Sarah Walsh
Director, Regulatory Affairs

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (778) 578-3861
Cell: (604) 230-7874
Fax: (604) 576-7074
www.fortisbc.com

April 18, 2023

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130, Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC V7X 1J5

Attention: Christopher P. Weafer

Dear Christopher P. Weafer:

Re: FortisBC Energy Inc. (FEI)

Revised Renewable Gas Program Application – Stage 2 (Application)

Response to Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1 on FEI's Rebuttal Evidence to Kurt G. Strunk

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On December 17, 2021, FEI filed the Application referenced above. In accordance with the amended regulatory timetable established in Exhibit A-47, FEI respectfully submits the attached response to CEC IR No. 1 on FEI's Rebuttal Evidence to Kurt G. Strunk.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Commission Secretary
Registered Parties

1. Reference: Exhibit B-67, Rebuttal Strunk, Appendix A, A9

> regulated gas and, indeed, electric utility service rates should be based on the costs of that service.[4] As noted over sixty years ago by Bonbright, "One standard of reasonable rates can fairly be said to outrank all others in the importance attached to it by experts and public opinion alike – the standard of cost of service, often qualified by the stipulation that the relevant cost is necessary cost or cost reasonably or prudently incurred."[5] The cost causation principle is rooted in fairness and is intended to align the cost burden on those customers who cause the need for the costs to be incurred on the utility system.[6] The BCUC places special emphasis on fairness in rate design[7] in those circumstances where the Bonbright principles apply. The proper application of the cost causation principle – which Mr. Strunk does not do – will naturally eliminate or minimize cross-subsidies between customers.[8]
>
> [8] "As cross subsidization tends to move away from cost causation, significant cross subsidization may therefore be considered to be unfair and to be avoided, when practical to do so." BCUC Decision and Order G-26-13, PDF p. 26 (February 25, 2013)(FortisBC Energy Utilities, Common Rates, Amalgamation And Rate Design Application) (G-26-13).

1.1 Please confirm that the Commission can and has permitted certain cross-subsidies to occur between rate classes in the same utility where the rate classes have differing Revenue:Cost ratios.

Response:

When the BCUC accepts a range of reasonableness, such as the range of 95 percent to 105 percent accepted by the BCUC in its decision on FEI's 2016 Rate Design Application (RDA),[1] the acceptance of this range should not be considered cross-subsidization. Within FEI's 2016 RDA, FEI provided a Cost of Service Allocation (COSA) study. Due to the many assumptions and subjectivity embedded in a COSA study, if the resulting rate schedule's revenue to cost ratio falls within a range of reasonableness (95 percent to 105 percent) then that rate schedule should be considered to be paying its fully allocated costs. The BCUC Panel in the 2016 RDA recognized this, stating the following:[2]

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[1] Page 35 of Appendix A to Order G-4-18.

[2] Page 35 of Appendix A to Order G-4-18.

> To set just, reasonable and not unduly discriminatory rates, utility costs must be fairly allocated to customers groups. The apportionment of shared utility costs to each of the rate classes through the COSA studies depends on assumptions, estimates and judgements. 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.

In this regard, comparing revenue to cost ratios within a range of reasonableness should not be compared to an acceptance of cross-subsidization.

However, the statutory standard in the *Utilities Commission Act* does not disapprove or disallow rates that will subsidize other customers, but rather, a utility is not allowed to charge rates that are "unjust, unreasonable, unduly discriminatory or unduly preferential". Regardless of the rate structure chosen, cross-subsidization to some degree occurs amongst customers within a rate class as well as across different rate classes in virtually all forms of ratemaking.

2. Reference: Exhibit B-67, Rebuttal to Strunk, Appendix A, A16

> **Q.16 DO YOU HAVE ANY COMMENTS ON MR. STRUNK'S CLAIM THAT YOU AGREE THAT THE SERVICES ARE NOT THE SAME?** [31]
>
> A.16 Yes. Mr. Strunk cites my response to Information Request ("IR") No. 2 from the City of Vancouver to claim I agree that there are two different services. He does so within the framework of discussing undue discrimination, a fairness principle, but leaves out context important for a complete application of fairness. Specifically, my response stated that "in terms of the 'cost causation' principle of ratemaking, the two customer groups do not have a different cost profile" and that product differentiation for the Connections customers stemmed from complying with fuel mix policies.[32] Mr. Strunk's position in this case is far
>
> outside of ratemaking norms as new customers are not singled out from other customers on any other gas or electric distribution system in North America that I know, even though, especially on the electric systems, the decarbonization requirements impose much higher costs for serving new customers.

2.1 Please elaborate on how the decarbonization requirements impose a much higher cost for serving new electric customers.

<u>Response:</u>

The following response is provided by Concentric Energy Advisors, Inc. (Concentric):

Based on Mr. Strunk's position, where new customers impose new costs they should be born by those new customers, any incremental cost expended to displace depreciated legacy resources with new zero-carbon resources would need to be paid for by the new customer. On nearly every electric system that relies on fossil-fueled resources, the displacement of those resources with a combination of renewable or nuclear power and peaking capacity or storage has proven to be more expensive than the status quo. Furthermore, significant electric load growth from electrification of end uses is causing cost increases associated with decarbonization.

3. Reference: Exhibit B-67, Rebuttal to Strunk, A28

A.28 It is not the standard anywhere in North America that economic efficiency for regulated service can be achieved only through incremental cost pricing. I agree that incremental cost pricing – standing alone as an economic principle – leads to economic efficiency, but as applied to utility service, incremental cost pricing would need to be applied to all gas customers, not just new customers, and to competing utility services as well to achieve the efficiency goals. Mr. Strunk does not extend this rationale for incremental cost pricing to the delivery function of the gas system, nor to all gas customers, nor does he recommend that it be applied to the electric utility market. As noted by economist Alfred Kahn, "Thou shalt not optimize piecemeal."[68] That is because under piecemeal use of incremental cost pricing consumer consumption choices will shift to the service priced at average embedded costs and erode hoped for efficiency gains in the market.

3.1 Please explain how the availability of Demand Side Management options impact market efficiency, if at all.

Response:

The following response is provided by Concentric:

Demand side management programs are designed to reduce energy costs where the program has been determined to be cost effective based on a test to ascertain whether total benefits (societal, systematic or individual) exceed costs. The extent to which a program will enhance efficient allocation of resources depends on the energy market where they are made available, the nature of the benefit-cost test and the associated assumptions about program costs and quantifying benefits. In general, integrating demand management programs into electric markets enhances efficiency if the cost responsibility for those programs is appropriately assigned.