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July 4, 2025

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC
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Dear Commission Secretary:

Re: FortisBC Inc. (FBC)

2025 Cost of Service Allocation (COSA) and Revenue Rebalancing (Application)

Response to the British Columbia Utilities Commission (BCUC) Information Request (IR) No. 2

On February 14, 2025, FBC filed the Application referenced above. In accordance with the amended regulatory timetable established in BCUC Order G-127-25 for the review of the Application, FBC respectfully submits the attached response to BCUC IR No. 2.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners

13.0 Reference: 2025 COST OF SERVICE ALLOCATION (COSA) STUDY METHODOLOGY AND RESULTS

Exhibit B-1-1 (Updated Application), Section 7.3, pp. 36, 37

Monthly Bill Impact to Rate Schedule (RS) 60 Customers

On page 36 of the Updated Application, FBC provides Table 7-9 comparing the bill impacts to RS 60 customers due to revenue rebalancing over a phase-in period from one to five years.

Table 7-9: Comparison of Bill Impact to RS 60 Customers due to Revenue Rebalancing over a Phase-in Period from One to Five Years

Phase-in Period	1 year	2 Years	3 Years	4 Years	5 Years
Revenue Shift per year ($000s)	$ 609	$ 305	$ 203	$ 152	$ 122
Effective Increase due to rebalancing each year (%)	14.9%	7.5%	5.0%	3.7%	3.0%
Appox. Monthly Bill Impact to RS 60 Customers - Year 1 ($)	$ 46.0	$ 23.0	$ 15.3	$ 11.5	$ 9.2

On page 37 of the Updated Application, FBC discusses how RS 60 customers are charged at RS 20 or RS 21 rates during the off-season (i.e. from November to March).

13.1 Please update Table 7-9 to include the monthly bill impact to RS 60 customers during the: 1) RS 60 In-season (April to October); 2) RS 60 Off-season (November to March) at RS 20 rates; and 3) RS 60 Off-season (November to March) at RS 21 rates over a phase-in period from one to five years.

Response:

Please refer to the Updated Table 7-9 below which includes the Year 1 monthly bill impact for an average RS 60 customer with a phase-in period from one to five years during the:

1) In-season from April to October;
2) Off-season from November to March at RS 20 rates; and
3) Off-season from November to March at RS 21 rates.

Phase-in Period	1 year	2 Years	3 Years	4 Years	5 Years
Revenue Shift per year ($000s)	$ 609	$ 305	$ 203	$ 152	$ 122
Effective Increase due to rebalancing each year (%)	**14.9%**	**7.5%**	**5.0%**	**3.7%**	**3.0%**
1) Effective Increase RS 60 In-Season (Apr to Oct) (%)	18.6%	9.5%	6.4%	4.8%	3.9%
2) Effective Increase RS 60 Off-Season (Nov to Mar) @ RS 20 (%)	-2.4%	-2.4%	-2.4%	-2.4%	-2.4%
3) Effective Increase RS 60 Off-Season (Nov to Mar) @ RS 21 (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Approx. Monthly Bill Impact to RS 60 Customers (Year 1 of Phase-in)	**$ 46.0**	**$ 23.0**	**$ 15.3**	**$ 11.5**	**$ 9.2**
1) Average Monthly In-Season (Apr to Oct) ($)	$ 79.7	$ 40.6	$ 27.4	$ 20.5	$ 16.8
2) Average Monthly Off-Season at RS 20 (Nov to Mar) ($)	$ (2.1)	$ (2.1)	$ (2.1)	$ (2.1)	$ (2.1)
3) Average Monthly Off-Season at RS 21 (Nov to Mar) ($)	$ -	$ -	$ -	$ -	$ -

As part of FBC's proposed Option 2 from the Updated Application, the rates of RS 20 will be reduced by 2.4 percent due to revenue rebalancing, while there is no change to the rates of RS 21. Therefore, an average RS 60 customer with off-season rates under RS 20 will experience a bill reduction from November to March by 2.4 percent due to revenue rebalancing, while an average RS 60 customer with off-season rates under RS 21 will see no change to their bills from November to March.

As explained on page 37 of the Updated Application, in order to offset the off-season reduction of revenue from RS 20 due to the proposed revenue rebalancing, the in-season RS 60 rates will need to increase more than the effective increase on an annual basis. Using the 5-year phase-in as an example, the in-season RS 60 rates will need to increase by 3.9 percent such that the overall increase will be 3.0 percent (or $122 thousand of revenue shift) after accounting for the 2.4 percent reduction in RS 20 rates during the off-season months.

On page 37 of the Updated Application, FBC states:

> In order to facilitate the phase-in of the impact to RS 60 customers and maintain overall revenue neutrality, FBC is seeking BCUC approval pursuant to sections 59 to 61 of the UCA [*Utilities Commission Act*] for a non-rate base deferral account, titled the Irrigation Rebalancing Phase-in deferral account, attracting FBC's WACC [weighted average cost of capital], to capture the revenue deficiency resulting from the phase-in for RS 60 customers. The deferral account will be amortized over the same 5-year phase-in period for RS 60 customers and will be recovered from all customers through FBC's general rate increases.

13.2 Please provide an illustrative example of how the proposed Irrigation Rebalancing Phase-in deferral account will work including the annual deferred amount in dollars, the annual amortized amount in dollars, and the annual bill impact by rate schedule in percent and dollars for each year.

Response:

Please refer to Table 1 below for an illustration of how the proposed Irrigation Rebalancing Phase-in deferral account will work from Years 1 to 5 of the phase-in period. Specifically, please refer to Line 3 for the estimated annual amount to be deferred in dollars (which will be captured in the proposed deferral account as shown in Line 7 of Table 1 below). Please also refer to Line 11 for the estimated annual amount to be amortized over the 5-year period, Line 14 for the incremental revenue requirement over the 5-year period due to the amortization which will be recovered from all customers through FBC's general rate increase, and Line 20 for the estimated incremental rate impact resulting from the proposed deferral account.

Table 1: Illustration of the Proposed Irrigation Rebalancing Phase-in Deferral Account

Line	Particular	Reference	Year 1	Year 2	Year 3	Year 4	Year 5
1	Total Revenue Shift to RS 60 Required ($000s)	Table 7-8 of Updated Application	609	609	609	609	609
2	RS 60 Revenue Shift per year with 5-year Phase-In ($000s)		(122)	(152)	(203)	(305)	(609)
3	Revenue Deficiency to be recorded to Deferral Account	Line 1 + Line 2	487	457	406	305	-
4							
5	**Proposed Irrigation Rebalancing Phase-in Deferral Account ($000s)**						
6	Opening Balance	Line 12; Prior Year	-	-	-	-	-
7	Gross Additions	Line 3	487	457	406	305	-
8	Less: Tax	- Line 7 x 27%	(132)	(123)	(110)	(82)	-
9	WACC	(Line 6 + (Line 7 + Line 8)/2) x WACC	11	10	9	7	-
10	Net Additions	Sum of Line 7 to Line 9	366	343	305	229	-
11	**Amortization**	**- Line 10**	**(366)**	**(343)**	**(305)**	**(229)**	**-**
12	Closing Balance	Line 6 + Line 10 + Line 11	-	-	-	-	-
13							
14	**Incremental Revenue Requirement**						
15	Amortization	- Line 11	366	343	305	229	-
16	Income Tax Expense	[Line 15 / (1 - 27%)] x 27%	136	127	113	85	-
17	**Total ($000s)**	**Line 15 + Line 16**	**502**	**471**	**418**	**314**	**-**
18							
19	FBC 2025 Approved (Interim) Revenue Requirement ($000s)	G-314-24	502,624	502,624	502,624	502,624	502,624
20	**Estimate Incremental Rate Impact (%)**	**Line 17 / Line 19**	**0.10%**	**0.09%**	**0.08%**	**0.06%**	**0.00%**

Please also refer to Table 2 below for the estimated annual bill impact (when compared to the 2025 Approved interim rates[1]) by rate schedule in percent and dollars for each year over the proposed 5-year phase-in period.

Table 2: Estimated Annual Bill Impact (Compared to 2025 Interim Approved Rates) by Rate Schedule in % and $ Each Year Over the 5-year Phase-in Period

		Year 1		Year 2		Year 3		Year 4		Year 5	
	Avg. kWh /	Bill Impact		Bill Impact		Bill Impact		Bill Impact		Bill Impact	
Rate Schedule	Customer	($)	(%)	($)	(%)	($)	(%)	($)	(%)	($)	(%)
RS 01 Residential	9,812	1.8	0.10%	1.7	0.09%	1.5	0.08%	1.1	0.06%	-	0.00%
RS 20 Small Commerical	22,762	3.3	0.10%	3.1	0.09%	2.8	0.08%	2.1	0.06%	-	0.00%
RS 21 Commerical	350,882	40.0	0.10%	37.5	0.09%	33.4	0.08%	25.0	0.06%	-	0.00%
RS 30 Large Commercial Primary	7,055,997	727.5	0.10%	682.1	0.09%	606.3	0.08%	454.7	0.06%	-	0.00%
RS 31 Large Commerical Transmission	54,541,341	4,604.4	0.10%	4,316.7	0.09%	3,837.0	0.08%	2,877.8	0.06%	-	0.00%
RS 40 Wholesale Primary	50,060,472	5,711.6	0.10%	5,354.7	0.09%	4,759.7	0.08%	3,569.8	0.06%	-	0.00%
RS 41 Wholesale Transmission	89,395,279	9,227.6	0.10%	8,650.9	0.09%	7,689.7	0.08%	5,767.2	0.06%	-	0.00%
RS 50 Lighting	6,711	1.9	0.10%	1.8	0.09%	1.6	0.08%	1.2	0.06%	-	0.00%
RS 60 Irrigation	34,451	3.9	0.10%	3.7	0.09%	3.3	0.08%	2.4	0.06%	-	0.00%

13.3 Please discuss whether FBC considered any alternatives to the Irrigation Rebalancing Phase-in deferral account (e.g. recover the annual revenue deficiency resulting from the phase-in from all customers through general rate increases in the same year). As part of the response, please discuss each alternative and why it was not chosen.

[1] Approved by Order G-314-24.

Response:

For clarity, as demonstrated in the response to BCUC IR2 13.2, FBC is proposing to recover the annual revenue deficiency in the same year through the use of the proposed Irrigation Rebalancing Phase-in deferral account.

An alternative approach without the use of the proposed phase-in deferral account would be to capture the revenue deficiency resulting from the phase-in through the existing Flow-through deferral account. For example, if FBC were to only recover 1/5th of the required revenue increase in Year 1 of the phase-in period from RS 60 customers, then the remaining 4/5th of the required revenue increase would effectively become the variance between forecast and actual revenue, which would be captured in the existing Flow-through deferral account and recovered from all customers in the following year. As such, under this alternative approach, there would be a one-year lag in the recovery of the annual revenue deficiency during the phase-in period when compared to the proposed Irrigation Rebalancing Phase-in deferral account approach.

Given the one-year lag which would result from the alternative approach of capturing the revenue variances in the Flow-through deferral account, FBC considers the proposed Irrigation Rebalancing Phase-in deferral account to be superior.

14.0 Reference: 2025 COSA STUDY METHODOLOGY AND RESULTS

Exhibit B-5, BCUC information requests (IRs) 5.2 and 5.3

Minimum System Study (MSS) Approach

In response to BCUC IR 5.2, EES Consulting confirmed that a "majority of the utilities use the MSS approach" and "EES believes that this jurisdictional survey demonstrates that FBC is still in the majority of regional utilities to employ the MSS approach." [*Emphasis added*]

In response to BCUC IR 5.3, FBC stated:

> FBC continues to consider the MSS approach to be reasonable and appropriate for classifying distribution costs. The benefits of continuing with the MSS approach are:
>
> […]
>
> 3. The MSS approach strikes a reasonable balance between simplicity and complexity:
>
> a. it is more detailed than the approaches taken by most of the other utilities surveyed and relies on real engineering data which is a better approach than simply making an industry-informed general assumption; […] [*Emphasis added*]

14.1 Please clarify whether the majority of the utilities surveyed use the MSS approach or whether the majority of the utilities surveyed use an approach simpler than the MSS approach.

Response:

The following response has been provided by EES Consulting:

A majority of the utilities surveyed use an MSS approach that classifies some portion of investment in distribution plant accounts as Customer-related. However, based on EES' observation of the use of rounded numbers in the other utilities' MSS approaches, EES concludes that a majority of the utilities surveyed likely use a simpler approach than EES' MSS approach. The approach used by EES in this Application is to compare a measured minimum system for three categories of equipment based on a minimum-installed or lower-priced available equipment compared to the fully-built installed equipment, using the difference to estimate the Demand portion of the minimum system. This results in a more precise allocation factor. In contrast, five of the eight utilities surveyed had allocation factors that were in even 10% increments or 5% increments, suggesting a more generalized or higher-level approach to assigning allocation factors.

15.0 Reference: 2025 COSA STUDY METHODOLOGY AND RESULTS

Exhibit B-1-1, Attachment A, Section 3.4.1, p. 17, Section 3.4.5, p. 21; Exhibit B-5, BCUC IR 7.1

Classification of Generation Rate Base

On page 17 of Attachment A to the Updated Application, it explains that BC Hydro's RS 3808 was used to develop the classification of FBC's own generation plant, resulting in a 20/80 split between demand and energy. Further on page 21 of Attachment A to the Updated Application, it calls BC Hydro's RS 3808 breakdown of demand and energy prices a "proxy" for FBC's split between demand and energy components.

In response to BCUC IR 7.1, FBC stated:

> […]
>
> The most recent fully allocated cost of service study (FACOS) available on the BC Hydro website (F2024) indicates that functionalized generation plant is still being classified as 55 percent demand-related and 45 percent energy-related, consistent with 2007.
>
> Given that BC Hydro has not changed its practice between 2007 and 2024, there is no reason for FBC to update its methodology, which is based on BC Hydro's cost structure for the same period. FBC will continue to monitor the related filings of BC Hydro but is unaware of any specific timing as to when this matter will be considered again.

15.1 Please explain how BC Hydro's generation plant classification method remains an appropriate proxy for FBC's method to classify its own generation plant for FBC's 2025 COSA.

Response:

The following response has been provided by FBC and EES Consulting:

BC Hydro's generation plant classification continues to support the use of RS 3808 as an appropriate proxy for FBC's classification as there has been no change in facts that would warrant a change in approach since it was reviewed and approved by the BCUC.

Because the Kootenay River Plants provide both capacity and energy to FBC, the generation rate base should be split between demand and energy for the purposes of the COSA. Generation classification can be done using several different methods, most of which rely on looking at the use of various types of plants and their purpose within the system. For a utility with multiple generating plants, it is common to look at the function of each plant in serving energy and demand needs, with some plants considered peaking units and others more related to providing energy. Sometimes the capital costs of a plant are considered demand-related and operating costs are considered energy-related, particularly for plants having significant fuel costs. Another approach

is a peak credit method where the demand component is based on the cost of building a plant designed primarily to meet peak loads, and any additional plant costs are deemed to be energy related. Other times the market-based pricing of demand and energy components are used to develop the classification split.

In the case of FBC, the Kootenay River Plants are the only utility-owned generation, and costs associated with the plants are a small percentage of total power supply costs. This makes it difficult to use many of the standard classification methodologies, and the small level of costs involved do not warrant a time-consuming or expensive study of the issue, particularly given that BC Hydro has a large amount of utility-owned generation and has had their classification of generation costs reviewed and approved through the regulatory process (and can therefore be used as a reasonable proxy).

Therefore, to develop the classification split for FBC, it is reasonable to price the output from the Kootenay River plants at the RS 3808 tariff rate to determine the equivalent split in costs between demand and energy. RS 3808 reflects the market price paid by FBC for a large part of its power supply. RS 3808 includes the classification of costs from BC Hydro that are in place today and included in rates.

15.2 Please explain why a change in BC Hydro's generation plant classification method may provide a reason for FBC to update its own methodology (and vice versa).

Response:

FBC clarifies that it incorrectly used the term "methodology" in the response to BCUC IR1 7.1. FBC would not change its methodology, which appropriately links its classification of FBC generation plant to BC Hydro's generation plant classification. Rather, if BC Hydro's generation plant classification ratio between demand and energy were to change, there may be a resulting impact on RS 3808. Since RS 3808 demand and energy prices are used as a proxy for FBC's split between the demand and energy components, if these were to change as a result of BC Hydro making a change to its generation plant classification ratio, FBC would need to review the impact this may have on its own COSA.

Given that BC Hydro has not changed its classification of generation plant, there is no reason for FBC to update its classification at this time.