



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-165-11A**

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, BC V6Z 2N3 CANADA
web site: <http://www.bcuc.com>

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

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

and

An Application by FortisBC Energy Inc.
for Approval of a Compression Rate Schedule,
Compression & Dispensing Rate Calculation, and
Resulting Effective Rate to Provide for Public Natural Gas Vehicle
Refuelling at the FortisBC Energy Inc. Surrey Operations Centre

BEFORE: A.A. Rhodes, Panel Chair/Commissioner
D.A. Cote, Commissioner
D. Morton, Commissioner
September 26, 2011

ORDER

WHEREAS:

- A. On July 8, 2011, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (Commission) for approval of:
- a new rate schedule (proposed Rate Schedule 6P) to allow it to provide Compressed Natural Gas (CNG) fuelling service to the general public at its Surrey Operations Centre,
 - the calculation of the rate to be charged for Compression and Dispensing service within the proposed new Rate Schedule 6P, and
 - the resulting effective rate
- pursuant to sections 59-61 of the *Utilities Commission Act* (the Application);
- B. By Letter L-62-11 dated August 2, 2011, the Commission ordered, inter alia, that the Application proceed by way of a short written hearing process;
- C. The written hearing process concluded with the filing of FEI's reply submissions on September 7, 2011;
- D. The Commission Panel has reviewed the evidence and submissions of the Parties.

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NOW THEREFORE for the Reasons attached hereto as Appendix A, the Commission:

1. Declines to approve the proposed calculation for a Compression and Dispensing rate.
2. Orders that if FEI elects to sell CNG to the public from its Surrey Operations Centre, it is to include a Compression and Dispensing charge of \$7.628 per Gigajoule in new tariff 6P.
3. Orders that new tariff 6P is to be restricted to sales of CNG from FEI's Surrey Operations Centre and directs that the wording of proposed new tariff 6P be modified to reflect this restriction.
4. Directs FEI to track and record all incremental costs and revenues associated with making CNG available to the public at its Surrey Operations Centre to the end of 2012 and to file a written report no later than March 31, 2013 outlining such costs and revenues and also including information on the volumes and bundled rates charged to the public over that period of time.

DATED at the City of Vancouver, in the Province of British Columbia, this 26th day of September 2011.

BY ORDER

Original signed by:

A.A. Rhodes
Panel Chair/Commissioner

Attachment



IN THE MATTER OF

**FORTISBC ENERGY INC.
APPLICATION FOR APPROVAL OF A COMPRESSION RATE SCHEDULE
COMPRESSION AND DISPENSING RATE CALCULATION AND RESULTING
EFFECTIVE RATE TO PROVIDE FOR PUBLIC NATURAL GAS VEHICLE
REFUELLING AT THE SURREY OPERATIONS CENTRE**

REASONS FOR DECISION

SEPTEMBER 26, 2011

BEFORE:

A.A. Rhodes, Panel Chair / Commissioner
D.A. Cote, Commissioner
D. Morton, Commissioner

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1.0 INTRODUCTION

FortisBC Energy Inc. (FEI) owns and operates a Compressed Natural Gas (CNG) fuelling station at its operations centre in Surrey, BC (Surrey Operations Centre). The fuelling station was formerly owned and operated by Clean Energy Fuels Inc. (Clean Energy), prior to FEI's purchase of it in September 2010 for a price estimated to be approximately \$107,000. FEI uses the fuelling station to fuel its own fleet of Natural Gas Vehicles (NGVs). When the fuelling station was owned by Clean Energy, it also provided service to the general public. FEI, as a public utility, cannot do so without Commission approval. FEI therefore now applies for:

- approval of a new Rate Schedule (Rate Schedule 6P) to provide CNG fuelling service to the general public,
- approval of the calculation used to determine the Compression and Dispensing charge which forms part of the rate, and
- the resulting effective rate.

2.0 BACKGROUND

Clean Energy itself, after various name changes, was originally a creation of FEI. It was a wholly-owned unregulated subsidiary which acquired a large portion of FEI's NGV utility assets on January 1, 2000, at a loss to FEI [which was borne by its ratepayers] of \$2.13 million. FEI sold what remained of its interest in Clean Energy in 2005. (BCUC Order G-143-99; FEI CNG/LNG Application, Exhibit B-1, p. 9; Exhibit B-6, BCUC IR 2.6.1, 2.29.2)

When Clean Energy owned the fuelling station at the Surrey Operations Centre it provided service to the general public as an ancillary function. Its primary purpose was to provide fuelling service to FEI's fleet of CNG vehicles, which it did pursuant to a service agreement which pertained to two separate FEI sites (Burnaby and Surrey). As Clean Energy was not "otherwise a public utility" engaged in the petroleum industry, it was not required to be regulated. It charged a bundled rate to the general public that did not separate the various components, such as Compression and Dispensing, and fuel. The rate in place in September of 2010 was \$0.653 per gasoline litre equivalent (GLE). FEI "does not believe that a meaningful comparison can be drawn between [its] proposed rate and Clean Energy's former rate in or about September 2010 as commodity prices have since changed and Clean Energy's rate was both bundled and unregulated." (Exhibit B-2, BCUC IR 1.2.5)

3.0 CALCULATION OF NEW TARIFF RATE

FEI proposes to calculate the rate for compression and dispensing services included in new Rate Schedule 6P based on the forecast cost of service and total annual volume of CNG used (both by FEI's own fleet and the general public). The calculation is based on the following inputs:

Capital Cost of Fuelling Station	\$106,801.50
Revenue Requirement	\$28,865 per annum
Forecast Volume	4,725 GJs per annum
Life of Fuelling Station Remaining	10 years

The resulting rate for Compression and Dispensing service to be included in new Rate Schedule 6P is \$5.239 per Gigajoule (GJ). (Exhibit B-1, p. 3) This rate is then added to other rates and charges to come to a final price to be charged at the dispenser:

Commodity (from Rate Schedule 6)	\$4.568/GJ
Delivery (from Rate Schedule 6, net of riders)	\$3.609/GJ
Midstream (from Rate Schedule 6)	\$0.353/GJ
Compression & Dispensing (new Rate Schedule 6P)	\$5.239/GJ
Carbon Tax (as of July 1, 2011)	\$1.247/GJ
HST at 12%	\$1.802/GJ
TOTAL	\$16.818/GJ

\$16.818 per GJ equates to a price of \$0.58 per Gasoline Litre Equivalent (based on 28.8 litres per GJ). This also equates to approximately \$0.87/kg based on the formula “multiply by 0.67 to convert \$/kg to \$/GLE.” (Exhibit B-2, BCUC IR 1.2.5, 1.5.2.1)

By using the above formula, the price at the dispenser will vary as the prices in the relevant underlying rate schedules change, and will also reflect any changes to the Carbon Tax.

FEI also proposes to post the terms and conditions of new Rate Schedule 6P in a clearly visible location on the fuel pump.

New Rate Schedule 6P contains a provision which states that the Rate Schedule applies in “[t]he Lower Mainland Area, including, but not limited to, the following locations: Surrey”. (Exhibit B-1, Appendix A -Proposed Rate Schedule 6P Clause 1.2) FEI submits that, although only the Surrey location is currently capable of providing CNG service to the public, in the event that it was able to reconfigure its facilities in another location, such as Burnaby, to also be amenable to serving the general public, the regulatory process for approval of that service would be “somewhat more efficient.” (Exhibit B-2, BCUC IR 1.3.1)

3.1 Existing Market

As discussed above, the Surrey Operations Centre CNG fuelling facility was open to the public when it was owned and operated by Clean Energy, prior to its purchase by FEI on September 30, 2010. There are currently several other facilities in the lower mainland with public access. These are:

Chevron	Burnaby
Chevron	Cloverdale
Chevron	Vancouver
Christie Adams	Burnaby
PetroCanada	Coquitlam
PetroCanada	North Vancouver

(Source: Exhibit B-2, BCUC IR 1.4.2)

The nearest public access refuelling station to the Surrey Operations Centre is located in Cloverdale. It is owned by Clean Energy and operated by Chevron. FEI advises that Clean Energy may close this station in the near term. (Exhibit B-2, BCUC IR 1.5.2)

The posted rate at the Chevron facility in Cloverdale as of August 18, 2011 [the date of FEI's response to BCUC IR 1] was \$0.75 per GLE. This rate is higher than the rate which was charged to the public at the Surrey Operations Centre in September of 2010, which was \$0.65 per GLE [although the figures are not directly comparable given the difference in time. For example, the Carbon Tax, which applies to natural gas, increased as of July 1, 2011.] (Exhibit B-2, BCUC IR 1.5.2.1)

As noted above, FEI proposes to charge the public \$0.58 per GLE based on its Cost of Service model.

3.2 Cost of Service Model/Levelized Rate

FEI proposes to price its CNG service to the public based on its own cost of service, using a ten year levelized rate calculation. FEI is of the view that this treatment is appropriate for the Surrey Operations Centre for the following reasons:

1. A levelized rate is stable and predictable.
2. A ten-year levelized tariff balances the desire for a cost of service based rate with the materiality of the costs and revenues. [As this facility is intended primarily for FEI's own use, the Compression and Dispensing costs are for the most part already borne by existing ratepayers and the annual revenues are expected to be in the minimal range of \$7,000 to \$8,000.]
3. A levelized rate provides a simple approach for applying future delivery rate changes, contributing to administrative and regulatory efficiency.
4. As the public service is ancillary, the recoveries from the general public are also ancillary, and offset costs borne by existing customers. The levelized rate represents a reasonable estimate of the annual cost of service, and therefore a reasonable recovery for the public use of this asset.

This base Compression and Dispensing rate would then be adjusted annually by the general percentage change in the Company's revenue requirements as part of the revenue requirement process. (Exhibit B-2, BCUC IR 1.8.1; 1.8.2)

3.3 Costs Included in Cost of Service Model

FEI has estimated the annual revenue requirement of the fuelling station based on the capital cost of the facility and estimated operating and other costs such as income tax and earned return. (Exhibit B-1, Appendix B, Schedule 1)

3.3.1 Capital Cost

FEI purchased the refuelling stations for both its Burnaby and Surrey sites as a package. It allocated 50% of the \$213,603 purchase price to each station, resulting in a capital cost for the Surrey Operations Centre of \$106,801.50. The remaining estimated useful life of the fuelling station is 10 years, [which is half the estimated 20 year useful life of a new refuelling station]. (Exhibit B-1, p. 3)

Depreciation expense of these capital costs is calculated on a straight line basis at \$10,700 per annum.

FEI advises that the fuelling station located at the Surrey Operations Centre is capable of dispensing up to roughly 18,000 GJs of CNG per year, but that the number of dispensers associated with the fuelling station may need to be expanded before that capacity is reached. FEI estimates that its current dispenser “is more than capable of serving the 2012 forecast of 65 CNG vehicles (50 FEI vehicles, plus an estimated 15 third party vehicles)” [Footnote omitted]. However, it also notes that “additional dispensers or a “time-fill” station with multiple fill posts...may need to be installed if the number of vehicles grows beyond the forecast.” (Exhibit B-3, BCUC Supplemental IR.2.3)

No amounts are included in the forecast for potential additional capital additions. (Exhibit B-1, Appendix B-Schedule 6)

3.3.2 Operating and Maintenance Costs

FEI estimated its annual operating and maintenance cost at \$9,000 per annum (rounded) for the first six years of the analysis and \$10,000 per annum (rounded) thereafter based in large measure on a private contractor’s estimate of Operations and Maintenance requirements for the station of \$8,500 per year. The O&M cost estimate for the years 2011 to 2020 “includes all routine and preventative maintenance, parts and service as recommended by the manufacturer and the contractor who completed the performance evaluation in 2010.” (Exhibit B-2, BCUC IR 1.7.1)

The O& M cost estimate does not include the cost of electricity required to operate the compressors. FEI has not included this cost because “they cannot be isolated from other electricity consumption costs at the Surrey Operations Centre,” as the CNG equipment is not metered separately. (Exhibit B-3 BCUC Supplemental IR.3.1)

3.3.3 Other Costs

The other costs included in the revenue requirements calculation relate to income taxes and earned return.

4.0 REVENUE REQUIREMENTS

The annual revenue requirement over the ten year period is then calculated by summing the estimated costs set out above for each year. (Exhibit B-1 Appendix B Schedule 1) This cost stream is then discounted back to the present at FEI’s after-tax weighted average cost of capital. The resultant figure is the present value of the revenue requirements over the contract term.

5.0 VOLUME

FEI has assumed a constant annual usage volume of 4,725 GJs of CNG for itself and third party customers over the ten year analysis. The estimate assumes FEI’s fleet will use 3,175 GJs per year and that third party customers will purchase an additional 1,550 GJs per year. FEI estimates that each of its own vehicles will use approximately 106 GJs per year. Its current fleet of 30 vehicles as of mid 2011 therefore consumes 3,180 GJs of CNG. (However, FEI also estimates that it will have 50 vehicles running from the Surrey Operations Centre by the end of 2012). As noted above, FEI has assumed that third party customers will consume 1,550 GJs per year, which is more than double the 738 GJs of CNG which Clean Energy sold to the public during the six month period from April 01, 2010 to September 30, 2010. (Exhibit B-3 BCUC Supplemental IR 2.1)

6.0 LEVELIZED TARIFF

Finally, to calculate the levelized tariff rate, FEI has discounted the assumed volume stream back to the present, again using its after tax weighted average cost of capital. FEI has then divided the present value of the revenue requirement by the present value of the volume to arrive at its proposed levelized rate in dollars per GJ. (Exhibit B-1, Appendix B, Schedule 10)

7.0 COMMISSION PANEL DISCUSSION

The Commission Panel is concerned that FEI is proposing to enter an otherwise unregulated market with a product which it proposes to price significantly below that which is currently being charged in this market. However, the Commission Panel agrees with FEI that additional fuel sales should provide a benefit to existing customers, assuming the facility has the excess capacity and the price to be charged recovers any additional costs.

In that regard, however, the Commission Panel does not agree with FEI that the levelized cost model which it proposes to use is appropriate in these circumstances. FEI's main argument in this regard is that the analysis is simple, and the proposed revenues from providing this service to the general public are not material.

In the Panel's view, however, the levelized cost model may be simple from a computer model perspective, but it is not conceptually simple and does not follow the model normally used in a revenue requirements application. Further, the analysis is based on a significant number of assumptions over a ten year period which have little or no historical basis. As well, the Panel does not find the argument that this method will favour price stability or that price stability is even possible or desired persuasive, given the fact that the Compression and Dispensing charge represents only a portion of the tariff cost and other suppliers use a bundled rate.

Further, since FEI is forecasting that the cost of service of the facility will be relatively stable over the ten year period of the analysis, it is not clear what additional stability will be provided by using the proposed levelized cost model.

The Panel prefers a simpler model for the short term which relies on fewer estimates and is more flexible and capable of adjustment as events unfold.

The Panel therefore considers a straight-forward approach to be more appropriate at this point in time. The Panel is not convinced, however, that over the longer term a cost of service model is necessarily appropriate in circumstances such as these where FEI is proposing to enter a competitive market as a regulated entity to recover a portion of its own costs.

The Panel notes FEI's assumptions include the assumption that Clean Energy's customers "who have come to expect refuelling service" from FEI's Surrey Operations Centre will revert back to purchasing more (annualized) CNG service than they did in 2010, even though they have not had that facility available for the better part of a year and finds the assumption lacks justification and may well be overly optimistic. This is problematic because the assumption of Gigajoules consumed/sold is critical to the cost calculation.

The Panel further notes that FEI has made no effort to estimate the cost of electricity required to run the compressor station. This cost is an integral variable cost to the operation and ought not to be ignored. Further, the Panel indicated in its Reasons for Decision for Order G-128-11 (which was not released until after this Application was made) that it was concerned about cross subsidization and required that, to the extent possible,

CNG/LNG customers bear the full cost of the service offering. FEI has made no attempt in this application to estimate additional overheads which may be necessitated by opening the CNG service to the public, such as modification or addition of billing systems, additional insurance costs, advertising etc. As well, the cost of this Application was not tracked separately and no amounts have been estimated for this regulatory process.

Given its agreement with FEI that sales of excess CNG to the public should provide some benefit to existing ratepayers, as noted above, the Panel would be prepared to approve a tariff rate for the Compression and Dispensing component of the service which uses fewer, more conservative assumptions, is based as closely as possible on the current situation and better reflects the total additional cost of providing CNG service to the general public. In that regard, to avoid additional time and delay, the Panel proposes that the Compression and Dispensing component of the tariff be calculated as follows:

2011

Revenue Required	\$32,000	(Source: Exhibit B-2, BCUC IR 1.11.1 (Attachment 11.1 adjusted upward by 10% to reflect potential costs not included.)
Gigajoules sold/used	3,500 GJs	(Source: Exhibit B-3 BCUC Supplemental IR 2.1 - adjusted downward to reflect fact that only 3 months remain for sales to public, outside sales may not be experienced to the extent assumed and FEI's CNG fleet had not expanded to 30 trucks until mid 2011)
C&D Cost per Gigajoule	\$9.14	
Resulting Price at Dispenser	\$0.736 per GLE	

2012

Revenue Required	\$29,000	(Source: Exhibit B-2, BCUC IR 1.11.1 (Attachment 11.1 adjusted upward by 10% to reflect potential costs not included.)
Gigajoules sold/used	4,000 GJs	(Source: Exhibit B-3 BCUC Supplemental IR 2.1 - adjusted downward to reflect fact that outside sales may not be experienced to the extent assumed and that it may take longer than estimated for FEI to increase its CNG fleet)
C&D Cost per Gigajoule:	\$7.25	
Resulting Price at Dispenser	\$0.662 per GLE	

Tariff Rate for 2011-2012

Based on the above, the Compression and Dispensing Portion of the Tariff for 2011 and 2012 will be \$ \$7.628 per GJ in new tariff 6P which will result in a current price at the dispenser of **\$0.68 per GLE** based on a weighted average cost for 2011 and 2012. (i.e. $(\$0.736 + (4 \times \$0.662)) / 5 = \$0.68$). (The Commission Panel recognizes that the price at the dispenser will vary with changes to other components of the total price, such as the commodity cost.)

In the Panel's view this amount is more reflective of the actual additional cost of service associated with opening the Surrey Operations Centre CNG facility to the public. It is also more in line with the existing market price of \$0.75 per GLE at the nearest public service Chevron station in Cloverdale, which, in the Panel's opinion is relevant and can be viewed as a benchmark.

8.0 COMMISSION PANEL DETERMINATION

The Commission Panel orders that if FEI elects to sell CNG to the public from its Surrey Operations Centre, FEI is to include a Compression and Dispensing charge of **\$7.628** per GJ in new tariff 6P.

The Commission Panel declines to approve the levelized rate calculation proposed by FEI.

The Commission Panel also orders that, should FEI elect to proceed with a new tariff based on the calculation outlined in these Reasons, new tariff 6P is to be restricted to the Surrey Operations Centre, as the Compression and Dispensing charge to be approved is based on forecast operations and sales at that facility. The Panel directs that the wording of new tariff 6P be modified to reflect this restriction.

FEI is directed to track and record all the incremental costs and revenues associated with making CNG available to the public at its Surrey Operations Centre to the end of 2012 and to file a written report, which report should also include information on the volumes sold to and bundled rates charged to the public over that time period, by March 31, 2013.