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December 29, 2022

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Sara Hardgrave, Acting Commission Secretary

Dear Ms. Hardgrave:

Re: FortisBC Inc. (FBC or the Company)

Application for Approval to Sell the Princeton Bridge Street Properties (Application)

Response to the British Columbia Utilities Commission (BCUC) Information Request (IR) No. 1

On November 24, 2022, FBC filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-358-22 for the review of the Application, FBC respectfully submits the attached response to BCUC IR No. 1.

For convenience and efficiency, if FBC has provided an internet address for referenced reports instead of attaching the documents to its IR responses, FBC intends for the referenced documents to form part of its IR responses and the evidentiary record in this proceeding.

If you require further information or have any questions regarding this submission, please contact Becky Richardson at (604) 592-7744.

Sincerely,

FORTISBC INC.

Original signed:

Diane Roy

Attachments

1.0 Reference: Exhibit B-1 (Application), pp. 1–2, 5

Alternatives Considered

On page 1 of the Application, FortisBC Inc. (FBC) states that the Town of Princeton approached FBC about purchasing the Princeton Bridge Street properties (Princeton Office Properties).

Further, on pages 1 to 2 of the Application, FBC states:

> In determining whether to approve the disposition, FBC submits that the BCUC's public interest assessment should center on whether the sale results in harm to customers in terms of quality or quantity of service. This disposition will not affect the quality and quantity of FBC's service to customers as FBC no longer requires the Princeton Office Properties for utility service, and FortisBC Energy Inc. (FEI), who has been leasing the Princeton Office Properties since 2014 for mustering and storage purposes, has provided notice of termination of its lease at the end of 2022, as discussed further below.

On page 5 of the Application, FBC states that it does not foresee any prospect that it will need the Princeton Office Properties for utility service in the future.

1.1 Please explain what is meant by the consideration of the impact on the "quantity of FBC's service to customers" in the preamble above.

Response:

As indicated in footnote 1 of the Application, the statement that the BCUC's public interest assessment should center on whether the sale results in harm to customers in terms of "quality or quantity of service" is based on the case of *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*. FBC considers that a reduction in the quantity of service to customers would mean a reduction in FBC's ability to generate, transmit or distribute energy to its customers. For example, this could be a consideration in situations where a utility is seeking approval to dispose of assets that would result in energy being cut off from certain customers, such as if a utility were seeking to sell a generation, transmission or distribution asset and, as a result of the sale, certain customers would no longer be able to receive service. The sale of the Princeton Office Properties would not result in the quantity of service to FBC's customers being reduced. The sale of the building and lands have no impact on FBC's ability to generate, transmit or distribute energy to its customers.

1.2 In determining whether to approve the disposition, please discuss whether "maximizing the benefit" or "minimizing the harm" to FBC or customers are appropriate considerations for the BCUC. Please explain why or why not.

Response:

A portion of this response is redacted pursuant to Section 19 of the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order G-178-22. The redaction has been made as it contains commercially sensitive information as outlined in the cover letter to the Application that, if disclosed, could adversely affect negotiations relating to the sale of the property. A confidential version of this response is being filed with the BCUC under separate cover.

FBC agrees that "minimizing the harm" to FBC or customers is the appropriate consideration for the BCUC, which aligns with *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*. As explained in the Application, there is no negative impact or harm to the Company or to customers from the sale of the Princeton Office Properties.

With regard to "maximizing the benefit", in the case of this Application, FBC considers that the sale does maximize the benefit for customers, as FBC [redacted] is proposing to flow the gain on the sale fully to customers. However, as explained in the Application, the Supreme Court of Canada has previously determined that a public utility may retain the proceeds of the sale to the account of the shareholder. Had FBC opted for that approach, the benefit of the sale would have been maximized for the Company (i.e., the shareholders), but would not have been maximized for customers from a financial perspective; however, FBC considers that the Application would still have been in the public interest. FBC also notes [redacted]. Therefore, FBC does not consider that maximizing the benefit of a disposition should be a determining factor generally for the BCUC when determining whether to approve an application for disposition of property. To reiterate, however, in the case of the sale of the Princeton Office Properties, as demonstrated in the Application, FBC has maximized the benefit to customers.

1.3 Please clarify the timing of when FEI provided the notice of termination of its lease at the end of 2022 and when the Town of Princeton approached FBC about purchasing the Princeton Office Properties.

Response:

The Town of Princeton has approached FBC multiple times over many years regarding purchasing the Princeton Office Properties. For instance, in 2018, FBC and the Town of Princeton were unsuccessful in reaching an agreement.

However, in January 2022, the Town of Princeton reconfirmed their interest in purchasing the Princeton Office Properties. At that time, FBC commenced the process of obtaining an appraisal of the properties and re-entering negotiations with the Town of Princeton.

FEI provided notification of its lease termination in August 2022. FEI has re-evaluated its storage needs and has determined that it now only requires meter and small material storage to support this area. Given this reduced storage requirement, and in consideration of FBC and the Town of Princeton reaching an agreement to sell the Princeton Office Properties, it made sense for FEI to seek other storage options going forward into 2023.

1.4 Please discuss the alternatives considered and provide a summary of FBC's analysis for the following scenarios:

i) The use of the Princeton Office Properties by any party other than FBC or FEI (e.g. third-party lease); and

ii) The sale of the Princeton Office Properties to any party other than the Town of Princeton.

Response:

A portion of this response is redacted pursuant to Section 19 of the BCUC's Rules of Practice and Procedure regarding confidential documents as set out in Order G-178-22. The redaction has been made as it contains commercially sensitive information as outlined in the cover letter to the Application that, if disclosed, could adversely affect negotiations relating to the sale of the property. A confidential version of this response is being filed with the BCUC under separate cover.

FBC considered the alternatives described in this IR but ultimately rejected them, as further explained below:

Scenario 1: Leasing the Building to a Third Party:

- The potential leasing market for the Princeton Office Properties is very limited due to the location of the building and the size and function of the space. Based on FBC's understanding of the leasing market and the Princeton Office Properties, potential third parties would be limited to larger companies like utilities, banks, insurance companies and municipalities.
- To increase the opportunities for leasing, FBC would need to undertake capital investments in order to allow for multi-tenant spaces (i.e., to make the properties attractive to smaller businesses or individuals). Such costs would be borne by FBC's customers and would still not guarantee that the space would be leased in full or in part.

- In the last half of 2022, the office leasing market has seen shifts in office vacancy with vacancy rising, primarily driven by more people opting to work from home which began in response to the COVID-19 pandemic. This trend is expected to continue into 2023 and has resulted in the market switching from landlord-driven to tenant-driven, which is in turn causing lower lease rates and higher tenant allowances and ultimately reducing the revenue opportunities for landlords.

Scenario 2: Selling to Other Parties:

- FBC has marketed the building for sale in past years with no interest other than from the Town of Princeton.
- The Town of Princeton fits the limited market for this building.
- Any other opportunity from other interested parties would be rare and likely reduce the gain on sale, as FBC would need to pay real estate commissions for the marketing.
- [redacted] it is unlikely that FBC would be able to obtain a better price from another party, even if such a party were interested.

FBC considers that the proposed sale of the Princeton Office Properties to the Town of Princeton is the best option and achieves the most benefits for FBC and its customers. As explained above, any other scenario (i.e., leasing or selling to another party) has a number of disadvantages and would mean that FBC would continue to hold on to the properties at a cost to customers, instead of taking advantage of the Town of Princeton's current desire to purchase the properties [redacted]. Given that FBC no longer requires the use of the properties and in consideration of the limited and changing leasing/selling market, there are no advantages to FBC holding on to the Princeton Office Properties.

2.0 Reference: Exhibit B-1, p. 2

Deferral Account Requests

On page 2 of the Application, FBC states:

> […] FBC request approval as part of this Application to establish a non-rate base deferral account attracting a weighted average cost of capital (WACC) return until it is placed into rate base on January 1, 2024, to record the gain on sale […] Once transferred to rate base in 2024, FBC proposes to amortize the balance in the deferral account over one year.

2.1 Please explain the rationale for requesting a non-rate base deferral account initially and the implications from transferring the account to a rate base deferral account in 2024.

2.1.1 For greater clarity, please explain why FBC did not request approval of a rate base deferral account, with a one-year amortization, commencing January 1, 2024?

Response:

The reason that FBC is requesting a non-rate base deferral account initially with the balance to be transferred to a rate base deferral account on January 1, 2024 is due to timing. At the time of filing the Application, the evidentiary record was closed in FBC's Annual Review for 2023 Rates proceeding, and the completion of the sale of the Princeton Office Properties (if approved) will occur in the first half of 2023. As such, FBC is not able to introduce a rate base deferral account (which would reduce the 2023 revenue requirement due to the earned return and taxes on the credit balance rate base deferral account) without adjusting 2023 rates.

For further clarity, if FBC *only* requested approval of a rate base deferral account commencing on January 1, 2024, FBC would not be able capture the credit related to the half-year rate base return as well as the related income tax in 2023 for the net gain on sale of the Princeton Office Properties due to the 2023 rates already being approved through the 2023 Annual Review process. As such, in order to capture the credit rate base return as well as the related income tax in 2023, FBC requires a non-rate base deferral account to record the net gain in 2023. This non-rate base deferral account will attract FBC's weighted average cost of capital return until it is placed into rate base on January 1, 2024, when it will be amortized as a credit to customer rates as shown in the response to BCUC IR1 2.2. FBC also clarifies that once the non-rate base deferral account is transferred to the rate base deferral account, the non-rate base deferral account would no longer be used (i.e., it would be discontinued).

2.2 Please provide the reason(s) why an amortization period of one-year is appropriate for the proposed Princeton Office Disposition deferral account.

2.2.1 Please provide the pros and cons of any alternative amortization periods considered by FBC, if any.

Response:

FBC considered amortization periods from one to three years, but determined that one year was the most reasonable. Please refer to Table 1 below which shows the incremental revenue requirement and rate impact when compared to FBC's 2023 interim rates approved by Order G-349-22.[1] FBC did not consider amortization periods longer than three years given the small impact to FBC's revenue requirement beyond a three-year amortization period.

Table 1: Incremental Revenue Requirement and Rate Impact from 2023 Rates (Interim) due to One to Three Year Amortization Periods

	Amortization Period		
	1 Year	2 Years	3 Years
Incremental Revenue Requirement in 2024 when compared to 2023 (Interim)	(502)	(265)	(186)
2024 Rate Impact (%) when compared to 2023 (Interim)	**-0.12%**	**-0.06%**	**-0.04%**

Given the amortization of the deferral account is a credit to FBC customers, the advantage of a shorter amortization period, i.e., one year, would be returning this credit to FBC's customers as soon as possible. The larger rate impact (credit) resulting from a one-year amortization period in 2024 would also help to offset other potential rate pressures that FBC may experience in 2024. The only potential disadvantage of a shorter amortization period is increased rate volatility in 2024; however, given that the impact of amortizing the deferral account balance over one year is minor at -0.12 percent, FBC does not consider rate volatility to be a concern. Similarly, the primary advantage of longer amortization periods is the opportunity for rate smoothing; however, in this case, as the table above shows, minimal rate smoothing would be achieved by extending the amortization period to two or three years.

FBC also notes that the transaction (i.e., the sale) of the Princeton Office Properties, if approved, will be completed over a short period of time (i.e., within the first quarter of 2023), therefore, FBC considers it appropriate to amortize the gain on the sale over a short period of time (i.e., one year).

[1] At the time of filing this IR response, FBC is considering the implications of the BCUC's Decision and Order G-382-22 that approved FBC's 2023 rates on a permanent basis.

3.0 Reference: Exhibit B-1, p. 7

Gain on Sale

On page 7 of the Application, FBC states:

> The sale price of [redacted] is fixed per the sales agreement attached confidentially as Appendix B. However, the [net book value] NBV of the properties, the disposal costs and taxes payable are estimates, as follows:
>
> - NBV of the lands and building of $101,000 (estimated as of March 31, 2023);
> - Disposal costs of $20,000, consisting of legal, regulatory and conveyancing costs, site clean-up, appraisal costs, as well as the maintenance costs (utilities, security, and property taxes) for the period of time between removal from rate base and closing of sale; and
> - Taxes payable of $8,000.

3.1 Please confirm, or explain otherwise, that the NBV of the lands and building of $101,000 (estimated as of March 31, 2023) is based on the forecast closing date of the sale.

Response:

Confirmed.

3.2 Please provide a breakdown of the estimated disposal costs of $20,000 and the supporting assumption(s) for these amounts.

Response:

Please refer to Table 1 below for the breakdown of the estimated disposal costs. The estimate for disposal costs of $20,000 stated in the Application and referenced in the above preamble was rounded to the nearest thousand. The reference to “conveyancing” costs in the Application was in error, as no conveyancing costs were incurred.

Table 1: Breakdown of the Disposal Costs

Cost of Disposal	Amount ($)
External Legal (Sales and Purchase Agreement)	8,500
Site Clean-up	5,000
Appraisal Costs (Actual)	4,200
Property Tax (Jan to Mar, 2023)	1,400
Regulatory Costs	1,000
Total	**20,100**

FBC notes the following assumptions:

- External legal costs incurred for the purpose of the sales transaction, including negotiation and review of the Purchase and Sale Agreement and closing documents. The costs are estimated up to March 31, 2023, which is the expected closing date of the transaction;
- Maintenance and site clean-up costs are estimated up to March 31, 2023;
- Appraisal costs are actual, dated May 23, 2022;
- Property tax is based on 2022 property tax plus 3.5 percent escalation to 2023, prorated for 90 days (January 1 to March 31, 2023) out of 365 days; and
- Regulatory costs are estimated based on the assumptions of no public notice or intervener PACA and one round of information requests.

3.3 Please clarify the nature of the taxes payable of $8,000 and explain how this amount was determined.

<u>Response:</u>

The taxes payable are related to the capital gain taxable for the sale of the land component of the Princeton Office Properties plus income tax recovery for costs expensed (rounded to the nearest thousand). Please refer to Table 1 below for the calculation of the $8,000 taxes payable. There is no capital gain on the building as the proceeds for the building are less than the original cost of the building.

Table 1: Calculation of Taxes Payable

Line	Particular	Reference	Amount ($000s)
1	[redacted]	[redacted]	[redacted]
2	Less: Estimated Land Value	Appraisal (page 56)	(90)
3	[redacted]	[redacted]	[redacted]
4			
5	<u>**Capital Gain on Land**</u>		
6	Proceed for Land	-Line 2	90
7	Less: Original Acquisition Cost for Land		(7)
8	Less: Legal and Conveyance (Land Portion)		(2)
9	Capital Gain on Land	Line 6 + Line 7	83
10			
11	Taxable Capital Gain on Property Sale		50%
12	**Taxable Capital Gain ($000s)**	**Line 9 x Line 11**	**42**
13			
14	<u>**Costs Expensed for Income Tax**</u>		
15	Site Clean-Up Costs	BCUC IR1 3.2	(5)
16	Appraisal Costs	BCUC IR1 3.2	(4)
17	Property Tax (Jan to Mar 2023)	BCUC IR1 3.2	(1)
18	**Total Costs Expensed for Income Tax**	**Sum of Line 15 to Line 17**	**(11)**
19			
20	**Total Taxable Income**	**Line 12 + Line 18**	**31**
21			
22	Income Tax Rate		27%
23	**Income Tax Payable on Capital Gain**	**Line 20 x Line 22**	**8**

4.0 Reference: Exhibit B-1, pp. 6, 8

Target Decision

On page 8 of the Application, FBC states: "In order to facilitate the sale of the Princeton Office Properties in a timely manner, FBC respectfully requests BCUC approval to be provided prior to January 31, 2023."

On page 6 of the Application, FBC outlines that the anticipated date of sale to the Town of Princeton (conditional on BCUC approval of the Application) is approximately the first quarter of 2023.

4.1 Please explain the significance of the requested BCUC approval prior to January 31, 2023 given that the anticipated date of sale is the first quarter of 2023.

4.1.1 Please discuss the implications to FBC in the event that the BCUC's final decision on the Application is rendered after January 31, 2023.

<u>Response:</u>

FBC clarifies that its statement in the Application that the anticipated date of sale is approximately the first quarter of 2023 was meant to indicate that the sale could be completed any time within the first quarter of 2023 depending on if/when the Application is approved and the sale is finalized/closed. However, in order for the Town of Princeton to take possession of the Princeton Office Properties within the first quarter of 2023, BCUC approval would be required no later than the end of February 2023. In the Sale and Purchase Agreement, the Closing Date is set as the first Business day, which is 30 days after the conditions precedent set out in Article 8 are satisfied and waived. BCUC approval is one of the conditions precedent.

FBC's request for a BCUC decision on the Application by January 31, 2023 (as opposed to the end of February 2023) was primarily due to the Town of Princeton's desire to acquire the Princeton Office Properties as soon as possible, as the Town of Princeton is facing space issues and is hoping to begin the expansion of their office space as soon as possible. Also, an earlier BCUC decision would allow more time for conditions precedent to be satisfied and waived, site clean-up coordination, and preparation of closing documents for the Sale and Purchase to complete by the end of March 2023.

Accordingly, a final decision rendered after January 31, 2023 but before the end of February 2023 would have minimal impact to FBC. The impact would be felt by the Town of Princeton as they will be delayed in addressing their office space issues.

However, if a BCUC decision was not received in time for the conditions precedent in Article 8 to be satisfied and waived, which requires a minimum of 30 days from the date of a BCUC decision, and the sale was therefore not finalized/closed until the second quarter of 2023, the net book value, disposal costs and property taxes would all require revision and the net gain on the sale for FBC customers would be reduced. This would negatively impact both FBC's customers and the Town of Princeton.