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

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Inc. - Annual Review for 2024 Rates - Reply Argument

In accordance with the regulatory timetable in the above proceeding, we enclose for filing the Reply Argument of FortisBC Inc., dated November 27, 2023.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom*
*Law Corporation

Encl.

cc (email only): Registered Interveners.

BRITISH COLUMBIA UTILITIES COMMISSION

FORTISBC INC.

ANNUAL REVIEW FOR 2024 RATES

REPLY ARGUMENT

OF

FORTISBC INC.

November 27, 2023

Prepared by: Fasken Martineau DuMoulin LLP - Christopher Bystrom and Niall Rand

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PART ONE: INTRODUCTION AND OVERVIEW

1. In its Annual Review for 2024 Rates filed on August 4, 2023 (Application),[1] FortisBC Inc. (FBC) is seeking approval of 2024 rates on a permanent basis. FBC's approvals sought are set out in Section 1.2 of the Application, and are amended in the Evidentiary Update, with an updated Draft Order included as Appendix B to the Evidentiary Update.[2] FBC submits that it has presented its 2024 revenue requirements in a clear and transparent manner and, through its responses to information requests (IRs) and discussion at the Workshop, has responded to the questions and addressed the topics raised by the BCUC and interveners. In this Reply Submission, FBC responds further to the comments of interveners in their final arguments.

2. Since filing the Application, the proceeding has progressed as follows:

- On September 26, 2023, FBC responded to IRs from the BCUC and interveners.[3]
- On October 10, 2023, FBC filed an evidentiary update to the Application with respect to items affecting the utility's revenue requirement, including incorporating the changes to FBC's 2024 revenue requirement and rates resulting from the Decision and Order G-236-23 on Stage 1 of the Generic Cost of Capital (GCOC) proceeding (GCOC Decision) and the associated compliance filing (Evidentiary Update).[4]
- On October 23, 2023, FBC presented the key elements of its Application and the Evidentiary Update at a workshop before the Panel and with the participation of interveners (Workshop). FBC's presentation materials and the transcript of the Workshop were placed on the record in the proceeding.[5]

[1] Exhibit B-2, Application.

[2] Exhibit B-13, Evidentiary Update, Appendix B.

[3] Exhibits B-5 to B-11. These interveners included: British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, and the Tenant Resource and Advisory Centre (BCOAPO), BC Sustainable Energy Association (BCSEA), Commercial Energy Consumers Association of BC (CEC), Industrial Customers Group (ICG), Canadian Office and Professional Employees Union, Local 378 (known as Movement of United Professionals or MoveUP), and the Residential Consumer Intervener Association (RCIA).

[4] Exhibit B-13, Evidentiary Update.

[5] Exhibit B-14, Workshop Presentation. The Workshop Transcript is available on the BCUC's website at: https://docs.bcuc.com/documents/transcripts/2023/doc_74524_2023-10-23-workshop-volume1-revised.pdf.

- On October 27, 2023, FBC filed its response to the undertakings from the Workshop.[6]

3. BCOAPO, BCSEA, CEC, ICG, MoveUP and RCIA filed final arguments. The submissions of interveners show broad support for FBC's Application. MoveUP submits that the BCUC should grant the approvals sought by FBC.[7] BCSEA supports FBC's approvals sought, including the full recovery of the 2024 GCOC impact in 2024 and three-year rate smoothing regarding the 2023 GCOC impact.[8] RCIA generally does not object to FBC's forecast revenue requirement and proposed rates, but provides comments regarding the staged completion of capital projects and proposed use of deferral accounts.[9] BCOAPO submits that the BCUC should approve the Application and requested relief sought subject to several comments.[10] CEC makes a number of recommendations that would affect FBC's proposed rate increase.[11] ICG recommends that FBC's proposed rate increase of 6.74 percent be considered "rate shock" and makes several recommendations.[12]

4. In the remainder of this Reply Submission, FBC responds to various comments and recommendations of interveners. While FBC has sought to respond to all material items, FBC's silence on any particular intervener submission is not indicative of agreement.

PART TWO: REPLY TO INTERVENER COMMENTS

A. FBC'S PROPOSED 2024 RATE INCREASE AND AMORTIZATION OF THE 2023 REVENUE DEFICIENCY DEFERRAL ACCOUNT IS REASONABLE AND APPROPRIATE

5. As set out in the Evidentiary Update, FBC is proposing a rate increase of 6.74 percent, which will recover the full impact of the GCOC Decision on FBC's 2024 revenue requirements. FBC is also proposing to amortize the balance in the 2023 Revenue Deficiency deferral account

[6] Exhibit B-16, Workshop Undertakings.

[7] MoveUP Final Argument, p. 1.

[8] BCSEA Final Argument, p. 3.

[9] RCIA Final Argument, p. 9.

[10] BCOAPO Final Argument, p. 60.

[11] CEC Final Argument, paras. 1-30.

[12] ICG Final Argument, p. 1.

over three years beginning January 1, 2024. When considering factors such as inter-generational equity, FBC submits that a 3-year amortization period appropriately balances rate smoothing and the timely recovery of the deferral account balance.[13] FBC submits that amortization periods of less than three years would not be reasonable, as there would be a further upward pressure on rates in 2024 (e.g., in the case of a 1-year amortization period, the 2024 rate increase would reach 7.71 percent). On the other hand, amortization periods longer than three years would provide relatively minor additional rate smoothing, ranging from 0.12 percent to 0.19 percent.[14]

6. There is broad support for FBC's rate proposals, with no intervener taking issue with FBC's proposals to recover the full impact of the GCOC Decision on FBC's 2024 revenue requirements in 2024 rates, or FBC's proposal to amortize the balance in the 2023 Revenue Deficiency deferral account over three years beginning January 1, 2024.

7. ICG, however, considers that the proposed increase of 6.74 percent in 2024 rates, combined with the cumulative rate increases of 11.8 percent from 2021 to 2023, for a total of 18.54 percent is "rate shock".[15] ICG cites no precedent or support for its position, which is inaccurate and misleading. FBC's proposed rates are in fact well below the threshold for rate shock, which is typically considered to be a rate increase of 10 percent or greater in a single year, not three or four years.[16] Furthermore, the cumulative effect of BC CPI alone over the past three years exceeds 10 percent.[17] FBC also notes that its annual rate increases have been below BC CPI for 4 of the last 6 years.[18]

[13] Exhibit B-13, Evidentiary Update, p. 8.

[14] Exhibit B-13, Evidentiary Update, p. 8.

[15] ICG Final Argument, p. 3.

[16] See e.g., in Decision and Order G-366-21, dated December 10, 2021 (FEI Annual Review for 2022 Delivery Rates), the BCUC states (p. 10) : "The combined effects of these two increases as approved would increase the total annual bill for a typical Mainland and Vancouver Island residential customer with an average annual consumption of 90 gigajoules by approximately $100 or 9.3 percent, an amount that is substantially higher than inflation and approaching a 10 percent increase that is typically considered to represent rate shock."

[17] Exhibit B-7, BCSEA IR1 1.1.

[18] Exhibit B-7, BCSEA IR1 1.1.

8. ICG further asserts, without any evidentiary support, that FBC’s residential rate is approximately 37 percent higher than BC Hydro’s, that this rate differential is the result of “fundamental differences” in FBC and BC Hydro’s cost structures, and that there is no reasonable expectation that the rate differential will trend lower.[19] FBC submits that ICG’s opinion is not supported by any evidence on the record and should be given no weight.

9. ICG goes on to argue that the BCUC should direct FBC to consider alternatives to a multi-year rate plan (MRP), including filing a full cost of service application, as part of the upcoming MRP Application so that the “the rate differential can be fully examined and considered”.[20] FBC submits that ICG’s request is without any foundation and should be rejected for the reasons below.

10. First, there is no logical connection between the rate differential between FBC and BC Hydro and whether FBC is under an MRP or cost of service.

11. Second, there is no compelling reason why the rate differential needs to be examined; nor is there any reason to expect a benefit to FBC’s customers from such an examination. FBC’s cost structure is understandably different than the much larger Crown corporation, which can be expected to have greater economies of scale and has a legislated distributable surplus, rather than a fair return set by the BCUC, amongst other features unique to a Crown corporation.

12. ICG notes that “government has worked with BC Hydro to identify cost savings, efficiencies, new revenue streams and other changes to keep BC Hydro electricity rates low.”[21] While government is the shareholder of BC Hydro, it is not the shareholder of FBC; as such, it is not the role of government to work with FBC in this manner.

13. Third, even if the effort to examine the rate differential were warranted, which it is not, there is no reason why a cost of service approach is required to conduct such an analysis.

[19] ICG Final Argument, p. 3.

[20] ICG Final Argument, p. 3.

[21] ICG Final Argument, p. 3.

14. Overall, FBC submits that ICG's recommendation has no reasonable foundation, would provide no benefits for customers, and should be rejected.

B. FBC'S LOAD FORECAST IS REASONABLE

(a) FBC's Methodology for Forecasting Residential Load is Proven and Accurate

15. FBC used a 10-year use per customer (UPC) regression as part of its forecast of residential load. As indicated in Table A3-5 in Appendix A3 to the Application, the R^2 value for the 10-year UPC regression is significant at over 82 percent, indicating a strong trend.[22] Where a strong trend exists in the data, it should be used.[23] CEC argues, however, that FBC's load forecasting methodology may be underestimating FBC's residential load due to the inclusion of UPC data from 2013 "which creates a sizably higher starting point for the trend analysis" and due to the inclusion of the UPC variance in 2019-2020.[24] FBC submits that CEC's proposed change to FBC's forecast method is arbitrary and untested and, therefore, should be rejected. FBC's forecast method involves relying on a statistically significant trend over 10 years of historical data. Data points should not be arbitrarily excluded from the analysis simply because they appear higher. Furthermore, FBC's forecast methodology has been proven to produce accurate results.[25] For example, FBC's 2022 residential UPC forecast had a variance of only 2.8 percent.[26] In short, there is no reason to believe CEC's adjustments would produce a more accurate result than FBC's proven forecast method.

(b) FBC's Forecast of Demand Side Management Savings Does Not Warrant Adjustment

16. BCOAPO submits that FBC's forecast impact of Demand Side Management (DSM) savings for 2023 and 2024 is likely overstated because FBC's forecast DSM savings for 2023 and 2024 contain no adjustment to account for further loss in the persistence of DSM savings achieved up

[22] Exhibit B-2, Application, Appendix A3, p. 4.

[23] Exhibit B-8, CEC IR1 3.12.

[24] CEC Final Argument, para. 53.

[25] Exhibit B-2, Application, Appendix A2, p. 11.

[26] Exhibit B-2, Application, Appendix A2, p. 13.

to 2022.[27] BCOAPO's position is incorrect. The actual losses in persistence will be reflected in the actual load each year and are therefore reflected in the before-DSM savings forecast for all customer classes, which is based on historical actual data. As a result, it is only necessary to forecast the incremental DSM savings for 2023 and 2024 and deduct those incremental DSM savings from the before-savings forecast for all customer classes.[28] FBC notes that no DSM measures included in the forecast contain a one-year measure life, so all incremental savings from 2023 will persist into 2024.[29] Furthermore, FBC's forecasting methodology has been reasonably accurate,[30] and any untested adjustments to the methodology are unlikely to produce superior results. Finally, any variances between forecast revenue and actual revenues are captured in the Flow-through deferral account and returned to, or recovered from, customers. As such, FBC submits that no adjustment is required to its load forecast.

17. CEC also argues that, if the BCUC agrees that FBC has underestimated its residential load, then FBC should be directed to provide a compliance filing showing the optimal power purchase portfolio options to acquire the power if the demand rises.[31] For the reasons discussed in the paragraph above, FBC has reasonably forecast its residential load. However, if the BCUC directs a change in FBC's load forecast, then FBC should be directed to forecast the resulting change in power supply and costs, as the relationship between load and power supply is complex. For example, FBC explained in the response to BCUC IR1 3.2 how an increase in load of 5 or 10 percent would increase 2024 rates:[32]

> …under the scenarios where the load increases by 10 percent or 5 percent, the 2024 rate also increases. This is due to the impact of the increased load on FBC's power purchase expense (PPE), which involves BC Hydro PPA [power purchase agreement] and market purchases. FBC also notes that access to BC Hydro's embedded cost energy under the BC Hydro PPA is based on an annual nominated amount with multiple tiers of charges depending on the amount of the purchases.

[27] BCOAPO Final Argument, pp. 12-13.

[28] Exhibit B-6, BCOAPO IR1 7.5.

[29] Exhibit B-6, BCOAPO IR1 7.8.

[30] Exhibit B-2, Application, Appendix A2, p. 11.

[31] CEC Final Argument, para. 89.

[32] e.g., Exhibit B-5, BCUC IR1 3.2.

> For example, any amount that exceeds the annual nominated amount will be charged at the Tranche 1 Energy Price plus 150 percent up to a maximum amount of 1,041 GWh, which then becomes Tranche 2 Energy. As such, the increase in PPE is not directly proportional to the increase in load, and depending on the amount of purchases, could outweigh the increase in revenue, resulting in an overall increase to the proposed 2024 rate.

(c) FBC's Demand Side Management Activities Align with the 2023 to 2027 DSM Plan

18. CEC recommends that the BCUC direct FBC to increase its DSM efforts for 2024,[33] while ICG argues that FBC does not provide sufficient DSM incentives in the forestry sector.[34] Both of these submissions are out of scope and should be rejected. FBC's forecast DSM savings are consistent with FBC's DSM Expenditure Plan for 2023-2027, which was accepted as being in the public interest by Decision and Order G-371-22.[35] Further, under section 44.2 of the *Utilities Commission Act*, only DSM expenditures that have been the subject of an accepted DSM expenditure schedule may be recovered in rates.

C. FBC'S FORECAST POWER PURCHASE EXPENSE PROPERLY ACCOUNTS FOR POTENTIAL SAVINGS

19. FBC has reasonably decreased its 2024 Forecast of BC Hydro Power Purchase Agreement (PPA) expense by $3.000 million in savings to account for potential real-time opportunities to displace PPA purchases with lower cost market purchases. This is less than the $3.500 million savings projected for 2023, which is consistent with the increasing costs of Market and Contracted Purchases as presented by Ms. Price at the Workshop.[36]

20. BCOAPO argues that FBC's forecast 2024 power purchase expense (PPE) should be reduced by at least $2 million to incorporate greater potential savings from real-time opportunities to displace BC Hydro PPA purchases with lower cost market purchases.[37] Contrary to BCOAPO's view, FBC has reasonably forecast the amount of real-time opportunities available

[33] CEC Final Argument, para. 62.

[34] ICG Final Argument, p. 1.

[35] Exhibit B-5, BCUC IR1 2.1; Decision and Order G-371-22, dated December 16, 2022. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/521428/1/document.do.

[36] Ms. Price, Workshop Transcript, pp. 32-36. Also Exhibit B-6, BCOAPO IR1 19.2.1.

[37] BCOAPO Final Argument, p. 24.

in 2024 and the existing market dynamics will make it extremely difficult to achieve more. As outlined below, BCOAPO's position is based on several misunderstandings of the evidentiary record and should be rejected.

21. First, and most importantly, BCOAPO incorrectly assumes that the $7.132 million reduction in 2023 PPA expense due to reduced volume is a net savings,[38] and therefore claims that FBC is "currently projecting that it will achieve cost reductions in its PPA expense for 2023 equivalent to what was in the Approved 2023 PPA expense".[39] However, BCOAPO is only considering the reduction in PPA costs and not taking into account the offsetting cost of the market purchases themselves.

22. As set out in the Application, the amount of real-time opportunities for market savings that FBC projects for 2023 compared to Approved is as follows: "2023 Approved included $7.000 million in potential real-time opportunities, including $3.500 million forecast for the first six months. FBC was able to exceed the $3.500 million during the first six months of 2023 but does not expect any further savings for the remainder of 2023."[40] FBC does not expect any savings for the remainder of 2023 within the Projected PPE due to the current forward market price premium compared to rates for PPA purchases for the remainder of 2023.[41]

23. FBC also notes the following errors in BCOAPO's analysis:

(a) BCOAPO incorrectly claims that market purchases are based "solely on actuals achieved to date". In fact, as FBC states in the Application: "Market and Contracted Purchases for 2023 Projected include fixed price contracted purchases, year to date real-time market purchases and forecast purchases in November and December 2023 at forward market rates."[42] BCOAPO appears to be confusing Market and Contracted Purchases generally with real-time market opportunities to reduce PPA expense.[43]

[38] BCOAPO Final Argument, p. 19, citing Exhibit B-6, BCOAPO IR1 15.1.1.

[39] BCOAPO Final Argument, p. 23.

[40] Exhibit B-2, Application, p. 37, footnote 17.

[41] Exhibit B-2, Application, p. 37.

[42] Exhibit B-2, Application, p. 39.

[43] Exhibit B-2, Application, p. 37.

(b) BCOAPO incorrectly claims that "FBC's responses to BCOAPO IR's 15.1; 15.1.1 and 15.1.2 all suggest that the currently Projected 2023 use of Market and Contracted purchases to reduce PPA cost has increased from what was Approved for 2023."[44] [Emphasis added] While Market and Contracted purchases did increase compared to 2023, these purchases are not all to reduce PPA cost as BCOAPO appears to assume. As explained on page 37 of the Application, FBC purchased forward market blocks to cover projected capacity shortfalls in June 2023 and also planned wholesale market purchases in November and December 2023, consistent with the strategy presented in the Annual Electric Contracting Plan. FBC provided a breakdown of the market purchases included in the 2023 Projected amount in response to BCOAPO IR1 19.3.[45]

(c) Contrary to BCOAPO's contention, there is no inconsistency between: (i) an increase in FBC's Projected 2023 use of Market and Contracted purchases compared to Approved; and (ii) the projected average cost of market and contracted purchases being higher than the 2023 Approved average cost.[46] Again, not all Market and Contracted purchases are for the purpose of reducing PPA cost. FBC may, for example, require Market and Contracted purchases to cover winter energy requirements or capacity shortfalls, as FBC is forecasting for 2024.[47]

24. For the reasons above, BCOAPO's submission that FBC's 2024 PPE should be reduced by at least $2 million in market savings should be rejected.

D. OTHER REVENUE

(a) FBC's Forecasting of Carbon Credit Revenue Remains Reasonable

25. CEC submits that FBC should be forecasting the monetization of all carbon credits as Other Revenue and that any shortfalls arising because of delays in the Ministry's processing of carbon credit approvals could be transferred to the Flow-through deferral account.[48] FBC understands the CEC to be seeking ways to reduce rates in 2024. However, FBC submits that this is not a reasonable forecasting approach. Consistent with FBC's approach approved for 2023 rates, FBC has not forecast revenue from the sale of credits for 2024 due to the uncertainty in the timing of

[44] BCOAPO Final Argument, p. 19.

[45] Exhibit B-6, BCOAPO IR1 19.3.

[46] BCOAPO Final Argument, p. 19.

[47] Exhibit B-2, Application, p. 39, lines 18-19.

[48] CEC Final Argument, paras. 92-93.

the credit validation as well as the market pricing.[49] FBC submits that this approach is reasonable and appropriate for the reasons discussed in response to BCUC IR1 10.2:[50]

> FBC does not see any disadvantages to its current methodology for valuing the EV carbon credits and considers its approach of not forecasting revenue in 2024 to be reasonable at this time.
>
> Regarding the valuation of EV carbon credits, FBC generally monetizes all credits within a year from the date that the credits are validated. FBC uses the credit market data published by the Ministry which is the best and most up-to-date information available. Further, the credit market data published by the Ministry is the current average market price, which provides a good estimate of the value of credits in the short-term (i.e., within the current year). However, the credit market data published by the Ministry is unlikely to be reliable for the purposes of forecasting future years. This is because the Ministry's credit market data represents recent credit sale prices and is therefore not a forecast of the credit market. Since there is generally a lack of credible forecast data available on future credit values, FBC considers it most appropriate to limit its projections/forecasts of carbon credits to the current year (2023 in this case), as forecasts for 2024 or future years would be quite speculative and likely inaccurate given the variability of the carbon credit market.
>
> Additionally, as noted in the response to BCUC IR1 10.1, there continues to be delays in the validation of carbon credits. FBC is still awaiting the approval of its 2021 Compliance Report, which was submitted to the BC-LCFS in March 2022. Given the length of time that has lapsed since filing the 2021 Compliance Report, there remains uncertainty on the length of time taken by the BC-LCFS between submission and approval. FBC continues to anticipate the 2021 Compliance Report will be approved in 2023 as the report was submitted to the BC-LCFS over a year ago; however, there is less certainty regarding the 2022 Compliance Report, which was submitted in March of 2023. If the credits from the 2022 Compliance Report are validated in 2024, then FBC will likely attempt to monetize the credits in 2024, but there is a possibility that this could be delayed to 2025.
>
> In consideration of the uncertainties around the future pricing of carbon credits and the timing of receiving credit validation from the BC-LCFS, any forecast put forward by FBC for 2024 (or future years) would be highly speculative.
>
> Finally, since FBC is approved to treat the carbon credit revenue as flow-through, if FBC does realize any carbon credit revenue in 2024, it will be returned to customers in 2025. Therefore, FBC considers its current approach to limiting the

[49] Exhibit B-2, Application, p. 44.

[50] Exhibit B-5.

> forecasting of carbon credit revenue to the current year (2023 in this case) to be the most reasonable at this time.

(b) FBC Appropriately Optimizes Apparatus and Facilities Rental Fees

26. CEC argues that, since revenue from apparatus and facilities rentals is forecast to increase by an amount lower than inflation, the BCUC should direct FBC to develop "a plan to generate reasonable returns on the capital invested in apparatus and facilities."[51] FBC submits that the CEC's recommended direction is unnecessary. FBC always seeks to generate benefits for customers when ancillary sources of revenue are available, such as through apparatus and facilities rentals. The current levels of inflation experienced over the last year, however, cannot be used as a reasonable expectation for how apparatus and facilities rentals should increase. The details on apparatus and facilities rentals were not explored in this proceeding beyond the description in the Application, which describe how FBC charges rent at the unit rate per pole contact and that its 2024 Forecast revenue is increasing over 2023 Approved:[52]

> Apparatus and Facilities Rental is comprised primarily of pole contact revenue from other utilities and businesses that attach their facilities to FBC infrastructure in order to deliver services to their customers, such as telephone and cable television providers. Rent is charged at a unit rate per pole contact multiplied by the number of poles that are contacted. There are no variances projected in 2023 compared to 2023 Approved, as final amounts have yet to be calculated since the majority of invoices are issued during the third quarter of the year. The 2024 Forecast is higher than 2023 Approved due to expected escalations in unit rental rates for continuing contracts.

27. FBC submits that it has forecast its revenue for 2024 for apparatus and facilities rentals based on contracts with third parties, and its forecast is reasonable and should be approved.

E. FBC'S CUSTOMERS HAVE BENEFITTED FROM O&M AND PRODUCTIVITY SAVINGS

28. BCOAPO states that it is disappointed with FBC's productivity savings and productivity initiatives given the expected benefits of performance-based ratemaking (PBR) plans for

[51] CEC Final Argument, paras. 94-95.

[52] Exhibit B-2, Application, p. 42.

increased and ongoing productivity savings, with persistent cost savings.[53] FBC submits that BCOAPO's perspective is misguided. FBC has successfully kept its formulaic O&M below the formula amount, which includes an embedded productivity improvement factor as well as a discount on the growth factor. This indicates that FBC is not only keeping its formulaic O&M below industry averages and inflation, but is also meeting the stretch target set by the BCUC. Customers have benefited from FBC containing its O&M costs within the formula amount and will continue to benefit in the future from the productivity that FBC has been able to achieve and maintain.

F. REDUCTIONS IN PENSION/OPEB COSTS ARE BEYOND FBC'S CONTROL

29. CEC recommends that the BCUC direct FBC to review the potential initiatives that FBC could take to preserve reductions in Pension/OPEB costs, if and when the recent interest rate increases subside, as part of its next Annual Review.[54] FBC submits that CEC's recommendation is not reasonable and has no foundation. CEC did not explore this topic in IRs or at the Workshop, and has not provided any basis to conclude that there are potential initiatives to preserve reductions in Pension/OPEB costs. Moreover, Pension/OPEB costs are captured in the Pension and OPEB Variance deferral account and amortized over three years because they are not within the control of the utility, as they are primarily impacted by factors such as the assumed rate of return on pension investments and discount rates on the projected benefit obligation, as well as partially influenced by other assumptions such as assumed mortality and long-term salary adjustments.[55] As such, FBC submits that there is no evidentiary basis to conclude that the CEC's recommendation could provide any benefits.

G. FBC INSURANCE-RELATED COSTS ARE GENERALLY OUTSIDE OF ITS CONTROL

30. CEC recommends that the BCUC require FBC to provide the following as part of its next Annual Review: (1) a summary of the risks it is insuring for; (2) the projects FBC is undertaking to reduce these risks; and (3) the efforts it has undertaken in its 2024 to 2025 insurance contract

[53] BCOAPO Final Argument, p. 28.

[54] CEC Final Argument, para. 108.

[55] Exhibit B-2, Application, pp. 49-50.

negotiations to mitigate increasing insurance costs.[56] FBC submits that this recommendation is unnecessary and unreasonable. First, this recommendation is actually a request for information that CEC could have made during the IR process. However, CEC did not explore this topic in IRs, or at the Workshop. FBC submits that if CEC wishes to request this information it should do so during the evidentiary portion of a proceeding, rather than reframing it as a recommendation in final argument with no evidentiary record in support. Second, FBC's insurance-related costs are insurance premium expenses allocated to FBC by Fortis Inc. as part of its property and casualty insurance program,[57] such that FBC is able to benefit from the insurance premiums obtained by the much larger Fortis group of companies. Further, FBC's insurance costs are subject to flow-through treatment because they address risks that are generally outside of FBC's control. FBC submits that its forecast is reasonable and that there is no evidence to conclude that the information that CEC is seeking would provide any benefit.

H. FBC'S 2024 RATE BASE FORECAST IS REASONABLE AND WELL-SUPPORTED

(a) FBC Has Reasonably Forecast Contributions in Aid of Construction for 2024

31. BCOAPO submits that FBC should not be permitted to forecast a decrease in the level of contributions in aid of construction (CIAC) for 2024, as this is inconsistent with regular capital spending for 2023 and 2024 being approved in Orders G-382-22 and G-87-23. Instead, BCOAPO submits that the 2024 forecast CIAC should be $9.50 million, representing the same percentage of Growth Capital spending as in 2023.[58] FBC submits that this is incorrect. While Decision and Order G-382-22[59] (and Reconsideration Decision and Order G-87-23)[60] approved FBC's update to the 2023 and 2024 Regular Capital Expenditures, these approvals did not include CIAC. As 2024 CIAC has not been previously approved by the BCUC, FBC has reasonably and appropriately

[56] CEC Final Argument, para. 111.

[57] Exhibit B-2, Application, p. 50.

[58] BCOAPO Final Argument, pp. 32-33.

[59] Decision and Order G-382-22, dated December 22, 2022. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/521448/1/document.do.

[60] Reconsideration Decision and Order G-87-23, dated April 19, 2023. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/521603/1/document.do.

forecast its CIAC for 2024. Further, FBC reasonably reduced the 2024 Forecast of CIAC based on recent years' actual amounts.[61]

(b) It is Well-Accepted Practice for Project Components to Enter Rate Base in Phases

32. Referring to the Kelowna Bulk Transformer Additions (KBTA) and Corra Linn projects, RCIA argues that "FortisBC, as well as all other utilities, should not be able to redefine a project after-the-fact" and "Projects to be completed and put into service in a phased or staged approach should be identified as such from the outset, not retroactively."[62] RCIA recommends that "the Commission, going forward and in relation to all utilities, ensure any large capital projects clearly identify any staged completion or division of the project at the time the project is brought forward for approval."[63] FBC submits that RCIA's recommendation is without merit and should be rejected.

33. First, FBC in fact indicated in its applications for the KBTA and Corra Linn projects that the projects would be placed into service in phases. While RCIA did not ask any IRs or questions about this topic, FBC's representations are recorded in the BCUC decisions approving these projects.

34. Decision and Order C-4-20 granting a CPCN for the KBTA project indicates on page 30 that FBC planned to have the project enter rate base in 2023 and 2024:[64]

> FBC states that the majority of the assets are expected to enter rate base in 2023 and to evaluate the rate impact of the Project and the alternatives, a 40-year cost of service model was used. For the Project (referred to as Alternative A) and each alternative, FBC provided both the rate impact in 2024, the year when all assets are expected to be in service, and the levelized 40-year rate impact for an average residential customer using 11,000 kWh of energy. [Emphasis added.]

[61] Exhibit B-16, Workshop Undertaking No. 3.

[62] RCIA Final Argument, p. 7.

[63] RCIA Final Argument, p. 7.

[64] Decision and Order C-4-20, dated November 30, 2020. Online: https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/489345/1/document.do.

35. Decision and Order C-1-17 granting a CPCN for the Corra Linn project states on page 2 of the Order that FBC planned to complete the project in phases:[65]

> FBC plans to complete the Project in phases with the last spillway gate scheduled to be in-service by December 2020 and contractor demobilization and site restoration to occur in early 2021.

36. Moreover, it is reasonable and appropriate for components of a project to enter rate base as they enter service. As a general rule, assets that are in service – are used and useful – should be entered into rate base. If a project has distinct components that enter service and become used and useful at different times, then each component should enter rate base accordingly. FBC's approach to including Major Project capital additions in rate base is consistent with approved regulatory accounting treatment and is consistent with FBC's longstanding treatment of Major Project capital. As such, RCIA's submission should be rejected.

I. FBC'S DEFERRAL ACCOUNT REQUESTS SHOULD BE APPROVED AS PROPOSED

(a) Setting the Amortization Period of the 2025 MRP Application Costs Deferral Account in a Future Proceeding is Reasonable

37. CEC supports the creation of the 2025 Multi-year Rate Plan Application deferral account, but argues that the amortization period should be determined at the time of creating the account and not, as FBC proposes, in a future proceeding.[66] CEC provides no rationale for its submission that the amortization period be set at the time of creating this account. FBC submits that proposing an amortization period when applying to set 2025 rates is reasonable as the purpose of the deferral account is to capture costs related to the 2025 Multi-year Rate Plan filing.[67] FBC will likely propose to recover the costs over the proposed term of this next MRP, thus matching the timing of costs and benefits and avoiding intergenerational inequities.[68] As the term of the

[65] Decision and Order C-1-17, dated February 7, 2017. Online: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/218524/1/document.do.

[66] CEC Final Argument, para. 125.

[67] Exhibit B-8, CEC IR1 1.1 and 1.2.

[68] Exhibit B-2, Application, Table 7-5 (p. 66).

next MRP will ultimately be determined by the BCUC, it is appropriate that the amortization period be determined by the BCUC Panel considering the MRP application.

(b) PST Rebates and the Residual Balance of the Cost of Living Credit Should be Returned to Customers in 2024

38. CEC recommends that provincial PST rebates received to date and applied for in 2023 (whether received or not), as well as the residual balance of the BC Cost of Living Credit, should be returned to customers in 2023 as Other Revenue rather than creating deferral accounts and amortizing the issued amounts over one year, starting on January 1, 2024, as proposed by FBC.[69] FBC's proposal to return the rebates to customers in 2024 provides the benefits to customers as soon as possible. As FBC explained at the Workshop, the 2023 rates have already been approved as permanent pursuant to Order G-276-23[70] and, therefore, it is not possible to flow the PST rebates or the residual balance of the Cost of Living Credit to customers in 2023 as proposed by CEC. Further, if FBC were directed to record these amounts in 2023 Projected Other Revenue, the rebates would be captured in the Flow-through deferral account and amortized in 2024, which is no different in effect than FBC's proposals.

(c) FBC Does Not Propose to Capture Climate Change Operational Adaptation Plan Expenditures Beyond 2024 in the Deferral Account

39. RCIA supports the creation of a deferral account to capture costs related to the Climate Change Operational Adaptation (CCOA) Plan but proposes that any costs associated with the plan beyond 2024 should be treated as part of forecast costs, rather than continue under deferral account treatment.[71] FBC submits that RCIA's proposal is based on a misapprehension of FBC's request with respect to this deferral account, as it is not proposing to capture costs beyond 2024 in this account.[72] In particular, the development of the first phase of the CCOA Plan only covers the period of 2023 to 2024 and forms part of FBC's broader Roadmap on Climate Change

[69] CEC Final Argument, paras. 128-133.

[70] Exhibit B-14, Workshop Presentation, Slide 4; Ms. Walsh, Workshop Transcript, pp. 13-14.

[71] RCIA Final Argument, p. 8.

[72] Exhibit B-7, BCSEA IR1 18.6.

Adaptation, which covers a longer period of 2023 to 2027.[73] Therefore, any updates on the progress of the CCOA Plan, details on the balance of the CCOA Plan deferral account, and additional funding requests beyond 2024 will be addressed in FBC's upcoming MRP application, which FBC expects to file in Q1 of 2024.[74] Whether costs associated with the CCOA Plan beyond 2025 will be included in FBC's forecast over the plan period or be subject to some other treatment should be determined by the BCUC Panel considering FBC's upcoming MRP application.

(d) FBC's Proposed Amortization of the CCOA Plan Deferral Account is Reasonable

40. CEC also supports approval of a deferral account to capture costs related to the CCOA Plan, but requests that the amortization of the initial costs for the CCOA Plan should, at minimum, be amortized over the next 10 years to match the proposed benefits of such a plan.[75] FBC submits that CEC's request should be rejected, as a 10-year amortization period for the CCOA Plan deferral account would result in an overly lengthy amortization of these costs out to 2034. In contrast, FBC's proposed 4-year amortization period, beginning January 1, 2024, aligns with the CCOA Plan timeline[76] and, as such, more closely aligns with the time required for the development of the CCOA Plan and subsequent business cases.[77] While subsequent CCOA Plan business cases will provide benefits beyond the 4-year amortization period,[78] a longer amortization period will also increase associated carrying costs, which results in an additional (albeit minor) cost to customers, and would lead to intergenerational inequity as the costs captured in the deferral account will only be incurred in 2023 and 2024.

(e) FBC Will Provide Updates Regarding the CCOA Plan As Part of Future Annual Reviews

41. BCOAPO submits that FBC should be directed by the BCUC to provide explanations regarding the external resources used/contracted to date, the tasks they have/will undertake and how these tasks contribute to the overall development of the CCOA Plan as part of the 2025

[73] Exhibit B-5, BCUC IR1 17.3.

[74] Exhibit B-5, BCUC IR1 17.5.

[75] CEC Final Argument, paras. 135-136.

[76] Exhibit B-2, Application, p. 71.

[77] Exhibit B-8, CEC IR1 1.19. Exhibit B-5, BCUC IR1 17.3.

[78] Exhibit B-5, BCUC IR1 17.4.

Annual Review.[79] BCOAPO also recommends that the BCUC direct FBC to provide an updated forecast of the planned spending for 2023 and 2024 as part of its 2025 Annual Review and any adjustments to the forecast annual amortization amounts for 2025-2027.[80] FBC is not opposed to providing the information identified by BCOAPO and, in particular, has committed to providing updates on the progress of the CCOA Plan (including the climate change risk assessment) and details regarding the balance of the CCOA Plan deferral account.

(f) FBC's Existing Regulatory Hearing Deferral Accounts Are Transparent and Facilitate Ample Regulatory Oversight

42. In order to simplify oversight of FBC's regulatory proceeding deferral accounts, while allowing for netted recovery/rebate of differences over an annual or longer period, RCIA recommends that the BCUC direct FBC to consider the use of a single, generic, regulatory hearing deferral account to deal with costs applicable to proceedings.[81] While FBC is open to considering means of simplifying oversight of its regulatory proceeding deferral accounts, it does not consider that the fluctuations in the number of deferral accounts based on the number of proceedings in a given year, as identified by RCIA, adversely impacts oversight of these accounts by the BCUC or interveners. In fact, FBC submits that the current approach is transparent and facilitates regulatory oversight by identifying each regulatory proceeding and deferral account for review by the BCUC.

43. Additionally, FBC is concerned that the approach proposed by RCIA may reduce the flexibility of managing rate impacts related to regulatory proceeding costs. Depending on the length and complexity of a regulatory proceeding, the quantum of application costs can vary significantly, which is in part why different application cost deferral accounts have different amortization periods. Combining all applications into one generic deferral account would result in one generic amortization period. This reduces the flexibility in determining the appropriate amortization period for each regulatory proceeding cost deferral account.

[79] BCOAPO Final Argument, p. 40.

[80] BCOAPO Final Argument, p. 40.

[81] RCIA Final Argument, p. 8.

44. Overall, FBC submits that there is no need to change the current approach to seeking approval of regulatory proceeding deferral accounts.

(g) Deferral Account Financing Costs Should be Approved on a Permanent Basis

45. ICG argues that, because the review of deferral account financing costs was found by the BCUC to be within the scope of the GCOC proceeding, financing costs of deferral accounts should only be approved on an interim basis pending the review of these costs by the BCUC in that proceeding.[82] FBC submits that ICG's proposal is without merit and would lead to unacceptable knock-on effects. In particular, setting the financing costs of deferral accounts on an interim basis would prevent the setting of rates on a permanent basis until the BCUC has completed its review of these costs. As determined in Decision and Order G-205-21,[83] the BCUC only intends to assess the financing costs of deferral accounts *after* the completion of Stages 1 and 2 of the GCOC proceeding. Stage 1 of the GCOC proceeding commenced in January 2021, with the BCUC Panel issuing its Decision in September 2023. Stage 2 commenced soon thereafter and does not yet have a defined regulatory timetable, such that it is unclear when the BCUC will be assessing financing costs of deferral accounts. FBC does not consider that setting rates on an interim basis during the intervening (and indeterminate) period is justified, or indeed, was contemplated by the BCUC in identifying deferral account financing costs as a scope item after Stages 1 and 2 of the GCOC proceeding have been completed.

46. Moreover, ICG made similar arguments in FBC's Annual Review for 2023 Rates, which were rejected by the Panel in that proceeding:[84]

> As such, the Panel rejects ICG's recommendation that we approve a non-rate base account with carrying charges of WACD for the 2023 Joint Use Pole Audit deferral account. Rate base treatment is comparable to other circumstances where FBC's recovery of costs is deferred, such as capital expenditures and working capital. Rate base deferral accounts, as a consequence, apply financing costs based on WACC. The Panel accepts FBC's justification that the costs it incurs for the 2023

[82] ICG Final Argument, p. 4.

[83] Decision and Order G-205-21, dated July 7, 2021. Online: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/item/499884/index.do?q=G-205-21.

[84] Decision and Order G-382-22, p. 20.

> joint pole use audit will be financed, for rate-making purposes, at FBC's cost of capital. The Panel also notes this reasoning is consistent with recent BCUC decisions for FBC's 2020-2021 Annual Review and 2022 Annual Review.
>
> While the Panel is aware that the financing costs of deferral accounts are being reviewed in the on-going GCOC proceeding, this does not prohibit the Panel from making a decision on this rate base referral account. We see no real justification for delaying this decision pending the outcome of the GCOC proceeding.

47. For the reasons above, FBC submits that ICG's request should be rejected.

J. RATE SCHEDULE 96 RATE DESIGN NOT IN SCOPE OF THIS PROCEEDING

48. BCOAPO states that FBC is proposing to keep Rate Schedule (RS) 96 rates unchanged for both 50 kW and 100 kW DCFC stations,[85] citing Attachment 10.1 to FBC's responses to BCSEA IRs.[86] However, FBC is making no proposals with respect to RS 96 in this proceeding. The document referenced by BCOAPO is FBC's Rate Schedule 96 Detailed Assessment Report filed in December 2022, which the BCUC has already reviewed and accepted in Letter L-33-23. As RS 96 rates are not within the scope of this proceeding, FBC has not replied to BCOAPO's commentary on this report.

K. SERVICE QUALITY INDICATOR PERFORMANCE INDICATES A HIGH LEVEL OF OVERALL SERVICE QUALITY

(a) FBC's All Injury Frequency Rate Exceeded the Benchmark in 2022

49. BCOAPO acknowledges that FBC's All Injury Frequency Rate (AIFR) SQI results remain "well-above" the threshold and that "that there is no significant evidence of quality of service deterioration due to cost control efforts by FBC",[87] but notes that a "continuing trend" of deterioration is "cause for concern".[88] Safety is a key driver for FBC.[89] FBC acknowledges that,

[85] BCOAPO Final Argument, p. 59.

[86] Exhibit B-7.

[87] BCOAPO Final Argument, p. 54.

[88] BCOAPO Final Argument, p. 58.

[89] Exhibit B-5, BCUC IR1 23.1; Exhibit B-2, Application, p. 124.

despite its 2022 AIFR three-year average result of 1.42,[90] FBC saw a notable increase in recordable safety incidents during 2022. Further, unrelated incidents in 2023 have led to an August year-to-date AIFR result of 1.98 for 2023.[91] FBC has dedicated the resources to: (1) identify the causes of this increase in recordable safety incidents; and (2) mitigate any causes within its control. These incidents do not indicate any lapse in FBC's critical safety processes and are unrelated.[92]

50. FBC's 2022 AIFR annual result was driven by 4 injuries requiring medical treatment and 8 injuries resulting in lost time.[93] In particular, FBC experienced a spike in slips, trips and falls due to severe winter conditions beyond its control in the fourth quarter of 2022, which continued into the early part of the first quarter of 2023. FBC's 2023 August year-to-date AIFR is predominately driven by minor lacerations/cuts requiring medical attention, which are unrelated to the incidents affecting FBC's AIFR in 2022.[94]

51. Although only FBC's 2022 three-year average results are the subject of review in this proceeding, with 2023 results evaluated in the next Annual Review with the benefit of "a more complete evidentiary record on which to make the necessary determinations",[95] FBC has reasonably explained the causes of both 2022 and 2023 results. In particular, FBC provided a table summarizing each recordable injury from January 2022 to 2023 year-to date, including a description of the nature of each incident and the measures it took following each incident.[96] For example, to address winter weather conditions (like those seen in late-2022 and early-2023), FBC

[90] For the purposes of this SQI, the measurement of performance is based on the three-year rolling average of the annual results: Exhibit B-2, Application, p. 124. FBC notes that the results based on the three-year rolling average have been better than the benchmark since 2017. Exhibit B-2, Application, Table 13-3 (p. 124).

[91] Exhibit B-14, Workshop Presentation, slide 40.

[92] Exhibit B-5, BCUC IR1 23.1.

[93] Injuries are defined as either lost time injuries (i.e., one or more days missed from work) or medical treatments (i.e., medical treatment was given or prescribed): Exhibit B-2, Application, p. 123.

[94] Exhibit B-5, BCUC IR1 23.1.

[95] Decision and Order G-44-16, dated April 1, 2018. Online: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/143220/1/document.do.

[96] Exhibit B-10, MoveUP IR1 2.1.

supervisors ensured that traction aids were available to employees in order to mitigate the likelihood of slips, trips and falls.[97]

52. FBC has also responded appropriately to these higher AIFR results in 2022 and 2023 by developing a number of robust safety solutions and improvements to mitigate and/or minimize the risk of future recurrences, including but not limited to:[98]

(a) Changing and updating its safety management system, processes and procedures;

(b) Undertaking customized education, (re)training and other targeted initiatives (e.g., reviewing incidents as part of safety meetings);

(c) Engaging skilled Injury Prevention and Management Specialists to work directly with employees, focusing on proactive hazard identification, ergonomics, and post-work recovery activities; and

(d) Continuing to engage WorkSafeBC in an effort to learn how FBC can enhance its existing programs to support safe Recover at Work plans where applicable.

53. FBC is committed to preventing the continued increase in its recordable safety incidents by learning from safety events, identifying safety hazards, assessing risk, and continually improving its safety management system through the implementation and sustainment of robust safety defences and controls.[99]

(b) SAIDI and SAIFI Are Not Driven by MRS and Remain Above Benchmark

54. ICG accepts that FBC has met the SQI requirements established through the 2020-2024 MRP, but observes that FBC's System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) SQI results and, therefore, the reliability of FBC's system has not improved despite capital expenditures for Mandatory Reliability Standards (MRS).[100] FBC submits that ICG's contention is without merit as MRS investments do not target the distribution facilities which SAIDI and SAIFI results are primarily calculated from. As such,

[97] Exhibit B-10, MoveUP IR1 2.1.

[98] Exhibit B-5, BCUC IR1 23.1; see also Mr. Slater, Workshop Transcript, p. 65.

[99] Exhibit B-2, Application, p. 124.

[100] ICG Final Argument, p. 3.

while MRS investments have not had an observable impact on FBC’s SAIDI and SAIFI results, this is expected and not indicative of an area of concern, as MRS only apply to equipment operating above 100 kV and are intended to improve the reliability of the transmission system.[101]

55. FBC has and is continuing to make efforts to maintain and improve the reliability of its service by investing in several programs to mitigate the impact of external factors on SAIDI performance, including: (1) acquiring and deploying equipment and materials to allow for the proactive application of fire retardant to assets ahead of an approaching wildfire; (2) targeted hazardous tree removal where tree contacts occur more often; and (3) installing cover-up protection for substation equipment to reduce the risk of wildlife-related outages.[102]

56. Ultimately, external factors, such as fires, storms and unpredictable vegetation-related outages, remain the key drivers affecting FBC’s SAIDI and SAIFI results (not MRS)[103] and FBC’s 2022 performance is better than the benchmark for both SQIs.

PART THREE: CONCLUSION

57. The final submissions of interveners broadly support FBC’s Application, reflecting a constructive information-sharing process undertaken through IRs and the Workshop. FBC submits that its approvals sought are just and reasonable and should be approved as filed.

[101] Exhibit B-9, ICG IR1 1.3.

[102] Exhibit B-8, CEC IR1 8.4.

[103] Exhibit B-5, BCUC IR1 12.1.

58. ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: November 27, 2023 ***[original signed by Chris Bystrom]***

Chris Bystrom
Counsel for FortisBC Inc.

Dated: November 27, 2023 ***[original signed by Niall Rand]***

Niall Rand
Counsel for FortisBC Inc.