findings, recommend an appropriate rate design for funding the Project. The EES report titled “Cost of Service Report Related to Big White Service Area, March 2007” (“EES Report”) is filed as Appendix “A” to the Application. FortisBC also explained that it had revised the British Columbia Hydro and Power Authority (“BC Hydro”) System Extension Test (“SET”) that was originally filed on a “best efforts” basis during the CPCN hearing and indicated that it would file the revised SET calculation along with a reconciliation to its original SET prior to the Pre-hearing Conference.

FortisBC serves approximately 1,800 residential and 60 commercial customers in the Big White area (Exhibit B-1, EES Report, p. 3). According to FortisBC, the Big White COS indicates that after the Project has been completed without the Project costs directly assigned to Big White, Big White area customers have been and are paying more than their COS and will continue to do so into the foreseeable future. FortisBC also submitted that:

“Because capital additions are “lumpy” and are usually built with extra capacity to meet loads that will grow over time, there are continually situations where more is spent on certain customers than on others. The costs to serve a specific customer will fluctuate a great deal over time as capital additions occur and loads change. Over time, it is generally accepted that these capital additions will average out” (Exhibit B-1, p. 2).

Based on the results of the analysis, FortisBC does not recommend that some or all of the customers of the Big White area, as distinct from all FortisBC ratepayers, be required to fund some or all of the costs of the Project and submits that postage stamp rates should be maintained.

The Application also discusses certain implementation and policy issues which, in FortisBC's view, should be addressed prior to any decision to impose a line extension charge, rate surcharge or zonal rates on Big White customers. However, because the Commission Panel, as requested by FortisBC and agreed to by Parties, has limited the question at this time to consideration of the preliminary issue of whether or not there is still a serious question as to "whether Big White customers should be paying some or all of those project costs", the implementation issues were not further addressed.

The EES Report submits that "The pertinent technical question is whether or not the revenues and allocated costs from/to the Big White area are significantly different from those revenues and allocated costs collected from/to other areas within the FortisBC service territory to warrant special and unique retail rate treatment for the Big White area" (Exhibit B-1, EES Report, p. 2).

Using the COS methodology that was prepared by EES for FortisBC and approved by the Commission in 1997, the EES Report developed a COS that separated out the costs and revenues of the Big White area from the rest of the FortisBC service area and examined several different scenarios:

- Case 1 - the base case using the actual revenue requirements and loads for 2006, but without the costs of the Big White project;
- Case 2 - the base case including the costs of the Big White project and loads projected for 2010;
- Case 3 - Case 3 includes "full build-out" of customers at Big White, assumed to occur about 2026. Case 3 also assumed that the average energy usage per customer would be 800 kWh in the months of April through October to reflect a minimum usage consistent with the rest of the FortisBC area (Exhibit B-1, EES study, p. 7).

EES indicated that it also reviewed the impacts of using a different COS methodology recently proposed by BC Hydro and that the difference in results from using the BC Hydro methodology were negligible (Exhibit B-1, EES Report, p. 10).

Revenue to cost ratios reflect the ratio of the revenues collected from a group of customers (often a customer class, in this case a sub-region of the service territory) to the costs associated with service to that group of customers. The revenue to cost ratio results presented in the EES Report are summarized in the table below:

	Project costs allocated to all customers	Direct Assignment of All Big White Transmission Costs
Case 1		
Big White	113.8%	113.8%
Remaining service area	99.8%	99.8%
Case 2		
Big White	116.4%	63.3%
Remaining service area	99.7%	101.1%
Case 3		
Big White	122.6%	83.8%
Remaining service area	99.5%	100.6%

The EES Report states that: “Over time, Big White customers will be paying only about 10 percent less of their cost than other residential customers, all other things being equal” (Exhibit B-1, EES Report, p. 12).

To provide some comparative results, EES also applied the same type of COS analysis to three other similarly situated communities in the FortisBC territory, including Osoyoos which, like Big White, is facing a major transmission project. FortisBC confirmed that the transmission facilities related to the Osoyoos project are all radial facilities extending from FortisBC’s transmission network and required solely to service existing and increased load in Osoyoos (Exhibit B-5, p. 26). The results of the EES analysis are provided in the table below.

	Revenue to Cost Ratio
Christina Lake	82.1%
Kaslo	128.1%
Osoyoos (with different cases)	
Case 1 - Before expansion cost	113.1%
Case 2 - Direct assignment of new distribution	102.7%
Case 3 - Direct assignment of new transmission and distribution	71.4%

The EES Report comments that “One particular concern would be a scenario where Big White customers pay for the cost of the Big White transmission project through a line extension or surcharge, while at the same time they are required to pay a portion of the Osoyoos transmission project in base rates” (Exhibit B-1, EES Report, p. 13). If Big White customers alone absorb the cost of the Project, the rate impact is expected to be an 84 percent increase in rates to Big White customers. If all customers absorb the costs, the rate impact is approximately 1.0 percent (Exhibit B-2, p. 32; Exhibit B-5, pp. 17-18).

In response to a Commission Information Request, FortisBC also notes that the Kettle Valley Distribution source project, approved by Order No. C-5-06 at an estimated cost of \$21.5 million, includes a new substation and transmission system improvements to address reliability and supply problems for the Boundary area, and states that “the relatively small number of customers in the Kettle Valley area did not give rise to a cost recovery mechanism such as that being considered for Big White” (Exhibit B-2, p. 2).

Also in response to a Commission Information Request, FortisBC filed a revised SET calculation to show what contribution would be required from the Big White area if a SET was considered to be an appropriate mechanism on which to base a contribution in the circumstances under review. A further revised SET calculation was subsequently filed (Exhibit B-6, p. 7) which shows that if the transmission and distribution costs are allocated to all customers in the Big White area, the Project generates a net revenue shortfall of approximately \$718,000 over 20 years and, if allocated to only new customers in the Big White area, would generate a revenue shortfall of approximately \$13.5 million. However, FortisBC states that the SET calculation is not the appropriate test to determine a contribution for the Project and that “Notwithstanding those calculations, the application of generally accepted rate making principles must provide the overriding guidance. It was clearly stated in the Rate Design Application that it is the approved practice for transmission expenditures to be paid for all FortisBC customers” (Exhibit B-5, p. 3).

3.0 SUBMISSIONS OF THE APPLICANT AND INTERVENORS

3.1 FortisBC June 8, 2007 Submission

On June 8, 2007, FortisBC filed its Submission related to the FortisBC Proposal or Preliminary Question identified in Section 1.4 on page 3, namely: “... whether or not there is still a serious question as to whether Big White customers should be paying some or all of those project costs” (T1: 9-10).

FortisBC relies upon new information filed in its Application, particularly the EES Report, and responses to Commission Information Requests to support its position that the Preliminary Question should be answered in the negative.

FortisBC cites the EES Report which states that “In the case of the Big White Project the subject upgrade is a capacity expansion for the entire community and not just one customer. Thus the application of a line extension fee, in this case, is conceptually and philosophically flawed” (FortisBC Submission, p. 4). In FortisBC’s view there has been no ‘applicant’ for the Project and, therefore, the Commission would have to amend the Company’s tariff in order to make some or all of the customers in the Big White area pay for the Project. FortisBC does not believe the evidence supports such an amendment to its tariff (FortisBC Submission, p. 3).

FortisBC notes that if the transmission portions of the Project are not directly assigned to Big White, the Big White customers more than cover their cost of service through the entire period examined in the study. The Company states that “Even when the full costs of the Project are directly assigned to Big White customers in the Study, the revenue to cost ratio is over 80 percent once load growth occurs” (FortisBC Submission, p. 5). FortisBC notes that Table 8 of the EES report shows that the revenue to cost ratio for Christina Lake is 82.1 percent and submits that the new information derived as a result of the EES Report was based on generally accepted rate-making principles that support the recommendation that the costs of the Project should be allocated to all customers (FortisBC Submission, pp. 5-6). FortisBC further cites the EES Report, which states it is standard practice to average costs out among customers within a class, despite the fact that they differ in regard to cost to serve (Exhibit B-2, EES Report, p. 18).

The Company also notes that BC Hydro, in response to an Information Request in a current proceeding before the Commission to review the BC Hydro Rate Design Application, stated:

“BC Hydro considers postage stamp rates to be a fundamental rate design objective....The application of postage stamp rates has been in place for many decades and continues to remain a cornerstone of rate design for BC Hydro. Absent any policy direction from the provincial government it is unlikely that BC Hydro would move away from this fundamental rate design objective. The 2007 Energy Plan does not contain any policy actions specifically encouraging or requiring a move away from postage stamp rates.

BC Hydro notes that the concept of postage stamp rates is practiced by most distribution utilities, as a matter of public policy, and in some jurisdictions is also mandated through legislation.”

FortisBC also cites a further response of BC Hydro to an Information Request in the BC Hydro Rate Design proceeding wherein BC Hydro states “... BC Hydro considers that recovering the costs of a system upgrade that serves many customers, whether by means of a contribution or a rate surcharge, would generally be contrary to the principle of postage stamp rates” (FortisBC Submission, p. 6).

FortisBC submits that the SET calculation is not the proper test to apply in order to determine the level of appropriateness of a customer contribution for the Big White Supply Project. Further, the Company submits that in its amended response to the BCOAPO Information Request 1.1 (Exhibit B-6), for the scenario under which all customers of Big White were allocated the full cost of the supply project, the Revenue Shortfall is about 3.5 percent, or \$718,000, of the full cost of \$20.3 million. “Based on this new information, even if this test were to be applied exclusively to Big White customers, the Company suggests that this is within a plus/minus range for which no contribution should be required” (FortisBC Submission, p.8).

FortisBC submits that the application of generally accepted rate-making principles must provide the overriding guidance and that the revenues and allocated costs from/to the Big White area are not significantly different from those revenues and allocated costs collected from/to other areas within the FortisBC service territory to warrant special and unique retail rate treatment for the Big White area (FortisBC Submission, pp. 8-9).

3.2 BC Old Age Pensioners’ Organization et al. Submission

BCOAPO filed its submission on June 21, 2007 and argued that the Preliminary Question must be answered in the affirmative, in part because recent information shows that FortisBC is only proceeding with the Project to meet the needs of new customers. BCOAPO submits that the key issue is not whether FortisBC should maintain postage stamp rates, but whether new customers in Big White should be required to contribute to the cost of a significant upgrade being undertaken solely to meet their future demands for new electricity (BCOAPO Submission, p. 1).

BCOAPO submits that there appears to be a fundamental inconsistency between the treatment of extensions initiated by a formal application from a new customer – in which case existing customers are held harmless through contributions from the applicant in accordance with Schedule 74 of the FortisBC tariff – and extensions initiated as the result of FortisBC forecasts of load growth generally or in a specific area. In this latter circumstance, the costs are borne by existing and future customers (BCOAPO Submission, p. 5).

BCOAPO submits that:

“... projects involving radial extensions to connect customers served at transmission voltages are usually subject to an extension test and a customer contribution calculation. The rationale is that the costs are being incurred to specifically serve (and benefit) the particular transmission customer. This is apparent in the Special Contracts section of Schedule 74 (see also FortisBC Submissions, p. 7).

In the case of the Big White Project, existing distribution facilities are being upgraded to transmission voltages in order to meet the forecast needs of new customers. The transmission facilities are not part of the Company’s overall grid network but rather radial facilities required to service new loads. In this context, the principle appears to be the same whether there is one new transmission customer at the end of the line or a number of new distribution customers...

The fact that the answer depends on whether the line is energized at a transmission or distribution voltage is inconsistent with the overall principle of whether existing customers should pay for costs incurred principally to expand/connect to new customers (BCOAPO Submission, p. 6).”

BCOAPO reviewed the SET test results and submits that the SET calculations provide an appropriate measure of the extent to which existing customers will have to bear the costs of providing service to new customers at Big White (BCOAPO Submission, p. 8). BCOAPO concludes that new customers, as opposed to both existing and new customers, in the Big White area should be required to fund almost all of the costs of the Project.

BCOAPO submits that “there is a need for some additional mechanism to be put in place if the Commission wishes to avoid existing customers, as well as new customers on other parts of FortisBC’s system, subsidizing the service to new customers in areas such as Big White”. BCOAPO argues that “This approach would avoid setting a precedent allowing for a move away from postage stamp rates, and would not apply to transmission upgrades generally”. BCOAPO states that its proposed approach would apply to transmission upgrades that would benefit new customers who would otherwise not pay for any of the costs related to an upgrade made entirely to meet their forecast electricity demands (BCOAPO Submission, p. 10).

Finally, BCOAPO states that between 1976 and 1996, Big White Ski Development Ltd. and Big White customers contributed significantly to the costs of the original extension to the Big White area and suggests that it would be “... ironic if existing customers at Big White were required not only to contribute to the costs of the original power supply to the area, but also to fund the power supply for new customers, while the new customers were not required to contribute at all to the cost of the upgrade that is being undertaken purely to meet their proposed demands” (BCOAPA Submission, p. 10).

3.3 Big White Ski Resort Ltd. Submission

On June 22, 2007, BWSR filed its submission on the Preliminary Question and submitted that the answer is “No”. In reaching this conclusion, BWSR submits that the first issue to be considered is whether the postage stamp rates are to remain in effect. BWSR submits that if the Commission finds no reason to depart from “... the longstanding postage stamp system in existence throughout the Province...”, then any form of additional contribution from BWSR or Big White ratepayers could only be justified by determining that either Big White ratepayers constitute their own rate class or the Project is a system extension rather than a reinforcement resulting from “organic load growth”.

In the view of BWSR no other participant in the proceeding supports a change to the postage stamp system. BWSR also argues that the same argument could have been made by BCOAPO with respect to the Osoyoos upgrade, the Kettle Valley Upgrade and every other expansion of facilities to accommodate increased growth. BWSR submits that “If Big White Ratepayers must pay for these upgrades, other communities will have to pay for their upgrades. Overall the cost will be the same, but some communities will be burdened to such a degree that they will not be able to afford the quality of service they have enjoyed for many years” (BWSR Submission, p. 4). BWSR also draws on the 2002 and 2007 Energy Plans issued by the Province, as well as the remarks at the Procedural Conference by a representative of the Resort Development Division of the Ministry of Tourism, Sport and the Arts (“MTSA”), to argue that the Province has supported and continues to support postage stamp rates.

BWSR also submits that it would be inconsistent and unfair to require Big White ratepayers to pay these costs given the Commission’s September 23, 2005 Decision “In the Matter of British Columbia Transmission Corporation Transmission System Capital Plan F2006 to F2015 Application”. In that Decision, the Commission approved approximately \$15 million of transmission upgrades and substation distribution assets related to the Whistler Village resort area without any requirement for rate revisions or an additional contribution from Whistler ratepayers (BWSR Submission, pp. 5-6).

BWSR cites the evidence of FortisBC that the recovery of costs from Big White ratepayers would be a movement away from postage stamp rates (Exhibit B-2, p. 1) and similar statements by BC Hydro in the context of the concurrent BC Hydro Rate Design proceeding. BWSR submits that if there is to be any change to the postage stamp system, it should come through a generic process, which allows for the input of government, all utilities, communities within the Province, ratepayers and the public (BWSR Submission, p. 8).

BWSR submits that “The evidence provided by Fortis in this proceeding makes it clear that the Big White area has a cost of service entirely in keeping with similar areas, and that there is no cost of service justification to create a new rate class for customers in the Big White area” (BWSR Submission, p. 9).

BWSR submits that neither the *Utilities Commission Act* nor sound rate-making principles allow the Commission to target a specific group of ratepayers for special adverse treatment based on matters that are independent of the cost to serve those customers, and that, to the contrary, such discrimination is prohibited. BWSR states that all of the evidence in this proceeding shows that the Big White area imposes approximately the same costs of service on the Utility as other communities within FortisBC’s service territory (BWSR Submission, p. 10).

BWSR notes that within a given rate-class, it is not a departure from postage stamp rate-making to collect contributions from individual customers that trigger a specific extension, but BWSR suggests that it is clear from the evidence that the Project is not the result of BWSR nor any other identifiable customer in the Big White area seeking or receiving an extension. BWSR concludes that “As such, there can be no basis for directly allocating all or a portion of the Big White Supply Project costs to any customer individually. Equally, there can be no basis to allocate all or a portion of the Big White Supply Project costs to the collective of ratepayers in the Big White area, since they properly form part of a larger rate class...”. BWSR submits that creating a Big White rate class is not justified under the COS evidence of FortisBC, either with or without the Project, and that were a new rate class created for Big White it would require taking into account all of the incremental and decremental costs of serving the Big White area. As an example, BWSR notes that there would be no reason, if such an exercise were undertaken, that the Big White ratepayers should contribute to the costs of the Nk’Mip Project in the Osoyoos area (BWSR Submission, pp. 12-13).

BWSR dismisses evidence surrounding the SET test and states that the Project is not an extension, so a test used to determine incremental cost and their allocations for an extension is irrelevant (BWSR Submission, pp. 13-14).

BWSR summarizes the issue as follows: first, postage stamp rate-making is clearly the policy of the Province and the correct basis for making the decision in this case; second, if postage stamp rate-making is the correct context from which to make this decision, neither BWSR nor the Big White area belong in its own rate class; and third, if postage stamp rates apply and the Big White area is not its own rate class, there is no justification for imposing an incremental cost on the Big White area. BWSR submits that the Commission should conclude that no serious question remains as to whether Big White customers should be paying for some or all of the Project costs (BWSR Submission, pp. 17-18).

3.4 Submissions of Other Intervenors and Interested Parties

Several individuals and organizations intervened in this proceeding. Mr. Wait filed a submission dated June 22, 2007 in which he states that “Big White is not so significantly different from any other community in the FortisBC service area that it should be singled out for special treatment”, and that he sees nothing indicating that FortisBC should deviate from its postage stamp approach to rates in regards to the Project (Wait Submission, p. 1).

In its intervention, the MTSA suggested that “any decision affecting operations of BWSR may have implications to other resorts across the province or could place BWSR at a competitive disadvantage” and noted that the “MTSA is responsible for ensuring that the resort is developing consistent with the approved Master Plan and the Master Development Agreement that was signed by the resort and the Province” (Exhibit C5-1). Ms. P. Brown, on behalf of MTSA, stated at the Procedural Conference that there are about 48 resorts in the province and 25 of those would be very similar in nature to Big White (T1:36).

Ms. Slack, in her intervention, stated that she believes in ‘postage stamp’ rates and that “Big White will be no different than other seasonal influx communities. . .” (Exhibits C2-1, C2-2).

The Commission Panel also received numerous Letters of Comment, almost all in favour of maintaining postage stamp rates (Exhibit E-68) and strongly objecting to the idea of “putting the \$20 million expansion onto the small community of Big White” (Exhibit E-4) or being singled out to bear the cost of this Project (Exhibit-7). These comments were received from FortisBC customers both within and outside the Big White area. Many put forward views along the lines that “the Big White Ski Resort is no different from any of the resorts across the Province and any decision to require Big White power users to pay a special levy for this transmission upgrade, could result in serious impacts on the economic intent of the all-seasons resort policy in the Province of B.C.” (Exhibits E-19-1, E-56, E-70). Mr. Stannard, in a Letter of Comment dated June 4, 2007 (Exhibit E-14), referred to the comments of Ms. Brown to support the view that Big White is not unique. Others expressed the view that “public utilities and the infrastructure necessary to support them, are by definition, a cost to be borne by the public, not by a specific section of the community” (Exhibit-17) and that the capital costs of the Project “should be an investment by FortisBC and its privately held shareholders” (Exhibits E-18, E-19).

3.5 FortisBC June 28, 2007 Reply Submissions

In its June 28 reply submission, FortisBC states that without new customers new facilities would not be required and that this would be the case with most growth-related projects. The Utility notes that its 2007-2008 Capital Expenditure Plan and System Development Plan Update included \$189 million for eighteen growth-related projects and that it has not required any new additional contribution from new customers in any of those growth-

related projects. The Company also notes that additional benefits from the Project will accrue to other customers on the FortisBC system than just the Big White customers (FortisBC Reply, pp. 2-3).

FortisBC also submits that BC Hydro's response in its current Rate Design Application proceeding that "recovering the costs of a system upgrade that serves many customers, whether by means of a contribution or a rate surcharge, would generally be contrary to the principle of postage stamp rates" reflects a generally accepted rate-making principle applicable to the Big White Supply Project, and that the facts in the Big White Supply Project do not warrant a deviation from these principles (FortisBC Reply, p. 7).

FortisBC submits that its "... evidence supports the continued use of postage stamp rate-making and results in a conclusion that there is not a serious question that Big White customers should be paying some or all of the Project costs. Based on generally accepted rate-making principles and a consistent practice and application of the Company's extension policy, it is submitted that the Project costs be rolled into rates in keeping with other transmission projects, with recovery from all FortisBC customers" (FortisBC Reply, p. 11).

4.0 COMMISSION DETERMINATION

As noted in Section 1.3 of these Reasons, the Commission in the Reconsideration Decision was not persuaded that a Fully-Allocated Cost of Service study leading to a general consideration of regional rates was required at this time. It was noted that the Project would enhance service to a "... discrete area that appears to be unique insofar as the enhanced service appears to primarily support continued development driven by BWSR". On that basis, the intent of the direction to FortisBC to file a Rate Design Application was clarified; namely, that the Company would make an application to the Commission addressing the two primary questions identified in Section 1.3 above:

1. Should some or all customers of the Big White area, as distinct from all FortisBC ratepayers, be required to fund some or all of the costs of the project?
2. If total funding from all FortisBC ratepayers is not required, then how should the funding from the customers of the Big White area be determined and allocated?

FortisBC filed its Application and, at the subsequent Procedural Conference, noted the new COS information in the Application including the COS study and Information Request responses and, on the basis of that new information, requested a written process to consider a Preliminary Question of "whether or not there is still a serious question as to whether Big White customers should be paying some or all of those project costs".

The COS study shows that currently, before the Project, revenues from the Big White area total approximately 114 percent of its COS. After the Project, if it is rolled into the FortisBC rate base, the revenue to cost ratio is approximately 116 percent as of 2010, the first full operating year of the Project, and approximately 123 percent after 20 years, in 2026. If all of the Project costs are assigned to the Big White area, then the revenue to cost ratio falls to approximately 63 percent in 2010 when the full costs of the Project are incurred but little load growth has occurred, and is approximately 84 percent in 2026. The Commission Panel notes that no party in the proceeding has disputed the methodology used by EES in its COS study.

In the view of the Commission Panel, the COS information and much of the other information to be discussed below, is new information relative to the information available during the CPCN proceeding and to the CPCN Panel and this information supports rolling the costs of the Project into the FortisBC rate base. The COS analysis demonstrates that with the Project costs rolled into the FortisBC rate base, the Big White area will be covering between 116 percent to 123 percent of the costs associated with the area. Even with the Project costs assigned directly to the Big White area, the revenue to cost ratio is approximately 84 percent after load growth has occurred. The Commission Panel agrees with FortisBC that all of these results fall within the range of revenue to cost ratios of the other communities in the FortisBC area that were analyzed and notes that the EES Report (p. 13) suggests that the entire FortisBC service area would face a similar variability between areas and towns.

Moreover, rolling the Project costs into rate base would be consistent with the Commission approval of the British Columbia Transmission Corporation Whistler reinforcement project without any requirement for any rate revisions or contributions from Whistler ratepayers.

The Commission Panel, therefore, agrees with FortisBC that an analysis of the revenues and allocated costs indicates that Big White is not sufficiently different from other areas in FortisBC's service territory to warrant special and unique retail rate treatment. The Commission notes that comparable transmission upgrades for other communities have been undertaken and have not attracted special rates or funding requirements, including the Whistler project and the FortisBC Nk'Mip project in the Osoyoos area.

FortisBC and BWSR both noted the BC Hydro evidence in the concurrent BC Hydro Rate Design proceeding that it considers postage stamp rates to be "... a cornerstone of rate design for BC Hydro..." that without a policy direction from the provincial government, BC Hydro would be unlikely to move away from this fundamental rate design objective; and that BC Hydro considers recovering the costs of a system upgrade that serves many customers, whether by means of a contribution or a rate surcharge, to be contrary to the principle of postage stamp rates. While the Commission Panel gives little weight to this position of a non-party which has been filed in

another ongoing proceeding, the Commission Panel does agree with FortisBC and BWSR that the facts of this case do not warrant a deviation from FortisBC's past practice.

The Commission Panel agrees with FortisBC and BWSR that the Project is not an extension. As stated in the EES Report, "...in this case, the Company's extension policy should not apply to the project because it is not an Extension as defined under the tariff, there is no Applicant applying for the project as defined under the tariff, and the project is primarily around a transmission line and substation not a distribution extension." As BWSR has submitted, the Project is more properly characterized as a load growth project given that it is not the result of any single customer seeking new service. Therefore, the Commission Panel finds that a test used to determine incremental costs and their allocations for an extension, such as BC Hydro's SET, or a new SET, is not particularly relevant and should not be retroactively imposed for the Project.

BCOAPO argues that whether talking about transmission or distribution facilities or whether it is one applicant or multiple new customers, the same question exists as to whether existing customers will be required to contribute to the costs of connecting new customers and whether existing customers in the Big White area and its service on the Fortis BC system will be unfairly burdened by these expenditures (BCOAPO Submission, p. 6).

BCOAPO acknowledges FortisBC's position that there are widespread benefits from the Project including reduced line losses and improved reliability, however, BCOAPO maintains that improved reliability may not be something that FortisBC would have invested in just for existing customers. In the Commission Panel's view, the fact remains that there are benefits that will accrue to existing Big White customers and other customers on the FortisBC system as a result of this Project (BCOAPO Submission, p. 8). Furthermore, the Commission considers that spreading Project expenditures amongst all FortisBC customers will not unfairly burden existing customers because, over time, contributions to Project costs by non-Big White area customers of FortisBC will be offset to some extent by contributions to non-Big White reinforcement projects by Big White area customers. As noted in the EES Report, "The costs to serve a specific customer will fluctuate a great deal over time as capital additions occur and loads change. Over time, it is generally accepted that these capital additions will average out" (Exhibit B-1, EES Report, p. 3).

The Commission Panel is not persuaded by BCOAPO's submission that there should be a mechanism developed with which to collect a contribution from new Big White customers. BCOAPO notes that, in the early years of Big White, the developer and Big White customers contributed significantly to the costs of the original extension to the Big White area and that it would be "... ironic if existing customers at Big White were required not only to contribute to the costs of the original power supply to the area, but also to fund the power supply for new

customers, while the new customers were not required to contribute at all to the cost of the upgrade that is being undertaken purely to meet their proposed demands” (BCOAPA Submission, p. 10).

BCOAPO’s proposed solution is to require only new Big White customers to contribute to the Project costs. BCOAPO suggests that its proposed solution would apply to transmission upgrades that will benefit new customers who would otherwise not end up paying for any of the costs related to an upgrade made entirely to meet their forecast electricity demands (BCOAPO Submission, p. 10). The Commission Panel notes, however, FortisBC’s submission that by applying the existing rate structure, new customers at Big White will pay a share of common costs for the substation and transmission costs for the rest of the service area and that it would not be fair for new customers at Big White to pay 100 percent of the Big White Supply Project and also have to pay a share of similar growth related transmission and substation costs for the rest of the Company. The Commission Panel agrees.

The Commission Panel is sympathetic to BCOAPO’s argument that FortisBC appears to rely on a strict, technical interpretation of its tariff and to BCOAPO’s suggestion that if existing guidelines and tariffs are not adequate to resolve the issue of new customer contributions to the cost of the Project, then the Commission should establish a process to develop such a framework and that past practice and application of the policy should not be a barrier to doing things correctly in the future (BCOAPO Submission, pp. 4, 5 and 9). However, the Commission Panel considers that the circumstances in a given case should be demonstrated to be appropriate and justified to warrant a departure from a long history of interpretation and past practice and before changes are considered. The Commission Panel considers that to be meaningful and workable, it does make sense that there should be an ‘applicant’ to whom the tariff can readily and easily apply. The Commission Panel is not persuaded that this is the case here. The Commission Panel, therefore, agrees that in the circumstances before it, the provisions of the current FortisBC extension policy and retail tariffs should apply to all Big White customers, as they have to other FortisBC customers.

The Commission Panel notes the statements made by Ms. P. Brown on behalf of the MTSA and agrees that the Big White Ski Resort, and specifically this Project, in many respects on the evidence before this Panel, does not appear to be unique, at least not to a sufficient extent to warrant separate and unique rate treatment.

As discussed above, there was insufficient information on the record of the prior CPCN proceeding to address the issue raised related to whether the Project and area which it would serve “is sufficiently unique that it should not be considered a community in the same sense as many other communities in the FortisBC area”. Based on the information filed in this proceeding, and after carefully reviewing and considering the views expressed and the

submissions of parties and those who have filed comments, the Commission Panel is persuaded that neither Big White nor the Project are sufficiently unique to warrant different rate treatment.

The Commission Panel determines that the new evidence and submissions provided in this proceeding support including the costs of the Project in the FortisBC rate base, with no additional contribution required from the BWSR or Big White ratepayers, new or existing. That determination answers the Preliminary Question in the negative, as suggested by FortisBC, BWSR and many others, and effectively answers the first question posed in the CPCN Decision and Reconsideration Decision, hereby rendering academic or moot a response to the second question and making it unnecessary to continue the proceeding on this matter and the proceeding is hereby concluded.