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VIA EMAIL

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July 8, 2011

FORTISBC INC. – RESIDENTIAL INCLINING BLOCK APPLICATION EXHIBIT A-12

Mr. Dennis Swanson Director, Regulatory Affairs Regulatory Affairs Department FortisBC Inc. Suite 100, 1975 Springfield Road Kelowna, BC V17 7V7

Dear Mr. Swanson:

Re: FortisBC Inc. Project No. 3698628 Residential Inclining Block Rate Application

Commission Panel Information Requests and <u>A. Shadrack's Request that FortisBC Inc. Answer All the Questions in His Information Request No. 1</u>

Further to the suspension of the Regulatory Timetable (Exhibit A-11), and in response to the June 27, 2011 filing of FortisBC's Errata No. 3 (Exhibit B-1-2), the Commission Panel is issuing its Information Requests (IRs) to FortisBC, attached as Appendix A to this letter. The Panel requests that FortisBC respond to the IRs by no later than Friday, July 22, 2011. After it has reviewed FortisBC's responses, the Panel will review and update the Regulatory Timetable.

By email dated June 16, 2011 (Exhibit C9-7) Mr. Shadrack requested that the Commission order FortisBC to answer all the questions in his IR No. 1. He provided a supplementary submission by email dated June 21, 2011 (Exhibit C9-8). The participants were advised that the Panel would address Mr. Shadrack's request when it provided further direction regarding process (Exhibit A-10). In the interest of fairness, the Panel will provide FortisBC with an opportunity to respond to Mr. Shadrack's request and therefore establishes the following schedule for written submissions:

FortisBC response to Mr. Shadrack	Friday, July 22, 2011
Mr. Shadrack reply to FortisBC	Friday, July 29, 2011

Submissions are to be filed by no later than 4:00 pm on the respective due date as listed above. The Panel will review the submissions and make its determination thereafter.

Yours truly,

Alanna Gillis

JT/dg Attachment cc: Registered Interveners BRITISH COLUMBIA UTILITIES COMMISSION COMMISSION PANEL INFORMATION REQUEST

FortisBC Inc. (FortisBC, the Company) Residential Inclining Block Rate Application

1.0Reference:Exhibit B-1, Table 7-2 Residential Inclining Block Rate Option Comparison; and
Directive No. 5, Commission Order G-156-10
Customer Charge

By Order G-156-10 the Commission directed FortisBC to develop a plan for introducing residential inclining block rates that also incorporates a lower Basic Charge in the immediate future. The Commission Panel acknowledges the lower Customer Charge of \$21.50 tested in Options 10 to 18 by FortisBC but would appreciate receiving some additional Options explored for comparison.

- 1.1 Please model Options 19 to 24 for the three customer bill impact criteria based on thresholds of 1,350 and 1,600 kWh and a bimonthly Customer Charge of \$10.00, provide the results of the analysis consistent with the format of Table 7-2 of the Application and provide a commentary of the initial screening analysis consistent with Table 8.1. Similarly show model Options 25 to 30 based on a Customer Charge of \$15.00 and thresholds of 1,350 and 1,600 kWh (from Exhibit B-5, BCUC 1.12.7) and provide a commentary of the initial screening analysis. For ease of comparison, all the options with the Customer Charge of \$10.00 and \$15.00 are to be provided in the same table.
- 1.2 Regardless of the outcome of the initial screening analysis, please conduct an additional suitability test by applying pricing principles E/G and F/H for Options 19 to 30 and provide the projected results for the 2011 to 2015 period consistent with Table 8-3. (Pricing Principle Reference: Exhibit B—5, BCUC 1.5.1(b))
- 1.3 Please select the top three options of these scenarios in terms of offering the optimal balance between price signal, conservation and customer bill impact and provide an assessment of how these options compare to the RIB rate proposed by FortisBC. Specifically, the Panel is seeking a discussion of pros and cons of these Options.

2.0 Reference: BC Hydro 2008 Residential Inclining Block Application, Section 3.2.2, pp. 3-2 and 3-3 Pricing Principles

In its 2008 RIB rate filing BC Hydro introduced the following four "economic efficiency" tests to be considered in addition to the Bonbright Principles:

- i. No customer should see a rate decrease, to avoid providing disincentives to conservation;
- ii. As many customers as possible should see the Step-2 rate, maximize the number of customers that have incentives to conserve;
- iii. The differential between the Step-1 rate and Step-2 rate should be sufficiently large to provide a meaningful incentive for conservation; and
- iv. The Step-rate should be more reflective of, while not exceeding, the full cost of new supply (plus fixed costs), relative to the otherwise applicable flat rate, to incent more conservation than under a flat rate structure.

- 2.1 In reference to FortisBC responses to BCUC 1.9.2, 1.9.6, 1.9.8, 1.9.9 and 1.9.10, please further elaborate on the Company's views on these tests. This elaboration should at a minimum cover whether or not any of these tests should be considered a pass/fail test and how they can provide further guidance in incorporating efficient price signals into a residential rate structure.
- 2.2 Please provide further justification on how the recommended Option 8, which appears to result in 27.2 % of customers facing absolute rate decreases, can be perceived as a conservation rate. (Reference Exhibit B-5, BCUC 1.3.5 and 1.9.6)
- 2.3 Please provide a workable phasing-in proposal to introduce the RIB rate in two or three steps (in six-month intervals) to reduce the number of customers facing absolute rate decreases.
- 2.4 To provide a better understanding of the different pricing principles considered, please expand the Table 8-3 by providing the results derived when:
 - a. The pricing principles A/C and B/D are applied to Options 11 and 17; and
 - b. The pricing principles E/G and F/H are applied to Options 2 and 8.

3.0 Reference: Exhibit B-1, Section 5.2.3 Block Rate, p. 17 Mitigation of Customer Bill Impacts

In the Application FortisBC used the total impact to customers/bills as determining factor in setting the individual block rates and threshold.

3.1 Please discuss the anticipated actions that residential customers will undertake to respond to the new RIB rate structure's price signals. Specifically, provide examples of actions that will require limited or no customer investment as well as of actions that may be partially supported by DSM incentives.

4.0 Reference: Exhibit B-5, BCUC 1.18.2, p. 61 Interaction between RIB Rate and DSM Programs

FortisBC states "However, any reduced residential load that results from a RIB rate may allow residential PowerSense expenditures to be reduced."

- 4.1 The Commission Panel is interested in gaining further insights as to the conservation impacts of various FortisBC programs.
 - 4.1.1 Please provide additional analysis on the impact on both capacity and energy consumption in future years separately for RIB implementation, DSM programs, and how they interact.
 - 4.1.2 What targets does FortisBC have for the RIB savings? Are these targets independent of targets for reductions from DSM?
- 4.2 How does FortisBC plan to calculate the savings resulting specifically from the RIB and to separate them from the DSM savings?
- 4.3 Please describe under what specific circumstances, and when, FortisBC would reduce

PowerSense expenditures.

- 4.4 What PowerSense expenditures would FortisBC reduce and why?
- 4.5 Which PowerSense programs would FortisBC eliminate and why?

5.0 Reference: Exhibit B-1, Section 2.3 Approval Requested, p. 5; and Exhibit B-5, BCUC 1.4.3, p. 9; and Exhibit B-5, BCUC 1.6.3, p. 15; and Exhibit B-5, BCUC 1.6.4, p. 15. RIB and TOU Rates

In BCUC 1.4.3, FortisBC states: "FortisBC does not believe that the implementation of a RIB rate eases the introduction of time based rates. The Company further believes that the interim nature of the RIB rate, being effective between the current flat rate and the implementation of any time -based rates will create difficulties for the transition."

However, on page 5 of the Application, FortisBC states: "The RIB rate is intended to be the default, mandatory rate for all residential customers who are not taking service under FortisBC's Time-of-Use (TOU) option." In BCUC 1.6.3, FortisBC states that it "believes that time based rates provide conservation benefits which are at a minimum as good as a RIB rate while simultaneously providing customers with more of an opportunity to conserve, thus reducing their total cost of electricity."

In BCUC 1.6.4, FortisBC states: "It remains the position of FortisBC that time-based conservation rates offer the best alternatives to flat rates for the Company and its customers. Should a RIB rate be mand ated by the Commission, it is currently the Company's intention to introduce some suite of time-based rates to complement the RIB rates, likely on a voluntary participation basis."

- 5.1 Please clarify FortisBC's intentions with respect to the RIB and TOU rates. Specifically:
 - 5.1.1 Regarding BCUC 1.6.3, please explain on what basis FortisBC believes that time based rates provide conservation benefits which are at a minimum as good as a RIB rate.
 - 5.1.2 In response to BCUC 1.6.4, FortisBC seems to suggest that a TOU rate achieves the same or better conservation results than does a RIB rate. Does FortisBC agree with that statement? Please provide a justification for the response.
 - 5.1.3 Please explain how a voluntary TOU rate can achieve better conservation potential than a RIB rate? And why?
 - 5.1.4 Regarding BCUC 1.4.3, please further elaborate as to what FortisBC means by "the interim nature of the RIB rate". Is it FortisBC's position that if a voluntary TOU rate is implemented, customers would have a choice between taking service under a RIB rate or TOU rate?
- 5.2 What are the conservation targets, or predictions from the introduction of TOU rates? Please provide a comprehensive analysis showing the effects of TOU, RIB and DSM on both capacity and energy use for the residential class of customers for the years 2011 through 2015 inclusive.

6.0 Reference: Exhibit B-5, BCUC 1.9.1, p. 20 Exhibit B-5, BCUC 1.9.2, p. 20 Block 2 Rate and Long-Run Marginal Cost

In BCUC 1.9.2, FortisBC states: "In the FortisBC RIB rate proposal, the higher price for power in the second block is intended to reflect the increasing cost of electricity as consumption increases, however it is not directly linked to an actual long-run marginal cost figure. The Company has not proposed a cap on the block 2 rate." In BCUC 1.9.1, FortisBC also states: "Rather, and in a more generic sense, FortisBC acknowledges that the long-run marginal cost of power is higher than the average cost, and a higher Block 2 rate reflects this fact".

6.1 Please explain how the higher Block 2 rate 'reflects this fact' and why FortisBC feels it is not appropriate to directly link the Block 2 rate to the long-run marginal cost figure.

7.0 Reference: Commission Order G-45-11, p. 3 and 9; and Exhibit B-1, BCUC 1.9.3, pp. 21-22 Long-Run Marginal Cost of Electricity

In the BC Hydro RIB Rate Re-Pricing Decision (Order G-45-11) the Commission reaffirmed the relevant key findings of the previous two BC Hydro rate design decisions; namely that conservation rates must play a pivotal role in future BC Hydro rate structures and that the long-run marginal cost (LRMC) of new supply is the appropriate referent for the Step-2 energy rate.

In BCUC 1.9.3, FortisBC states that the long-run marginal cost for power in 2011 is \$73.80 per MWh and that its blended long-term avoided power purchase cost is \$92.25 per MWh. In BCOAPO 1.16 (h), FortisBC shows the marginal cost to be \$0.0304 per kWh and states that this is the marginal costs provided in response to BCUC 1.9.3.

- 7.1 Please provide the definitions of: marginal cost, long-run marginal cost for power, and blended long-term avoided power purchase costs.
- 7.2 Please confirm what FortisBC's long-run marginal cost of power is expected to be for the years 2011 through 2015 inclusive.
- 7.3 Does the term 'CDPR' equate the term 'CPR' in Table 3.2.2 (BCUC 1.9.3)? Please confirm that CPR means 'Conservation Potential Review'.
- 7.4 Please provide the details of the amount and cost to FortisBC of its own supply of electricity, any electricity purchase contracts it has, and purchases it makes on the open market.

8.0 Reference: Exhibit B-1-2, Errata No. 3, Updated BCUC 1.22.1, Updated page 75

The updated BCUC 1.22.1 contains a graph that purports to show the marginal cost of power, but the line representing that value appears to be missing. Please supply an updated graph with that line clearly visible.

9.0 Reference: Exhibit B-1, Section 7.2 Elasticity Assumptions, p. 21; and Table 7-2 Residential Inclining Block Rate Options Comparison, p. 22

In Section 7.2 of the Application FortisBC states that "The Company is of the opinion that arriving at a precise level of conservation owing to the RIB rate will not be determinative in the decision to implement such a rate

....". Also, in Table 7-2 of the Application FortisBC shows potential conservation impacts for three different ranges of elasticity scenarios.

9.1 The Commission Panel is interested in gaining further insights to billing impacts over the period 2011 to 2015 and conservation results by looking at the different assumptions related to elasticity. Please elaborate on how much and why FortisBC believes energy consumption changes, particularly for load billed in Block 2, for Options 1 to 18.