

REPORT TO COUNCIL



Date: February 14, 2012
File: 1824-02
To: City Manager
From: Cindy McNeely, Electrical Administration Manager
Subject: 2012 Electrical Utility Rate Increase

Recommendation:

THAT Council approve an average rate increase of 4% to the City's electrical utility rates for all annual residential customer revenues, municipal and school customer revenues. This rate is comprised of a 1.5 % increase from FortisBC which was approved by the British Columbia Utilities Commission (BCUC) on an interim basis and the second year of the 2.5% rate rebalancing as per FortisBC 2009 Rate Design and Cost for Service Study Application also approved by the BCUC;

AND THAT Council approve an additional rate increase of 6% to the City's electrical utility tariff rates for municipal customer revenues;

AND THAT Council approves the 2012 electrical rates to be effective with the first billing cycle in April, 2012.

AND FURTHER THAT Bylaw 10658 being amendment to City of Kelowna Electric Regulation Bylaw #7639 is advanced for reading consideration by Council.

Purpose:

To provide council with information on the increased cost for Wholesale power and the 2012 Electrical rates increase.

Background:

In a previous report dated January 11, 2011 to Council, it was noted that FortisBC received approval from the British Columbia Utilities Commission (BCUC) to apply the results from their Cost of Service Study Application (BCUC Order G-196-10) to their customers effective May 1, 2011. In this Order, they were requested to apply the rebalancing over a three year period. We are currently now in the second year of this rebalancing.

The rate increase from FortisBC, including the re-balancing, will impact the bulk power purchase rate for the City of Kelowna and that rate increase is normally flowed through to all City Electrical Utility customers. However, due to the cost of service study, commercial and primary power rates are not being changed from their existing rates.

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Under the City rate structure there is a separate municipal rate which does not charge for demand thus providing a reduced electrical billing. The request is for an increase to that rate of an additional 6% to recover increased cost for purchased power.

The attached Schedule 1 shows the impact at various consumption levels for residential customers. On average, a customer using 825 KWh's a month, will have an increase of \$3.59 a month on their electrical bill.

FINANCIAL/BUDGETARY CONSIDERATIONS:

Impacts of the rate increase have been estimated and included in the 2012 budget submission. The additional energy cost for street lighting will be addressed at Final Budget.

Internal Circulation: Finance Director, Legislative Coordinator

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/statutory Procedural Requirements:

Existing Policy:

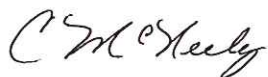
Personnel Implications:

External Agency/Public Comments:

Communications Comments:

Alternate Recommendation:

Submitted by:



C. McNeely, Electrical Administration Manager

Approved for inclusion:



J. Creron, Director - Civic Operations

CC: Director of Financial Services
General Manager, Community Services
Director, Community and Media Relations

Attach: Schedule 1
BCUC order 196-10
Fortis Rate Increase Information

SCHEDULE I

RESIDENTIAL RATE COMPARISON

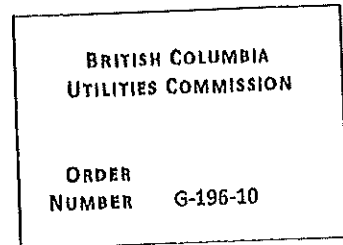
BASED ON THE FOLLOWING RATES (\$/KWH):

	CURRENT	NEW	% CHANGE
<i>1st kWh</i>	14.41	15.00	4.1%
<i>Balance</i>	0.09226	0.09590	3.9%

MONTHLY % INCREASE FOR CITY OF KELOWNA RESIDENTIAL CUSTOMERS				
<u>KW USED</u>	<u>CURRENT RATE</u>	<u>NEW RATE</u>	<u>DIFFERENCE</u>	<u>% CHANGE</u>
125	25.85	26.89	1.04	4.0%
250	37.38	38.88	1.50	4.0%
500	60.45	62.85	2.41	4.0%
730	81.67	84.91	3.24	4.0%
825	90.43	94.02	3.59	4.0%
1,000	106.58	110.80	4.23	4.0%
1,250	129.64	134.78	5.14	4.0%
1,500	152.71	158.75	6.05	4.0%
2,000	198.84	206.70	7.87	4.0%
3,000	291.10	302.60	11.51	4.0%
5,000	475.62	494.40	18.79	3.9%
10,000	936.92	973.90	36.99	3.9%



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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
L.A. O'Hara, Commissioner
M.R. Harle, Commissioner
December 17, 2010

ORDER

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.

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 (BCMUEU);
- 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."

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 rebalanced.

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 setting 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:

FortisBC Rate Increase Information

During the 2011 Negotiated Settlement Process (NSP), FortisBC committed to provide a summary of factors that will affect rates in 2011 in order to help intervenors with their own stakeholder communications.

The information below reflects FortisBC's current projections of total pending rate adjustments on each rate class using the best information currently available.

The Company shares the concerns of the NSP participants about the rising cost of providing electrical service and will continue to take steps to mitigate rate increases. Some measures taken recently in this regard have been:

- Renegotiating credit facilities at more favourable rates;
- Revising tax treatment of certain cost-of-removal items;
- Holding O&M per customer essentially flat over the PBR term;
- Recovering third party revenue resulting from pole contact renegotiation and audits;
- Finding cost savings in capital projects including the implementation of national materials purchase agreements to leverage the buying power of the Fortis group of companies;
- Sharing infrastructure with BC Hydro to provide significant cost savings benefits to both FortisBC and BC Hydro customers. (Vaseux Lake and Duck Lake); and
- Sharing of Executive with Terasen Gas to leverage off the strength of a combined executive.

These cost savings are a direct benefit to customers.

Total Projected 2011 Rate Increases

Incorporating the 2011 RRA results (including the impact of the Capital Expenditure Plan Order G-195-10), the rebalancing as prescribed in Order G-156-10 and BCUC Letter dated December 17, 2010 (which caps rebalancing increases to 2.5% annually on or before April 1, 2011) and the R/C ratios below, and the forecast BC Hydro F2012 Interim Flow-through results in first year rate increases as shown in the following table.

Total Projected 2011 Rate Increase

	Revenue Requirement Increase (6.6%)	Rebalancing Adjustment (Year One) (~April 1)	Estimated BC Hydro F2012 Interim Flowthrough* (~April 1)	Estimated Total Annualized Increase
Residential	6.6%	2.5%	3.5%	11.1%
Small General Service	6.6%	-5.8%	3.5%	4.9%
General Service	6.6%	-5.8%	3.5%	4.9%
Large GS Primary 30	6.6%	-5.8%	3.5%	4.9%
Large GS Transmission 31	6.6%	1.4%	3.5%	10.3%
Lighting	6.6%	2.5%	3.5%	11.1%
Irrigation	6.6%	0.0%	3.5%	9.2%
Wholesale Primary	6.6%	2.5%	3.5%	11.1%
Nelson Wholesale	6.6%	2.5%	3.5%	11.1%

* Based on projected BC Hydro F2012 increase of 16.27%

2011 Rate Increase Chronology

October 2010 Preliminary Revenue Requirement –	5.9%
Add: November 1 update changes	<u>0.3%</u>
November 2010 Update	6.2%
Less: Negotiated Settlement Items	<u>0.5%</u>
Negotiated Settlement Impact	5.7%
Less: Impact of BC Hydro F2011 NSA	<u>0.5%</u>
Rate Increase (before 2100 Capital Plan Decision)	5.2%
Add: Impact of Capital Plan Decision	<u>1.4%</u>
Final 2011 Rate Increase	6.6%

2011 Rate Increase Breakdown

Power Supply	-0.43%
Operating	1.48%
Taxes	1.04%
Financing	4.54%
Other	<u>-0.03%</u>
Total Revenue Requirement	6.60%

Revenue to Cost Ratios

Final Revenue to Cost ratios as a result of Commission Decision G-156-10 are as follows:

	Initial
	Revenue to Cost Ratio
Residential	93.3%
Small General Service	107.6%
General Service	128.2%
Large GS Primary 30	112.8%
Large GS Transmission 31	98.7%
Lighting	84.4%
Irrigation	88.8%
Wholesale Primary	94.0%
Nelson Wholesale	95.1%