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BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-196-10

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IN THE MATTER OF
The Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

FortisBC Inc.
2009 Rate Design Application and Cost of Service Study
COSA Re-filing Pursuant to Commission Order G-156-10

BEFORE: A.J. Pullman, Panel Chair/Commissioner December 17, 2010
L.A. O'Hara, Commissioner
M.R. Harle, Commissioner

O R D E R

WHEREAS:

A. On November 23, 2009, FortisBC Inc. (FortisBC) filed its 2009 Rate Design and Cost of Service Application (Application) with British Columbia Utilities Commission (the Commission);

B. The Commission proceeding occurred during the period from November 23, 2009 to September 7, 2010, , including an Oral Hearing and Oral Phase of Argument;

C. On October 19, 2010, the Commission issued its Decision on the Application by Order G-156-10. Directive 3 of Order G-156-10 directed FortisBC to re-run and submit the Cost of Service Analysis (COSA) with all the adjustments described in the Decision within 30 days of the Order;

D. On November 19, 2010 FortisBC filed its revised COSA and a summary of the resulting revenue-to-cost ratios (R/C ratios) to comply with Directive 3 of Order G-156-10;

E. On November 30, 2010, the Commission issued Letter L-95-10 inviting Interveners to make comments on the revised COSA and R/C ratios by December 6, 2010 and requiring FortisBC to file a reply, if necessary, by December 9, 2010;

F. By December 9, 2010 the Commission had received comments from British Columbia Municipal Electrical Utilities, BC Old Age Pensioners' Association et al., Big White Ski Resort, Irrigation Ratepayers Group, Rate 30 Customer Group, Mr. Andy Shadrack, and Zellstoff Celgar Limited Partnership, and reply comments from FortisBC;

G. The Commission has reviewed the revised COSA and considered the intervener comments and the reply comments of FortisBC.

NOW THEREFORE the Commission orders that FortisBC comply will all the directives of the Commission in the Decision attached as Appendix A to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 17th day of December 2010.

BY ORDER

Original signed by:

A.J. Pullman
Panel Chair/Commissioner

Attachment

FortisBC Inc.
2009 Rate Design Application and Cost of Service Study
COSA Re-filing Pursuant to Commission Order G-156-10

REASONS FOR DECISION

By letter dated November 19, 2010 FortisBC Inc. (FortisBC), in accordance with Directive 3 of the British Columbia Utilities Commission (Commission) Order G-156-10, filed with the Commission a Cost of Service Analysis (COSA) Update in electronic format, together with a summary of the resulting Revenue-to-Cost ratios. In the covering letter accompanying the filing, FortisBC stated that it expected that the Interveners in the 2009 COSA and Rate Design Proceeding would wish to provide comment on the summary and the electronic copy of the COSA Update.

By Letter L-95-10 dated November 30, 2010 the Commission invited Interveners to make comments on either the COSA Update or the summary before December 6, 2010, and instructed Interveners to confine their comments to whether the COSA Update complied with Directive 3. FortisBC was directed to file a reply by December 9, 2010.

The following Interveners filed comments:

- British Columbia Old Age Pensioners' Association *et al.* (BCOAPO);
- Big White Ski Resort (BWSR);
- Mr. Andy Shadrack;
- British Columbia Municipal Electric Utilities (BCMEU);
- Zellstoff Celgar Limited Partnership (Celgar);
- Irrigation Ratepayers Group (IRG); and
- Rate 30 Customer Group.

FortisBC filed reply comments on December 8, 2010.

By letter dated December 15, 2010, FortisBC advised the Commission that it would be unable to program and test its billing program in time to implement the rebalancing on January 1, 2011 and sought the Commission's approval to defer implementation until the second quarter of 2011.

Celgar comments that FortisBC used a value for RS31 "Billing Demand - kVA" that was based on a value of 12,000 kVA for Celgar rather than 8,000 kVA. Celgar submits that:

> "The expected outcome of the Commission's direction for Zellstoff Celgar to return to Rate Schedule 31 as of January 2, 2011 is that the Billing Demand will be 8,000 kVA as demonstrated by FortisBC in the 2011 Revenue Requirements proceeding. Zellstoff Celgar submits that the use of 8,000 kVA is an acceptable forecast of the actual coincident peak demand to be used for the basis of cost allocation because it follows the direction found in Decision G-156-10 at page 31 for cost allocation. The use of 8000 kVA as the cost allocator in the "load" worksheet appears to result in a revenue to cost ratio of approximately 109 percent for the Rate 31 Industrial Class."

In its reply comments to this submission, FortisBC submits:

> "There are both process and technical issues with this submission. First, the Company is of the opinion that it is not appropriate to change the underlying assumptions within the COSA except as explicitly directed by the Commission. In addition, Zellstoff Celgar appears to have altered the load within the COSA model in isolation without accounting for the resultant changes in revenue or power supply costs. This approach does not maintain the balance of the projected load or recover the revenue requirement. In short, the scenario does not consider the multiple changes required in the COSA model which would likely necessitate further process from all parties involved."

Celgar also observes that the recently approved changes to FortisBC's transmission service ancillary services tariffs differ from what was submitted as part of the Rate Design Application, and that eight Rate Schedules are affected by the addition of wording that states, in part:" rates under this schedule are subject to an interim rate increase of 2.9% effective with consumption on and after September 1, 2010 as a result of BC Hydro's Interim Rate Increase."

Celgar further observes that some of the transmission ancillary services have no component of BC Hydro Power Purchase Agreement electricity, yet are being escalated as if they do. Celgar submits that since there has been no opportunity to examine this escalation during the Rate Design process, it should be removed from the affected tariffs until such time as it can receive a further review by interveners.

FortisBC does not reply to Celgar's submission on this point.

The other issue raised by the Interveners was FortisBC's proposed rate rebalancing. FortisBC had proposed to rebalance in the same way as it had applied for, that is, to cap the increase related to rebalancing at 5 percent per annum with the further proviso that a total annual increase (rebalancing and FortisBC increased costs) could not exceed 10 percent (not including increases flowed through from BC Hydro).

BCMEU and BCOAPO both express concern on the increases proposed for the residential class and the Municipal Customers. BCMEU addresses the example of Nelson Wholesale which falls within a range of reasonableness between 0.95 and 1.05, but which under FortisBC's proposal in Year 1 would experience the maximum possible increase of 10 percent. BCMEU comments that the same increase would be applied to the Lighting Class which has the lowest revenue-to-cost ratio. BCMEU submits that this is "unfair and irrational on its face" and sets out an alternative five-year rebalancing plan for the Commission's consideration. The five-year rebalancing plan is based on a series of "algorithms" which BCMEU submits comply with the Directives in Order G-156-10, and result in the rebalancing increases being spread over a four-year period with the bulk of the rebalancing occurring in Years 1 and 2 (Appendix A to the BCMEU comments).

BCOAPO supports BCMEU's alternative rebalancing plan.

BWSR comments that BCMEU also "agrees that [FortisBC's] methodology complies with the directives set forth in the Decision" but submits that:

> "contrary to the terms of Commission Letter No. L-95-10, the BCMEU has also taken the opportunity to introduce a series of "algorithms" that have apparently been thought up by the BCMEU's witness since the close of evidence and which the BCMEU would now like to seem (sic) implemented in place of FortisBC's compliance filing.
>
> Apart from the obvious and many procedural concerns with what the BCMEU is proposing, it is equally apparent that many of the proposed "algorithms" are a blatant contradiction of the Commission's directive on revenue-to-cost targets."...

Mr. Shadrack supports BWSR's comments.

In its reply comments FortisBC states that it shares the concern of both the BCMEU and the BCOAPO about the size of the potential rate increases to their constituents from the combined effect of the revenue requirement, rebalancing and flow-through of the F2012 BC Hydro rate increase.

FortisBC states that other methods of rebalancing exist that may use different increase caps, time periods or ranges-of-reasonableness, and that, where a given scenario meets with the approval of the Commission and remains revenue neutral to the utility, FortisBC would offer no objection to its implementation.

Additionally, FortisBC describes as "erroneous" the assumption that it ever in these proceedings proposed a five-year time-frame within which the rebalancing should be accomplished, and states that it merely noted that should its proposal be adopted, most classes would be rebalance

Commission Determination

In addition to reviewing the comments of Interveners and the reply comments of FortisBC, the Commission Panel reviewed the COSA and notes the following:

- The group coincidence factor for Lighting was changed from 100 percent to 75 percent in the compliance filing; and
- FortisBC applied a 70 percent load factor to its Irrigation class for all months that these customers take service under the irrigation rate, viz April to October rather than June to August as specified in Directive 6.

The Commission Panel directs FortisBC to correct these two anomalies.

The Commission Panel has considered Celgar's submission that FortisBC should have used 8,000 kVA in its revised COSA rather than 12,000 kVA. It is clear from p.27 of the Decision that Celgar's firm requirement for power is 8,000 kVA and that it has the ability to manage its requirements to this level. In the Commission Panel's view the 8,000 kVA value was tested by cross-examination and was not challenged by FortisBC. While the Commission Panel agrees with FortisBC that Celgar appears to have altered the load within the COSA model in isolation without accounting for the resultant changes in revenue or power supply costs, the Commission Panel notes that FortisBC modelled Celgar at 8,000 kVA in Exhibit B-35 and was instructed to model Celgar in the COSA revision as a RS31 customer. As a result the Commission Panel does not agree with FortisBC that this change to the COSA model "would likely necessitate further process from all parties involved."

The Commission directs FortisBC to re-run the COSA using 8,000 kVA as the value for Celgar's demand and to adjust the RS 31 revenue (and power supply costs should they require adjustment) accordingly.

In addition the Commission Panel directs FortisBC to file a report to the Commission on or before January 31, 2012 s etting out its peaks for each month of the year together with Celgar's monthly coincident and non-coincident peaks.

As for Celgar's complaint concerning FortisBC's transmission service ancillary services tariffs, the Commission Panel notes that the 2.9 percent flow-through adjustment was approved by the Commission in Order G-127-10 on an interim, refundable basis. There is no evidence before the Commission Panel as to the source of the costs that underlie the eight affected rate schedules and the Commission Panel is unable to make any findings in this regard or to grant Celgar the relief it seeks.

As for the relief sought by BCMEU and BCOAPO the Commission Panel considers that FortisBC complied with the letter of the Decision but notes that its Decision set a cap of 5 percent for the annual rebalancing increase but did not set that number in stone. In particular the Commission Panel rejects BCMEU's proposed "algorithms" as it finds that they do not comply with the Commission's Directives in Order G-156-10.

The Commission Panel has prepared the following table to compare the revenue-to-cost ratios contained in FortisBC's original Application with those contained in its compliance COSA:

	Revenue to Cost Ratios as Filed	Revised COSA per G-156-10
Residential	98.3%	93.3%
Small General Service	113.4%	107.6%
General Service	138.9%	128.2%
Industrial Primary	122.4%	112.8%
Industrial Transmission (31)	109.9%	98.7%
Industrial Transmission TOU (33)	23.5%	N/A
Lighting	81.9%	84.4%
Irrigation	78.6%	88.0%
Kelowna Wholesale	89.9%	N/A
Penticton Wholesale	78.0%	N/A
Summerland Wholesale	96.6%	N/A
Grand Forks Wholesale	68.1%	N/A
BC Hydro Lardeau Wholesale	101.8%	N/A
BC Hydro Yahk Wholesale	103.5%	N/A
Wholesale Primary	N/A	94.0%
Nelson Wholesale	80.0%	95.1%

(Source: Decision p. 25 and Fortis Compliance Filing Appendix A)

The table demonstrates that the Decision reduced the amount of rebalancing required to achieve unity, both in terms of the number of impacted customer classes and the distance they had to go to achieve unity. The Commission Panel considers that this change, which could not have been determined at the time of its Decision, suggests that the impact of the rebalancing can be mitigated in a revenue neutral fashion and still meet the Commission's Directives. Accordingly the Commission Panel directs FortisBC to restrict its annual rebalancing increases to 2.5 percent, to become effective on or before April 1, 2011.