



REQUESTOR NAME: Association of Vancouver Island and Coastal Communities (AVICC)  
INFORMATION REQUEST ROUND NO: #1  
TO: FortisBC Energy Utilities (FEU)  
DATE: July 24, 2013  
PROJECT NO: 3988717/Order G-100-13  
APPLICATION NAME: FEU Common Rates, Amalgamation, and Rate Design Reconsideration Phase 2

### **1.0 Capital structure and cost of equity**

In their Argument, the FEU stated that:

“As stated in Exhibit B-15, BCUC IR 2.3.6, while the FEU believe the 12 basis point risk premium is a reasonable premium over the current benchmark ROE, the FEU would proceed with amalgamation and postage stamp rates if it is determined by the Commission that FEI Amalco should have either a lower or no risk premium relative to the benchmark ROE” (FEU Argument, para 230).

1.1 Please confirm that this is still the FEU’s position.

1.2 What is the FEU’s proposal for the appropriate capital structure for the amalgamated entity? If it differs from that allowed FEI by the Commission in its most recent decision, please identify the increased business risks that might justify the use of a different equity ratio.

### **2.0 Cost savings from amalgamation**

2.1 Please identify all the functions that will have to continue to be performed for the existing (unamalgamated) corporations that would cease upon amalgamation.

Please consider (*inter alia*) statutory audit, tax returns, separate governance and secretarial requirements, separate regulatory requirements, separate regulatory hearings, the requirement for individual corporate books of account and computer programming.

2.2 Please calculate the annual savings that would flow from amalgamation of the entities (including FEFN).

2.3 Please estimate the costs that would remain if FEFN were excluded from the arrangement.

### **3.0 Intercompany agreements**

3.1 Please identify all the intercompany agreements, and the entities that are party to them, that would cease to be in effect upon amalgamation.

3.2 How many of these agreements require the exercise of judgement in matters of cost allocation between the separate entities?

3.3 Are any of the amounts significant?

3.4 Please discuss whether the cessation of the need for the exercise of judgement would be beneficial or detrimental to ratepayers.

### **5.0 Midstream Charges and Rate Zones**

5.1 Please define the constituent elements of midstream charges.

5.2 If they include storage, please identify the percentage of storage capacity and annual expense

- that is provided by i) the FEU owned facilities at Tilbury and Mt Hays and ii) by third parties in the US; and
- that is provided by the FEU elsewhere in the province.

5.3 Please identify the benefits that FEU customers in the North of the province presently receive from the storage provided by the FEU.

5.4 Did the FEU consider splitting their service area into two zones (such as one north of compressor station 2, the other south of it) to recognize i) the difference in service levels (if they do indeed exist) and ii) the distance from the wellhead to the burner-tip?

5.5 Please comment on the fairness issues that such a proposal would raise or resolve.

### **6.0 Benefits to AVICC member communities**

By letter to FEI dated April 15, 2013 the Ministry stated:

“[W]hile many factors may affect the competitive position of commercial enterprises in a particular locale, a disadvantage in the area of energy input costs may be significant and lead to diminished economic development and job creation opportunities as a result” (Exhibit C3-1).

6.1 Are the FEU aware of jobs being created in, say, Langley rather than Langford as a result of a significant disadvantage in the area of energy input costs? Where do the FEU see the most significant barriers to investment and economic growth in the AVICC region as a result of not having postage stamp rates?

6.2 Please comment on the above statement in the context of the FEU being able to increase its penetration of the energy market in the AVICC region and the benefits that would flow from such increased penetration and throughput.

6.3 Please provide an estimate of the number and annual consumption of BC Hydro’s “E Plus customers” (residential and general service) in the AVICC region, whose rate schedule will be terminated in 2017.

6.4 Please comment on the choices facing these customers in 2017 when BC Hydro terminates Rate Schedules 1105 and 1205-7, on the assumption that postage stamp rates are not approved by the Commission.

## **7.0 CECBC’s new principle**

CECBC submits that the Commission has effectively put forward a new principle which “appears to be a determination that cost causation makes postage stamp rates unfair when a difference in a regional cost or cross subsidization is significant but with no determination as to the relevant threshold” (Exhibit C1-2, p.2).

7.1 Do the FEU agree with this comment?

7.2 Are the FEU aware of any region or city within their Mainland service area that has either a similar consumption profile to an AVICC community or a similar cost to serve?

## **8.0 The history of gas service to the AVICC region.**

CEC submits that:

“[T]his issues [sic] needs to be viewed in the context of the origin of the natural gas service on Vancouver Island, which was initiated by the government of the day with significant subsidies from the Federal and Provincial governments”) ..... “[T]he

various levels of government seem to have set all of this in place in response to fairness in access to natural gas and or to reduce the environmental impacts of the use of oil as the main fuel supply on Vancouver Island” (Exhibit C1-2, p.4).

8.1 Please comment on the success of both governments’ objective to create fairness in access to natural gas and/or to reduce the environmental impacts of the use of oil as the main fuel supply on Vancouver Island.

8.2 Please provide the FEU’s estimate for the number of commercial and residential customers in the AVICC region that use RFO for heating purposes, and who might be able to switch to natural gas with postage stamp rates, and compare it with the FEU’s estimate of the number under the *status quo*. Please also provide estimates of volumes and contribution under the two scenarios.

8.3 Please estimate the reduction in CO<sub>2</sub> emissions that might flow from such a switch under the two scenarios, as well as any other economic benefits that could be anticipated to flow to the AVICC region and the Province.

## 9.0 The postage stamp concept

By letter to FEI dated April 15, 2013 the Ministry stated:

“[G]overnment policy has been to promote access to energy services on a postage stamp rate basis so that all British Columbians benefit from access to services at the lowest average cost” (Exhibit C3-1).

9.1 Do the FEU agree with the characterization of “postage stamp rate design” as being to ensure that customers of a similar class or type see identical rates regardless of their location, their consumption, or the size of the community in which they live?

9.2 Please confirm that the cost of providing distribution service and customer care costs are lower on a unit or per customer basis in a large community than they are in smaller communities, (all else being equal).

## 10.0 Treatment of the RSDA

10.1 Please discuss why the FEU has proposed to apply the balance on the RSDA to mitigate the impact on FEI’s customers over a three year period, as opposed to alternative regulatory treatments such as longer amortization period, or applying the balance to reduce the rate base of the FEVI assets being amalgamated.

### **11.0 The FEU's offer to phase in the rate increases**

11.1 Given the recent pronouncements by the Energy Minister of future rate increases required by BC Hydro, do the FEU consider that this offer is still necessary?

11.2 Do the FEU consider that such mitigation would continue to send conflicting signals to customers in the AVICC region as to the true marginal prices of electricity and natural gas?

### **12.0 Magnitude of rate increases**

The FEU provides Table 1 to summarize the incremental and total annual bill impacts that are forecast to occur during the last four years of the PBR period under a 3 year RSDA allocation period for a typical Lower Mainland residential customer. The table suggests that the aggregate rate impact over a four year period ending 2018 is 9.4%.

12.1 What is the FEU's estimate if Fort Nelson is not excluded from the reconsideration amalgamation and rate harmonization processes?

12.2 Please confirm that Table 1 was based on the FEU's proposed capital structure and not the benchmark capital structure and return.

12.3 For illustrative purposes, please re-calculate Table 1, on the basis that the Commission were to find that the cost of equity and the capital structure of the amalgamated entity should be those of the benchmark low risk utility (FEI).

### **13.0 Fort Nelson**

13.1 Please explain why the FEU have chosen to exclude FEFN from its proposed amalgamation.

13.2 Please confirm that Fort Nelson is now considered to be connected to BC Hydro's integrated transmission system and is no longer considered a NIA and enjoys all the benefits of the "Heritage assets" of BC Hydro.

13.3 Please confirm that Fort Nelson's rates are lower than those of FEI's Lower Mainland customers primarily by virtue of a depreciated rate base. What, if any, other factors contribute to the rate differential?

13.4 All else being equal, what factors would need to occur to cause Fort Nelson's rates to equal or exceed those of FEI's Lower Mainland customers?