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

Attention: Commission Secretary

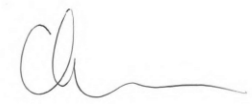
Dear Sirs/Mesdames:

Re: FortisBC Inc. – 2025 Cost of Service Allocation and Revenue Rebalancing Application – Final Submission

We enclose for filing in the above proceeding the Final Submission of FortisBC Inc., dated July 18, 2025.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP



Chris Bystrom*
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Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF THE UTILITIES COMMISSION ACT, R.S.B.C. 1996, CHAPTER 473

AND

FORTISBC INC.

2025 COST OF SERVICE ALLOCATION AND REVENUE REBALANCING APPLICATION

FINAL SUBMISSION

OF

FORTISBC INC.

July 18, 2025

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PART ONE: INTRODUCTION AND OVERVIEW

1. In this proceeding, FortisBC Inc. (FBC) is requesting approvals to rebalance its rates as set out in its 2025 Cost of Service Allocation and Revenue Rebalancing Application (Application),[1] as updated on May 15, 2025 (Updated Application).[2] FBC's proposals to rebalance its rates are based on the Cost of Service Allocation (COSA) study conducted by EES Consulting Inc. (EES) and the analysis of rate rebalancing options set out in the Updated Application and responses to information requests (IRs).

2. The results of the COSA study show that the revenue to cost (R/C) ratios of five of the nine customer classes are within the accepted range of reasonableness (RoR) of 95 percent to 105 percent. The Small Commercial (Rate Schedule (RS) 20) and Large Commercial Transmission (RS 31) customer classes are above the RoR, while the Wholesale Primary (RS 40) and Irrigation (RS 60) classes are below the RoR. To rebalance rates, FBC seeks approval of its preferred revenue rebalancing proposal – Option 2. Table 7-8 from the Updated Application shows the R/C ratios before and after rebalancing:

Table 7-8: Final 2025 COSA Results with Proposed Revenue Rebalancing

Rate Schedule	Initial COSA R/C	Revenue Shift ($000s)	Approx. Monthly Bill Impact (%)	Approx. Monthly Bill Impact ($)	COSA after Rebalancing R/C
RS 01 Residential	99.5%	-	-	-	99.5%
RS 20 Small Commerical	107.5%	(1,134)	(2.4%)	(6.2)	105.0%
RS 21 Commerical	102.4%	-	-	-	102.4%
RS 30 Large Commercial Primary	100.7%	-	-	-	100.7%
RS 31 Large Commerical Transmission	105.3%	(55)	(0.3%)	(1,156.1)	105.0%
RS 40 Wholesale Primary	94.0%	581	1.1%	4,838.0	95.0%
RS 41 Wholesale Transmission	98.3%	-	-	-	98.3%
RS 50 Lighting	99.8%	-	-	-	99.8%
RS 60 Irrigation	77.3%	609	14.9%	46.0	88.9%

In order to mitigate the rate impact for RS 60 customers of rebalancing, FBC proposes to phase-in the impact over five years and seeks approval of a deferral account to implement

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1 Exhibit B-1, Application.

2 Exhibit B-1-1, Updated Application.

the phase-in approach. The proposed revenue rebalancing option, when combined with the phasing in of the increased recovery from RS 60 customers, results in a reasonable balance of rate design principles.

3. FBC is also proposing to update the transformation discount offered to customers under RS 21, 30, and 40 who choose to take service at a higher than standard voltage level based on the results of the 2025 COSA study.

4. FBC submits that its rate rebalancing proposals are based on a sound COSA study that is consistent with past practice and adheres to the principles of cost causation and equity, reflect a reasonable and appropriate balancing of rate design principles, and are just and reasonable. Therefore, FBC submits that, pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA), the BCUC should grant the approvals sought in the Updated Application, to implement the following rate changes and establish the following deferral accounts, effective January 1, 2026, to align with the timing of FBC's general rate changes:

- Rebalance all billing-determinant-related rate components included in RS 20 and 22 such that revenues are decreased by 2.4 percent.
- Rebalance all billing-determinant-related rate components included in RS 31 and 33 such that revenues are decreased by 0.3 percent.
- Rebalance all billing-determinant-related rate components included in RS 40 and 42 such that revenues are increased by 1.1 percent.
- Phase-in the rebalancing of all billing-determinant-related rate components included in RS 60 and 61 such that revenues are increased by 3.0 percent each year for five years (with the in-season irrigation rate from April to October 14 increasing by 3.9 percent each year).
- To implement the phase-in of RS 60, establish a non-rate base deferral account titled the Irrigation Rebalancing Phase-in deferral account, attracting FBC's weighted average cost of capital (WACC), to be amortized over a five-year phase-in period and recovered from all customers through FBC's general rate increases.
- Update the transformation discount offered to customers under RS 21 who choose to take service at the primary distribution voltage, and to customers

under RS 30 and 40 who choose to take service at the transmission line voltage level, as follows:

- For RS 21, an update to the transformation discount from $0.409 per kW of Billing Demand to $0.4841 per kW (from $0.371 to $0.4357 on a kVA basis) of Billing Demand;
- For RS 30, an update to the transformation discount from $6.727 per kVA of Billing Demand to $5.98 per kVA of Billing Demand; and
- For RS 40, an update to the transformation discount under the Wires Charge from $3.390 per kVA of Billing Demand to $3.78 per kVA of Billing Demand, and a reduction to the Energy Charge from $0.00985 per kWh to $0.00926 per kWh.

- Establish a new rate base deferral account, titled the 2025 COSA deferral account, to record the costs associated with the regulatory review of the Application, and amortize the deferral account over one year, commencing January 1, 2026.

5. A table showing the change to each component of each impacted rate schedule is included in the response to BCUC IR1 10.1.[3] A blacklined version of the proposed tariff changes to implement the above proposals is provided in Appendix D of the Updated Application. A Draft Order setting out the approvals sought is provided in Appendix F-2 of the Updated Application.

6. The remainder of this Final Submission is organized around the following points:

- FBC's COSA study methodology is sound and consistent with past practice.
- FBC's RoR and target for rebalancing are reasonable and in line with BCUC decisions and standard regulatory practice.
- FBC's proposed rebalancing option is aligned with rate design principles and is just and reasonable.
- FBC's proposed transformation discount flows directly from the COSA study results and is just and reasonable.

[3] Exhibit B-5.

PART TWO: COSA STUDY METHODOLOGY IS SOUND AND CONSISTENT WITH PAST PRACTICE

7. FBC submits that the COSA study is based on a sound methodology that is consistent with past practice, and that the results should be accepted for the purpose of revenue rebalancing and setting the transformation discount proposed in the Updated Application. FBC highlights three key points with respect to the COSA study.

8. First, EES completed the COSA study following standard utility practice and accepted rate design principles.[4] The COSA study allocates the costs of providing utility service to the various customer classes served by FBC based upon the cost-causal relationship associated with specific expenditures.[5] EES explained:[6]

> The goal of COSA is to analyze costs and equitably assign those costs to customers. The founding principle of cost allocation is the concept of cost-causation. Following the principle of cost-causation, the COSA evaluates which customer or group of customers causes the utility to incur certain costs by linking system facility investments and operating costs to serve certain facilities to the services used by different customers.

This approach results in a fair and equitable assignment of costs to each customer class.

9. Second, EES used inputs and allocation methodologies substantially the same as past practice for FBC, including those reviewed and accepted by the BCUC in FBC's 2009 COSA and Rate Design Application (RDA) proceeding and the 2017 COSA and RDA proceeding. EES employed the same starting model as was used in 2017 and maintained the previous allocation factors and functionalization approaches. For the input data, EES employed the methods most consistent with previous COSAs and in consideration of any minor changes over time in financial reporting formats and other inputs.

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4 Exhibit B-1, Application, Appendix A, cover letter to COSA study.

5 The steps of the COSA analysis are summarized in Section 5 of the Updated Application and described in detail in the study itself found in Exhibit B-1, Application, Appendix A.

6 Exhibit B-1, Application, Appendix A, COSA study, p. 11.

10. There are only three methodological changes to the current COSA compared to the 2017 COSA, which are as follows:[7]

(a) **The inclusion of RS 38 revenue.**[8] RS 38 did not exist in 2017. EES has treated RS 38 revenue consistent with RS 37 revenue, as RS 37 and RS 38 rates are both non-embedded-cost, market-based charges that fully recover FBC's power supply costs and provide additional revenue through the adders included in the rates.[9] This topic is explored further in Part Two, Section A below.

(b) **Change to the input assumptions regarding streetlights.**[10] Unlike for other rate classes, Lighting has its distribution costs direct-assigned as FBC tracks both the capital cost and lighting-related O&M separately. If lighting were separately allocated costs in addition to those that are directly assigned, it would double count costs attributable to lighting.[11] The COSA does not allocate material amounts of upstream rate base to Lighting due to the directly assigned costs and the large reduction in demand from the conversion of most lights to LED technology. There is some upstream cost for lighting, but because there is such a large drop in wattage typically for the more efficient technology, a full upstream allocation would tend to over-allocate the impact based on historical costs. Therefore, the input adjustment to exclude those costs is appropriate.[12]

(c) **Change to the treatment of Demand Ratchets for revenue calculations**.[13]

- RS 30, 40 and 41 demand values use actual monthly ratchet values from the historical year, rather than an annual average. This is the best approach to the ratchet for this purpose as these historical monthly values reflect the diversity of ratchet values regardless of the number of meters.[14]

- RS 31 demand values use a ratchet value calculated on the forecast year values due to RS 38 adjustments not in the historical year.[15]

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7 Exhibit B-9, BCOAPO IR1 1.1.

8 Exhibit B-9, BCOAPO IR1 1.1.

9 Exhibit B-5, BCUC IR1 2.2. Exhibit B-1-1, Updated Application, pp. 13-14.

10 Exhibit B-9, BCOAPO IR1 1.1.

11 Exhibit B-9, BCOAPO IR1 8.2.

12 Exhibit B-15, BCOAPO IR2 17.1.

13 Exhibit B-9, BCOAPO IR1 1.1.

14 Exhibit B-6, BCMEU IR1 1.1.

15 Exhibit B-6, BCMEU IR1 1.1.

11. Third, there is significant evidence in this proceeding supporting the conclusions of the COSA study. The COSA study, included in Appendix A of the Application, explains in detail the inputs of the study, the steps in the COSA analysis, and the results. In the Updated Application, EES made a number of corrections to the COSA study, which are summarized in Table 2 of the cover letter to the Updated Application.[16] Updated tables for the study are also included in the cover letter.[17]

12. In addition to the explanation and analysis included in the COSA study and Updated Application, FBC provided detailed responses to IRs which support the reasonableness of the COSA study. For example:

(a) For RS 40 and RS 41, FBC has explained the energy and capacity growth, the coincidence factors, the non-coincident peaks (NCP), and connection charges used in the COSA study.[18]

(b) FBC explained why using R/C ratios that are calculated based on actual revenue in conjunction with the forecast cost of service (or revenue requirement) is not appropriate to evaluate rates and rate design.[19]

(c) FBC has shown that most classes have relatively stable relationships between the annual NCP and coincident peak (CP) load factors across the 2016, 2019, and 2022 historical years. For the total system, there is only a 7 percent spread across the data sets, indicating stability in these factors overall.[20]

(d) FBC explained the methodology used to derive the Group Coincidence Factor, which is the percentage of individual meters that peak at the same time.[21]

(e) FBC has explained why there is no reason to use average load factors in the COSA study, which would result in a less fair cost allocation without significant multi-year adjustments elsewhere and to all other rate classes.[22]

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16 Exhibit B-1-1, Updated Application.

17 Exhibit B-1-1, Updated Application.

18 Exhibit B-6, BCMEU IR1 3 and 4.

19 Exhibit B-8, CEC IR1 2.3.

20 Exhibit B-8, CEC IR1 3.1.

21 Exhibit B-10, RCIA IR1 3.1.

22 Exhibit B-14, CEC IR2 9.1 and 9.2.

(f) FBC has explained why an hourly demand is appropriate for the FBC COSA.[23]

13. Based on the evidence in this proceeding, including the opinion of EES and evidence supporting the reasonableness of the COSA process, FBC submits that the COSA study is based on a sound methodology, has produced reasonable results, and should be accepted.

14. The following subsections address the key topics raised in IRs regarding the COSA study.

A. TREATING RS 38 REVENUE AS AN OFFSET IS REASONABLE AND APPROPRIATE

15. FBC has appropriately treated RS 38 revenue the same as RS 37 revenue, by allocating it to all customers as an offset to the revenue requirement to compensate for the use of the system paid by all customers.[24] This treatment is appropriate because RS 37 and RS 38 rates are both non-embedded-cost, market-based charges that fully recover FBC's power supply costs and provide additional revenue through the adders included in the rates. Both rates were developed outside of the COSA process without the intention of recovering embedded costs that are already recovered through existing rates. The benefit provided to ratepayers (including customers on RS 31) from RS 37 and RS 38 customers is the same, that is, the revenues provide an offset to the overall revenue requirement.[25] These revenues are, therefore, reasonably treated as such in the COSA study.

16. The rationale for the treatment of RS 37 revenue applies equally to RS 38. In the 2017 COSA and RDA, the BCUC accepted FBC's treatment of RS 37 revenue, stating the following at page 17 of Decision and Order G-40-19:

> The Panel accepts FBC's approach of applying the RS 37 revenues as an offset to the overall revenue requirement. We find this approach appropriate because all customers are contributing to the fixed costs of FBC's system which is providing service to RS 37; thus all customers should receive the benefits of the RS 37 revenue. Further, RS 37 rates are calculated based on

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[23] Exhibit B-13, ICG IR2 4.1 and 4.2.

[24] Exhibit B-1-1, Updated Application, pp. 13-14.

[25] Exhibit B-5, BCUC IR1 2.2. Exhibit B-9, BCOAPO IR1 3.2.

> the hourly Mid-C price in effect when stand-by service is used and are therefore outside of the embedded COSA framework.

The above reasoning applies equally to RS 38 revenue.[26]

17. FBC has provided a detailed explanation of the revenue from RS 38 included in the COSA study. FBC estimated RS 38 revenue to be approximately $3,574,198 using the hourly Mid-C pricing for the purposes of the 2025 COSA study.[27] EES provided the step-by-step calculation resulting in this total.[28]

18. While the treatment of RS 38 revenue attracted attention in this proceeding, the impact is minor. If the RS 38 revenues were removed with no other adjustments, there would be only a small percentage impact to all rate classes. There would be no change to the rate classes that need rebalancing before and after removing the offsetting revenue from RS 38.[29]

19. Furthermore, there is no reasonable alternative treatment of RS 38 revenue. An alternative would be to create a separate rate class for RS 38 by assigning certain applicable costs or by the netting of direct assignments of pass-through costs. The net effect of treating RS 38 as a separate class would be that the R/C ratios of all rate classes would be lowered only slightly and no additional rate classes would be moved outside of the range of reasonableness. In addition to having no material impact, the approach has practical limitations. For example, even if the resulting R/C ratio of RS 38 were below the range of reasonableness, it would not make sense to apply rebalancing because the RS 38 rate is based on the hourly Mid-C price, which is a flow through.[30] This highlights why a separate rate class is not reasonable for RS 38.

20. FBC, therefore, submits that its treatment of RS 38 revenue in the COSA study is appropriate and should be accepted.

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[26] Exhibit B-5, BCUC IR1 3.1.

[27] Exhibit B-1-1, Updated Application, pp. 13-14.

[28] Exhibit B-5, BCUC IR1 4.2.

[29] Exhibit B-5, BCUC IR1 3.3.

[30] Exhibit B-5, BCUC IR1 3.2.

B. TWO COINCIDENCE PEAK (CP) APPROACH REMAINS APPROPRIATE

21. A 2 CP approach continues to be appropriate for FBC's COSA study, based on considerations of past precedent, Federal Energy Regulatory Commission (FERC) and Ontario Energy Board (OEB) tests, comparisons of load shapes, and growth of winter and summer peaks.[31]

22. The 2 CP approach was reviewed and approved by the BCUC in the 2017 COSA and RDA proceeding. In 2017, EES selected the 2 CP demand allocation method after consideration of past precedent, FERC and OEB tests, and comparisons of load shapes and growth of winter and summer peaks. In Decision and Order G-40-19, the BCUC accepted this approach, stating (at page 20):

> The Panel finds that use of the 2 CP allocator is the most appropriate allocator for production and transmission rate base because it best reflects cost causation. The Panel therefore accepts FBC's approach presented in the COSA Study and declines KSCA's request to direct FBC to change to the 12 CP allocator.

23. For the current COSA study, EES's opinion is that the 2 CP approach continues to be appropriate.[32] Three reasons are highlighted below.

24. First, five of the six of the FERC/OEB tests indicate that 12 CP would not be appropriate, as shown in the table below.[33]

Test			
FERC #1	12CP if < 20%	15%	**12CP**
FERC #2	12CP if > 65%	54%	**Other CP including 2CP**
FERC #3	12CP if Peak Months < Non-Peak	20%	**Other CP including 2CP**

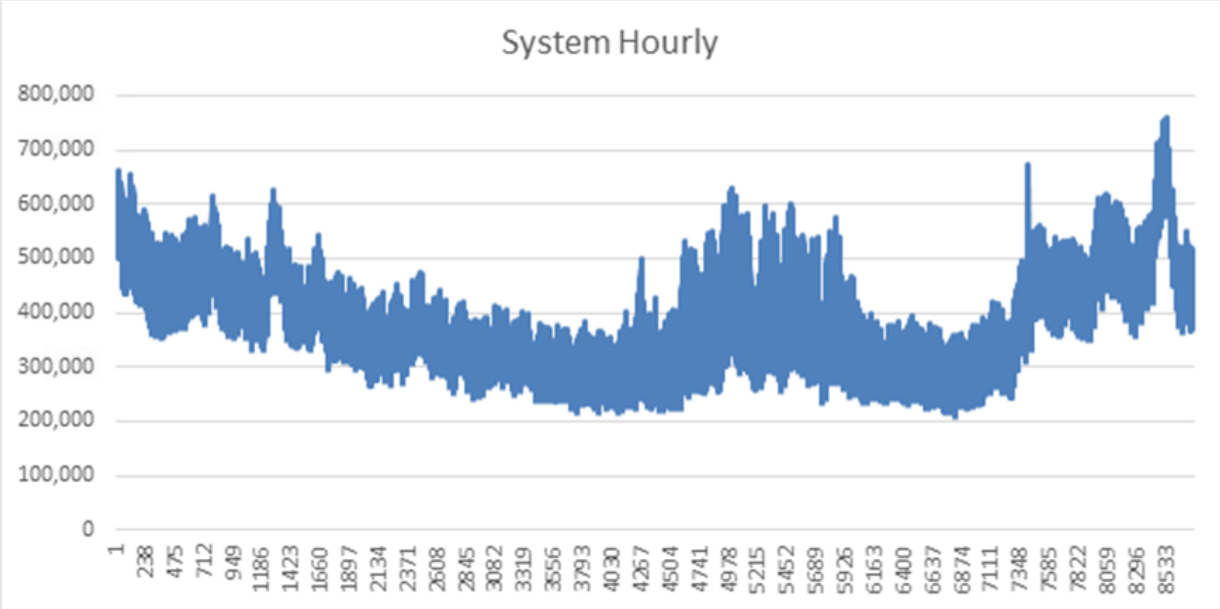
[31] Exhibit B-7, ICG IR1 4.1.

[32] Exhibit B-6, BCMEU IR1 5.1.

[33] Exhibit B-6, BCMEU IR1 5.1.

Test			
FERC #4	12CP if >81%	75%	**Other CP including 2CP**
OEB #1	12CP if > 83%	75%	*Perform Test #2*
OEB #2	4CP if >= 83%, if less then 1CP	90%	**4CP**

25. Second, a 2 CP approach rather than a 1 CP or 4 CP approach is appropriate because FBC has a significant summer peak in addition to a significant winter peak. This is apparent from the hourly load profile below.[34]



26. Third, both summer and winter peaks continue to grow, although in more recent years, the summer peak is not growing as quickly as winter.[35] In this regard, customer-owned distributed generation will not have a material impact on system peaks for the foreseeable future. The majority of Net Metering installations provide no capacity in peak

[34] Exhibit B-6, BCMEU IR1 5.1. Exhibit B-1, Attachment Appendix A - C_EES COSA 23 Report – Load Summary.xlsx, tab 'Clean System Hourly'.

[35] Exhibit B-6, BCMEU IR1 5.1.

winter evening demand periods and the capacity contribution in the summer is diminished during peak evening hours as the sun begins to set.[36]

2009 – 2017		
Growth (MW)	73	47
Growth %/yr	1.5%	0.8%
2017 – 2022		
Growth (MW)	104	127
Growth %/yr	2.2%	3.3%

27. Therefore, the use of 2 CP is still appropriate.

C. MINIMUM SYSTEM ANALYSIS REMAINS A REASONABLE AND APPROPRIATE APPROACH

28. The use of a minimum system study (MSS), with a peak load carrying capability (PLCC) adjustment, remains a reasonable and appropriate approach to classify distribution plant in FBC's COSA study.

29. First, the MSS with PLCC adjustment is reasonable because it provides a method for determining the split between customer- and demand-related costs which reflects the fact that the distribution system is built in part to connect customers and in part to serve demand. The alternative of a 100% demand approach is not reasonable as it fails to recognize that a component of the distribution is used and needed to connect customers regardless of the level of demand.[37]

30. Second, the MSS with PLCC adjustment is a theoretically sound approach to determining the customer/demand split. There are two key steps to determining the minimum system:

(a) The MSS assumes a certain size of the distribution plant is required to serve the minimum load requirements of customers. Specifically, the minimum system is the smallest or lowest price equipment purchased to deliver one

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[36] Exhibit B-6, BCMEU IR1 5.2.

[37] Exhibit B-1, Application, Appendix A, COSA study, pp. 17-18.

kWh to the end point service compared to the as-built system. The minimum system equipment includes a 15 kVA transformer, a 40-foot pole, and No. 2 aluminum conductor steel reinforced (ACSR). This configuration is appropriate because it is typical of the minimum sized – or lowest cost – equipment that would be installed for the smallest service.[38]

(b) An offset to account for the PLCC of a minimum system is incorporated because the actual facilities designated as the minimum size are capable of carrying an amount of load beyond the theoretical minimum level.[39] The main factor or driver for the PLCC adjustment is the actual demands on each feeder compared to the carrying capacity of each feeder, considering a reliability margin of 20 percent of peak kVA.[40]

31. The costs associated with the minimum system, with the PLCC adjustment, are customer-related as they are required to serve the minimum load requirements of customers. The remaining costs of the distribution plant are classified as demand-related since any cost associated with the distribution plant beyond the minimum system requirement is due to the customers' level of load demand being greater than the level that a minimum system can serve.[41] FBC submits that this is reasonable.

32. Third, the MSS with PLCC adjustment has previously been reviewed and approved for use by the BCUC for both FBC and FortisBC Energy Inc. (FEI). The BCUC considered the MSS approach in depth in FBC's 2017 COSA and RDA and concluded that the MSS approach was reasonable, stating in Decision and Order G-40-19 (at page 14):

> The Panel acknowledges that utilities use a variety of approaches to classify distribution costs. While only a limited number of the utilities reviewed by EES in its jurisdictional analysis appear to use the MSS, there are at least two examples of utilities in other jurisdictions that do. Further, FEI's use of the MSS was recently affirmed by the BCUC in the FEI 2016 RDA proceeding (and Order G-4-18).
>
> As stated previously, the purpose of the 2017 COSA Study is to equitably allocate the costs of operating the utility to FBC's various customer classes.

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38 Exhibit B-10, RCIA IR1 1.2 and 1.3; Exhibit B-15, BCOAPO IR2 14.1.

39 Exhibit B-1-1, Updated Application, pp. 17-18.

40 Exhibit B-10, RCIA IR1 2.3.

41 Exhibit B-1-1, Updated Application, pp. 17-18.

> The Panel must therefore assess whether the MSS method with the PLCC adjustment reasonably assigns FBC's distribution costs to the driver of those costs (i.e. demand or customer). The Panel agrees with FBC, the CEC and BCOAPO that the MSS method with the PLCC adjustment reasonably reflects cost causation because most distribution costs, with the exception of substations and services and meters, are driven by a combination of both the size of the load and the number of customers.
>
> The Panel is satisfied that the MSS, when combined with the PLCC adjustment to avoid double-counting of demand, is a reasonable approach for classifying distribution costs. There is no evidence that this approach does not provide reasonable results based on FBC's specific circumstances. Further, while the UCA does not require consistency with past BCUC decisions, the Panel finds in this instance that consistency with the method approved by the BCUC in the 2009 RDA Decision is appropriate, particularly as there have been no circumstances identified by FBC or interveners which support a deviation from the current method. ...

EES confirmed that it used the same MSS and PLCC methodology previously approved by the BCUC in 2017.[42]

33. Fourth, EES's survey results support the continued use of the MSS approach. EES reviewed the methodologies of eight utilities to allocate distribution system costs (BC Hydro, ATCO Electric Alberta, Fortis Alberta, Manitoba Hydro, Hydro Quebec, Nova Scotia Power, Newfoundland Power, and New Brunswick Power).[43] A majority of the utilities use the MSS approach, splitting investment in distribution plant accounts between Customer and Demand.[44] However, EES concludes that the majority of these utilities use a simpler approach than EES's MSS approach. EES explains:[45]

> 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

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42 Exhibit B-10, RCIA IR1 1.1 and 2.1.

43 Exhibit B-1, Application, Appendix B to Appendix A, COSA study; Exhibit B-5, BCUC IR1 5.1.

44 Exhibit B-5, BCUC IR1 5.2.

45 Exhibit B-11, BCUC IR2 14.1.

even 10% increments or 5% increments, suggesting a more generalized or higher-level approach to assigning allocation factors.

34. In this regard, EES's MSS approach strikes a reasonable balance between simplicity and complexity. As indicated above, EES's approach is more detailed than the approaches taken by most of the other utilities surveyed. EES relies on real engineering data which is a better approach than simply making an industry-informed general assumption. A more simplified approach may save some time and cost, but there would be less confidence in the reasonableness of the results and there may be impacts to residential and other classes with relatively low average load factors.[46] At the same time, EES's MSS approach avoids the time and cost of more complex methods, which would result in additional time and cost, but may not lead to better results. [47]

35. Therefore, FBC submits that the MSS approach continues to be reasonable and appropriate for classifying distribution costs. The MSS approach is theoretically sound and the calculations reasonable, providing assurance that the results can be reasonably relied on. Maintaining a consistent method with past studies also means that results are comparable to previous COSA study results.[48] FBC does not see any downsides to continuing with the MSS approach and recommends it for approval by the BCUC.

D. CLASSIFICATION OF GENERATION RATE BASE

36. Consistent with past practice used in its 2017 and 2020 COSA studies and approved by the BCUC, EES reasonably continued to use BC Hydro's RS 3808 to develop the classification of FBC's own generation plant, resulting in a 20/80 split between demand and energy. In the COSA study, EES explained that developing the split based on FBC's limited number of assets would be difficult, and that instead EES applied the following approach:[49]

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[46] Exhibit B-5, BCUC IR1 5.3 and Exhibit B-14, CEC IR2 8.2.

[47] Exhibit B-5, BCUC IR1 5.3.

[48] Exhibit B-5, BCUC IR1 5.3.

[49] Exhibit B-1, Application, Appendix A, COSA study, p. 19.

To develop the classification split for FortisBC, the output from the Kootenay River plants was priced as if as if the energy and capacity of the plant were priced the same as BC Hydro's RS 3808 to determine the equivalent split in costs between demand and energy. This split then applies to actual costs of these assets for purposes of classification. The resulting split is roughly 20% demand-related and 80% energy-related. This is the same approach used in the 2017 COSA and previously approved by the Commission.

37. When questioned regarding this approach, ESS provided the following response:[50]

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

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[50] Exhibit B-11, BCUC IR2 15.1.

> 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.

38. 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. However, 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.[51]

39. Further, FBC confirmed that the power supply scenario used in the EES COSA model best reflects the expectations of FBC's Power Supply department regarding how resources will be managed and is, therefore, the appropriate approach.[52]

E. FILING OF NEXT COSA STUDY

40. FBC submits that the BCUC need not indicate a deadline for the filing of the next COSA study but rather can rely on FBC to file its next COSA study when there is a significant change in its operations, structure or rate design that warrant a further COSA study. COSA studies need not be filed on a strict timeline as there may not be any reason to revisit the rate design or believe that rebalancing may be required. COSA studies are, therefore, generally completed following significant changes in circumstances, such as changes to the internal operation of a utility or the environment in which the utility operates, or to support significant changes to the design of rates (for example, moving to a flat rate from an inclining or declining block rate). If significant changes occurred to FBC's internal operations, external events resulted in significant changes to FBC's operations or structure, or significant rate design changes were being proposed, FBC would undertake a COSA study. At this time, however, the rates and rate designs generally continue to perform as intended,

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[51] Exhibit B-11, BCUC IR2 15.2.

[52] Exhibit B-12, BCMEU IR2 1.6.

as evidenced by the results of the 2025 COSA study, which indicate that only a limited amount of revenue rebalancing is required.[53]

41. However, should the BCUC consider it necessary to direct a timeframe for conducting the next COSA study, FBC recommends a minimum of five years until the next COSA study is filed. First, there are no anticipated significant changes to FBC's operations or structure that would warrant the filing of a COSA study sooner. Second, the current COSA study indicates that rates are generally working as intended, suggesting that there is no need for another COSA study in the near term. Third and finally, given that FBC has proposed a five-year phase-in for RS 60, it would be reasonable to file the next COSA study once the phase-in has completed.[54]

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

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

PART THREE: RANGE OF REASONABLENESS AND TARGET FOR REBALANCING IS REASONABLE

42. FBC submits that it has reasonably and appropriately used an RoR of 95 to 105 percent and targeted the edge of the RoR when rebalancing, subject to other rate design considerations. These topics are addressed in the sections below.

A. RANGE OF REASONABLENESS OF 95 PERCENT TO 105 PERCENT REMAINS APPROPRIATE

43. FBC's use of an RoR of 95 percent to 105 percent is consistent with industry standard practice and past BCUC determinations, and there are no changes in circumstances that warrant a change in approach.

44. It is industry standard practice to assess R/C ratios based on whether they fall within an established RoR. As cost allocations in a COSA necessarily involve assumptions, estimates, simplifications, judgements and generalizations, the use of an RoR is warranted and is a widely accepted practice used to evaluate the appropriateness of the R/C ratios and whether revenue rebalancing may be needed.[55]

45. An RoR of 95 percent to 105 percent has consistently been approved by the BCUC for FBC. In Decision and Order G-156-10 on FBC's 2009 COSA and RDA (2009 RDA Decision), the BCUC found "that the range of reasonableness of 95 percent to 105 percent is the correct range for the purpose of future rebalancing in the circumstances of FortisBC."[56] In Decision and Order G-40-19 on FBC's 2017 COSA and RDA (2017 RDA Decision), the BCUC reaffirmed the appropriateness of the 95 percent to 105 percent RoR, noting that there were

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[55] Exhibit B-1-1, Updated Application, p. 21.

[56] Page 78 of 2009 RDA Decision: https://docs.bcuc.com/documents/proceedings/2010/doc_26325_fortisbc-2009-rda_web.pdf

no changes in circumstance which indicated that a widening (or narrowing) of the range was required.[57]

46. FBC submits that the 95 to 105 percent continues to be appropriate and that there is no change in circumstances sufficient to require a change to the RoR. While the availability of data from AMI has validated the load assumptions made in the previous COSA study, this factor does not significantly reduce the uncertainty inherent in the various assumptions and judgements that are part of the COSA study process.[58]

47. As such, FBC has considered the results of the 2025 COSA for each rate schedule in light of the accepted RoR and considers that each rate schedule that falls within the RoR is recovering its fair cost. If a rate schedule falls outside of the RoR, this indicates that revenues are either insufficient to cover the cost of service or exceed the cost of service, which suggests that rate rebalancing may be in order. The RoR is, therefore, used as an indication of the rate schedules that may require rebalancing.[59]

B. REBALANCING TO THE BOUNDARY OF THE ROR IS MOST REASONABLE APPROACH AND CONSISTENT WITH MOST RECENT BCUC DECISIONS

48. Subject to other rate design considerations, FBC has targeted the edge of the RoR when rebalancing rates, as this is the most reasonable approach and reflects the most recent decisions of the BCUC and other Canadian regulators on this topic.

49. In the 2017 RDA Decision (page 27), the BCUC found that "where a customer class has an R/C ratio within the range of reasonableness, there is insufficient evidence to conclude that the rate needs to be rebalanced." At the same time, however, the BCUC maintained that the appropriate target for revenue-to-cost ratios in each class is unity or one. FBC submits that holding these two positions together is inconsistent, as there is no

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[57] Decision and Order G-40-19, re FBC 2017 Cost of Service Analysis and Rate Design Application, at page 26: https://docs.bcuc.com/documents/proceedings/2019/doc_53486_2019-02-25-decision-fbc-2017-cos-rda.pdf.

[58] Exhibit B-1-1, Updated Application, p. 21.

[59] Exhibit B-1-1, Updated Application, p. 21.

basis to rebalance to unity if an RoR of 95 percent to 105 percent is accepted. This has been recognized in the most recent decisions of the BCUC and the recent decisions of other Canadian regulators.

50. The BCUC has recently affirmed the approach of rebalancing to the edge of the RoR in two rate design decisions for FEI – specifically, the BCUC's Decisions on FEI's 2016 Rate Design Application (FEI 2016 RDA Decision) and FEI's 2023 COSA and Revenue Rebalancing Application (FEI 2023 COSA Decision). With BC Hydro generally not engaging in rate rebalancing at this time,[60] these decisions are the two most significant rate rebalancing decisions of the BCUC in recent years.

51. The approach of rebalancing to the edge of the RoR was endorsed by the BCUC's independent consultant retained in respect to FEI's 2016 RDA, Elenchus Research Associates Inc. (Elenchus). As expressed in its report, Elenchus was of the view that any R/C ratio that is within the defined RoR can be considered to be a full cost recovery. An R/C ratio that is below the range is considered to indicate under-recovery of costs and any R/C ratio that is above the range indicates over-recovery of costs. The BCUC Panel in the FEI 2016 RDA Decision stated that it placed weight on the evidence provided by Elenchus that:[61]

- Any R:C ratio that is within the defined range of reasonableness can be considered to be full cost recovery;
- Rebalancing should be undertaken to move all classes that are outside the approved range to the nearest boundary;
- It is not appropriate to periodically rebalance to R:C ratios of 1.00; and
- Elenchus is not aware of any jurisdiction that periodically rebalances rates so that all R:C ratios are 1.00.

52. The BCUC further found the following:[62]

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[60] Section 58.1 of the UCA forbids the BCUC from rebalancing BC Hydro's rates except on application by BC Hydro.

[61] Decision and Order G-135-18, p. 42.

[62] *Ibid*, pp. 41 and 42.

> While the BCUC, in its COSA and R/C Ratios Decision, accepted that in theory an R/C ratio of 100 percent for each rate schedule would indicate that the revenues recovered from each rate schedule are equal to the cost to serve them, the assumptions, estimates and judgements involved in a COSA study, make it appropriate to use a range of reasonableness. In the Panel's view, the range of reasonableness should be used as a guideline to inform rate design and rebalancing. However, in some circumstances it is appropriate not to rebalance to within the accepted range of reasonableness when considering other rate design principles.
>
> ...
>
> Accordingly, the Panel finds there is insufficient evidence for the position that FEI should rebalance to unity. The Panel finds that FEI's approach reflects a reasonable balance of rate design principles and appropriately considers the rate impacts to the residential class which is within the range of reasonableness prior to any rebalancing.

53. Consistent with the above findings, in the FEI 2023 COSA Decision, the BCUC directed that the rate classes outside of the RoR be brought to within the RoR of 95 to 105 percent. The Panel explicitly rejected a proposal that FEI aim to achieve unity in its R/C ratios, stating:[63]

> FEI's approach to assess the need for rebalancing a rate class is to rely on a range of reasonableness of 95 percent to 105 percent within which a rate schedule's revenue is considered to be recovering its costs. The CEC has raised no concern with this methodology in the current proceeding but has recommended the BCUC direct FEI in the next COSA proceeding to prepare rebalancing proposals that aim towards unity and ultimately do away with the range of reasonableness. The Panel disagrees. The evidence in this proceeding suggests that an R:C ratio calculation is derived from forecast revenues and costs for the test year and the COSA is reliant upon numerous assumptions and judgements. Thus, an R:C ratio has inherent uncertainty and it follows that R:C ratios are best interpreted as a range on either side of a theoretical mid-point of unity. Therefore, the Panel agrees with FEI's approach to use an R:C range within which a rate schedule's revenue is considered to be recovering its costs to assess the need to rebalance a rate class. Because of this, the Panel is not persuaded by the CEC that there is a need to achieve unity and rejects the CEC's recommendation to depart from the use of a range

[63] Decision and Order G-144-24, p. 20.

> of reasonableness to assess the need for and the degree of rebalancing required, in this or the next COSA study.

54. The BCUC's decisions regarding rebalancing in the 2016 FEI RDA and the 2023 FEI COSA are consistent with other recent rebalancing decisions made by Canadian regulators.

55. On December 16, 2021, the Ontario Energy Board (OEB) issued Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications. The OEB guide includes instructions on rebalancing to within the RoR, not unity:[64]

> Results flowing from the updated cost allocation model may show some ratios being outside of the OEB-approved ranges. In these cases, distributors must ensure that their cost allocation proposals include adjustments to bring them within the OEB-approved ranges within a reasonable period of time. ... In particular, if the proposed ratios are outside the OEB's policy range in the test year, the distributor must show the proposed ratios in subsequent years that would move the ratios to within the policy range.

56. The Nova Scotia Utility and Review Board (NSURB) also recently confirmed that its typical RoR is 95 percent to 105 percent, stating:[65]

> The Board recognizes that the allocation of costs in a cost-of-service study is not an exact science. That is the reason why the Board strives to keep revenue-to-cost ratios within a range as opposed to requiring them to be set precisely at 100%.

57. Consistent with the above evidence and authorities, including the Elenchus Report, recent decisions of the BCUC, and the decisions of the OEB and NSURB, FBC submits that a rate schedule with an R/C ratio that falls within the RoR is recovering its fair cost and indicates that no rebalancing is required. Therefore, any R/C ratio that is within the defined RoR is fully recovering its costs and rebalancing should be undertaken to move classes that are outside the approved range to the nearest boundary, not to unity. FBC submits that this

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[64] OEB, Filing Requirements for Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications, at pages 42-43: https://www.rds.oeb.ca/CMWebDrawer/Record/735766/File/document.

[65] NSURB, Decision M10810, April 13, 2023, 2023 NSUARB 56 (*Re Riverport Electric Light Commission Application to Amend Rates and Charges)*, at para. 113: https://nserbt.ca/sites/default/files/M10810%20-%20Decision%20-%20Riverport%20Electric%20Light%20Commission%202022.pdf.

approach is industry standard practice and should be accepted by the BCUC for rate rebalancing in this proceeding.

PART FOUR: FBC'S PROPOSED REBALANCING REFLECTS A BALANCING OF RATE DESIGN PRINCIPLES AND IS JUST AND REASONABLE

58. FBC submits that its proposed revenue rebalancing Option 2 reflects the best balance of rate design principles and is just and reasonable. As discussed in the subsections below, FBC:

(a) Appropriately applied the rate design principles of Dr. Bonbright;

(b) Identified and evaluated the relevant rebalancing options;

(c) Proposed the option that reflects the best balance of rate design principles; and

(d) Fully addressed the issues and topics raised in IRs.

A. FBC REASONABLY APPLIED THE BONBRIGHT RATE DESIGN PRINCIPLES

59. To identify and evaluate revenue rebalancing options, FBC appropriately applied the rate design principles identified by Dr. Bonbright, which FBC summarizes in Section 3.1 of the Updated Application. Revenue rebalancing is a complex balancing process that frequently requires the application of multiple, sometimes conflicting, principles and the consideration of viewpoints from various stakeholders. Therefore, in rebalancing rates, FBC strives to strike a balance among competing principles based on the specific characteristics of customers in each rate schedule. FBC applies its experience and judgement to consider and balance the most relevant principles when evaluating the different revenue rebalancing solutions.[66]

60. In considering the options for rebalancing in this context, FBC was primarily guided by Bonbright principles 2, 4 and 6:[67]

- **Principle 2 – Fair apportionment of costs among customers:** FBC considered the extent to which all R/C ratios fall within the RoR of 95 percent to 105 percent, such that the cost recovery through each rate schedule closely reflects the fair apportionment of costs from each customer group.

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[66] Exhibit B-1-1, Updated Application, p. 26.

[67] Exhibit B-1-1, Updated Application, p. 27.

- **Principle 4 – Customer understanding and acceptance:** FBC considered the number of rate schedules that would be adjusted and, in particular, whether any customer group would be adjusted even though their R/C ratio is already within the RoR.

- **Principle 6 – Rate stability (customer rate impact should be managed):** FBC considered whether any customer group would experience significant rate increases or rate shock (an increase greater than 10 percent in any year).

61. Rebalancing rates in this case requires a balancing of these competing rate design principles, which FBC has done appropriately. The results of the 2025 COSA study show that RS 20 and RS 31 are above 105 percent, while RS 40 and RS 60 are below 95 percent. FBC has sought to rebalance each rate class with an R/C ratio outside of the RoR to the nearest boundary, subject to other rate design considerations. However, a simple shift of the revenue between RS 20, RS 31, RS 40, and RS 60 is not feasible because the total decrease in revenues resulting from bringing RS 20 and RS 31 down to 105 percent is less than the revenue required to bring RS 40 and RS 60 up to 95 percent. As such, the rebalancing of these four rate schedules to the nearest RoR boundary would lead to the rebalancing not being revenue neutral. Additionally, such a rebalancing approach would result in a significant rate impact to RS 60 customers.[68]

B. FBC IDENTIFIED AND EVALUATED THE RELEVANT ALTERNATIVES

62. With the benefit of input from the first round of IRs, and based on the corrected COSA study, FBC developed and evaluated five rebalancing options in its Updated Application. Table 7-6 from the Updated Application summarizes these options:

[68] Exhibit B-1-1, Updated Application, p. 26.

Table 7-6: Summary of Revenue Shifts and Resulting R/C Ratios Between Rate Schedules for All Rebalancing Options

	Option 1: Rebalance All Out-of-Range Rate Schedules to the RoR Boundary, With Additional Credit from Rebalancing Allocated to Other Rate Schedules Currently with R/C Ratios Above 100%		Option 2: Rebalance RS 20, RS 31 and RS 40 to the RoR Boundary, and Rebalance RS 60 to Achieve Revenue Neutrality		Option 3: Revenue Rebalancing Between RS 01, 20, 31, 40, 41, 50 and 60, With the R/C Ratio of RS 60 Capped at 85 Percent		Option 4: Rebalance RS 20 and RS 31 to the RoR Boundary, Cap RS 60 at a 5% Rate Increase, and Rebalance RS 40 to Achieve Revenue Neutrality		Option 5: Rebalance RS 31 and RS 40 to the RoR Boundary, Cap RS 60 at an R/C Ratio of 80%, and Rebalance RS 20 to Achieve Revenue Neutrality	
	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio	Revenue Shift ($000s)	R:C Ratio
RS 01	-	99.5%	-	99.5%	195	99.6%	-	99.5%	-	99.5%
RS 20	(1,134)	105.0%	(1,134)	105.0%	(1,134)	105.0%	(1,134)	105.0%	(666)	106.0%
RS 21	(233)	102.0%	-	102.4%	-	102.4%	-	102.4%	-	102.4%
RS 30	(90)	100.4%	-	100.7%	-	100.7%	-	100.7%	-	100.7%
RS 31	(55)	105.0%	(55)	105.0%	(55)	105.0%	(55)	105.0%	(55)	105.0%
RS 40	581	95.0%	581	95.0%	581	95.0%	986	95.7%	581	95.0%
RS 41	-	98.3%	-	98.3%	8	98.4%	-	98.3%	-	98.3%
RS 50	-	99.8%	-	99.8%	2	99.9%	-	99.8%	-	99.8%
RS 60	933	95.0%	609	88.9%	405	85.0%	204	81.2%	141	80.0%

63. FBC summarized its comments on the 5 options as follows:[69]

(a) Only Option 1 will rebalance all rate schedules to within the RoR. However, this option will lead to a significant rate impact for RS 60 customers at approximately 22.9 percent.

(b) Option 2 results in all rate schedules moving to within the RoR except for RS 60, and it results in no impacts to the rate schedules that are already within the RoR prior to rebalancing, thus minimizing rate impacts to the majority of customer classes. While not fully moving to the lower bound of the RoR, RS 60 moves much closer to the lower bound (from 77.3 percent to 88.9 percent). However, the rate impact to RS 60 is significant, at 14.9 percent.

(c) Option 3 better mitigates the rate impact to RS 60 compared to Options 1 and 2 by capping the R/C ratio of RS 60 at 85 percent. However, the resulting rate impact to RS 60 is still 9.9 percent, which when combined with FBC's annual general rate increase, would likely still be considered rate shock. Further, Option 3 affects the most rate schedules out of all of the options, as all rate schedules will be rebalanced except for RS 21 and RS 30 (albeit the impact of the rebalancing on most rate schedules is minor at 0.1 percent).

(d) Option 4 limits the rebalancing to the rate schedules outside of the RoR (RS 20, RS 31, RS 40 and RS 60). Further, by capping the rate increase at 5 percent for RS 60, the rate impacts for all classes subject to rebalancing are reasonably mitigated. However, RS 60 will still be well below the lower bound

[69] Exhibit B-1-1, Updated Application, pp. 35-36.

of the RoR (the RS 60 R/C ratio will be 81.2 percent after rebalancing), and, in order to achieve revenue neutrality, RS 40 will be rebalanced slightly higher than the lower bound of the RoR (i.e., RS 40 will move from 94.0 percent to 95.7 percent).

(e) Similar to Option 4, Option 5 limits the rebalancing to the rate schedules outside of the RoR (RS 20, RS 31, RS 40 and RS 60). Under Option 5, the rate impact to RS 60 is further mitigated by capping RS 60's R/C ratio at 80 percent. However, in order to achieve revenue neutrality, RS 20 is only moved from an R/C ratio of 107.5 percent to 106.0 percent and is thus still outside of the upper bound of the RoR. Given that RS 60 is still well outside the RoR, and RS 20 would still be above the upper bound of the RoR, FBC considers this option to rank poorly in terms of Bonbright principles 2 and 4.

C. OPTION 2 IS THE PREFERRED REBALANCING OPTION

64. FBC submits that the evaluation of the revenue rebalancing options against Bonbright's rate design principles shows that Option 2 reflects the best balance of rate design principles when compared to other revenue rebalancing options.

65. Option 2 involves rebalancing RS 20 and RS 31 down to an R/C ratio of 105 percent, and rebalancing RS 40 up to 95 percent. This requires a reduction to the revenue recovered (at 2024 Approved rates) from RS 20 of approximately $1.134 million and from RS 31 of approximately $0.055 million, while increasing the revenue to be recovered from RS 40 by approximately $0.581 million. In order to achieve revenue neutrality, the debit variance of approximately $0.609 million will be fully assigned to RS 60 based on its revenue at 2024 Approved rates. This results in RS 60's R/C ratio moving from 77.3 percent to 88.9 percent.[70]

66. Under Option 2, an average RS 20 customer and RS 31 customer will see a rate reduction of approximately 2.4 percent and 0.3 percent, respectively, while an average RS 40 and RS 60 customer will see a rate increase of approximately 1.1 percent and 14.9 percent, respectively.[71]

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[70] Exhibit B-1-1, Updated Application, p. 29.

[71] Exhibit B-1-1, Updated Application, p. 29.

67. When assessed against the Bonbright rate design principles, Option 2 partially aligns with principle 2 and aligns with principle 4:[72]

- Principle 2 – Fair apportionment of costs among customers (partially): Except for RS 60, all R/C ratios of the applicable rate schedules fall within the RoR. RS 60 will move closer to the RoR, but will still be below 95 percent.
- Principle 4 – Customer understanding and acceptance: Option 2 results in adjustments to only the rate schedules that fall outside of the RoR, which would likely result in a higher level of customer understanding and acceptance compared to options where rate schedules that are already within the RoR are rebalanced.

68. However, Option 2 does not fully align with principle 6:

- Principle 6 – Rate Stability (Customer rate impact should be managed): The rate impact of approximately 14.9 percent to RS 60 customers would be considered rate shock.

69. In order to mitigate the rate impact to RS 60 customers from rebalancing, FBC proposes to phase-in the rate increase due to revenue rebalancing to RS 60 customers over a 5-year period. A 5-year phase-in period will reduce the immediate rate impact to RS 60 customers from 14.9 percent to 3.0 percent. FBC considers a 5-year phase-in period the most appropriate, as FBC expects it would be sufficient to avoid rate shock when considering the combined impact of the rebalancing and FBC's annual general rate increases.

70. 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 for a non-rate base deferral account, titled the Irrigation Rebalancing Phase-in deferral account, attracting FBC's WACC, 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.

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[72] Exhibit B-1-1, Updated Application, p. 30.

71. With the proposed phase-in of rate impacts to RS 60 customers, FBC submits that Option 2 reflects the best balance of rate design principles and is just and reasonable.

D. FBC HAS RESPONDED TO TOPICS RAISED IN INFORMATION REQUESTS

72. FBC has fully responded to and addressed issues raised in IRs. The key topics explored in IRs are discussed below.

(a) Impact of Phase-In of RS 60 to Other Customers Is Small

73. When determining the appropriate number of years for the phase-in period, the key consideration should be the overall rate impact to RS 60 customers resulting from the phase-in, not the rate impact to other customer classes. Whether the phase-in period of RS 60 is over a three-, four- or five-year period, the rate impact to all other customer classes resulting from the phase-in is small, ranging from 0.08 percent in Year 1 with a three-year phase-in period to 0.10 percent in Year 1 with a five-year phase-in period.[73] For the five-year phase in, for the average residential customer, this is equivalent to a bill impact ranging from just less than $2 in Year 1 to $0 in Year 5 during the phase-in period.[74]

(b) Seasonal Impacts to RS 60 Are Reasonable Under Five-Year Phase-In

74. FBC's proposed five-year phase-in mitigates the seasonal impacts to RS 60 to a reasonable degree. In accordance with the approved rate design for RS 60, Irrigation customers are charged at RS 20 or RS 21 rates during the off-season (i.e., from November to March). Under Option 2, the rates for RS 20 will be reduced by 2.4 percent due to revenue rebalancing. In order for the overall revenue from RS 60 to increase by 3.0 percent based on a five-year phase-in, the irrigation in-season rates from April to October will need to increase by approximately 3.9 percent each year to offset the off-season reduction from RS 20 rates.

75. The table below shows the monthly bill impact for an average RS 60 customer with a phase-in period from one to five years during the: In-season from April to October; Off-

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[73] Exhibit B-15, BCOAPO IR2 20.2; Exhibit B-11, BCUC IR2 13.2.

[74] Exhibit B-15, BCOAPO IR2 21.1 and 21.2.1.

season from November to March at RS 20 rates; and Off-season from November to March at RS 21 rates.[75]

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) ($)	$ -	$ -	$ -	$ -	$ -

76. As shown in the table, the five-year phase in period brings the rate impacts to RS 60 to reasonable levels, given that this does not include FBC's annual general rate changes. Option 2 with a five-year phase-in period will mitigate the rate increase to approximately 3.0 percent per year for RS 60 customers or 3.9 percent per year for RS 60 in-season rates. If the phase-in is over a three- or four-year period, then the impact to RS 60 customers would increase to 5.0 percent and 3.7 percent, respectively, or 6.4 percent and 4.8 percent, respectively, for the RS 60 in-season rates.[76] FBC submits that these shorter phase-in periods do not adequately mitigate the impacts to RS 60.

(c) Other Options Do Not Sufficiently Mitigate Impact to RS 60

77. Other options that seek to rebalance RS 60 to the edge of the RoR do not achieve satisfactory rate mitigation even if phased in over five years. Bill impacts to RS 60 would 4.6 percent for each year of the five-year phase-in, with a cumulative rate increase of 22.9 percent.[77] These impacts do not include any general rate increases over the same period.

78. Thus, although FBC's proposed Option 2 does not rebalance the R/C ratio of RS 60 to 95 percent (i.e., RS 60's R/C ratio will move to 88.9 percent), it provides the best balance

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[75] Exhibit B-11, BCUC IR2 13.1.

[76] Exhibit B-15, BCOAPO IR2 20.2; Exhibit B-11, BCUC IR2 13.2.

[77] Exhibit B-15, BCOAPO IR2 21.2.1.

amongst the Bonbright rate design principles of fair appointment of costs, customer understanding and acceptance, and managing the rate impact to RS 60 customers.[78]

(d) Irrigation Rebalancing Phase-in Deferral Account Is Best Approach

79. FBC's proposed Irrigation Rebalancing Phase-in deferral account, attracting FBC's WACC, is the best approach to capture the revenue deficiency resulting from the phase-in for RS 60 customers. The deferral account will be amortized over the same five-year phase-in period for RS 60 customers and will be recovered from all customers through FBC's general rate increases. This results in the annual revenue deficiency being recovered in the same year through the phase-in period. FBC has provided tables illustrating how the deferral account will work in detail.[79]

80. The alternative approach would be to capture the revenue deficiency resulting from the phase-in in the existing Flow-through deferral account. However, under this alternative approach, there would be a one-year lag in the recovery of the annual revenue deficiency during the phase-in period. Given this one-year lag, FBC considers the proposed Irrigation Rebalancing Phase-in deferral account to be superior.[80]

(e) Option 2 is Superior to BCOAPO Option 22.1

81. FBC submits that its proposed Option 2 is superior to the option identified in BCOAPO IR2 22.1 (BCOAPO Option 22.1). BCOAPO Option 22.1 is an option where "(i) the R/C ratio for RS 60 is phased in to 95% over 5 years with equal bill impacts in each year; (ii) the R/C ratio for RS 40 is increased to 95% in the first year; (iii) the R/C ratio for RS 20 is reduced to maintain revenue neutrality; and (iv) if the R/C ratio for RS 20 in a given year would be less than 105.3% then the ratios for both RS 20 and RS 31 are set at the same value in order to maintain revenue neutrality."[81]

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78 Exhibit B-15, BCOAPO IR2 21.2.1.

79 Exhibit B-11, BCUC IR2 13.2.

80 Exhibit B-11, BCUC IR2 13.3.

81 Exhibit B-15, BCOAPO IR2 22.1.

82. When assessed against the Bonbright rate design principles, BCOAPO Option 22.1 fails to align with all three applicable principles:[82]

- **Principle 2 – Fair apportionment of costs among customers:** Although all rate schedules will be within the desired RoR after the five-year phase-in period, RS 20 and RS 31 will not move to within the RoR **until** Year 4, while RS 60 will not move to within the RoR until the end of the phase-in period. In contrast, the phase-in approach proposed by FBC moves RS 20 and RS 31 to within the RoR immediately.

- **Principle 4 – Customer understanding and acceptance:** FBC considers BCOAPO Option 22.1 to be confusing and difficult for customers to understand. For each year during the phase-in period, there will be different customer groups that will experience rate changes due to revenue rebalancing in addition to FBC's general rate increases. In contrast, FBC's proposed phase-in approach is transparent and easy to understand.

- **Principle 6 – Rate stability (customer rate impact should be managed):** Even with a five-year phase-in period for RS 60, BCOAPO Option 22.1 will result in a significant cumulative rate impact (i.e., 22.9 percent) over the five-year period, and this cumulative rate impact is before FBC's annual general rate increases. In contrast, FBC's proposed Option 2 will reduce the rate impact to approximately 3 percent per year or cumulatively to 14.9 percent over the five-year period.

83. Therefore, FBC's proposed Option 2 is superior to BCOAPO Option 22.1. FBC's proposed use of a deferral account to facilitate the phase-in of rebalancing for RS 60 customers is transparent and easy to understand, and it does not require recalculation of revenue rebalancing each year for different rate schedules during the phase-in period.[83]

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[82] Exhibit B-15, BCOAPO IR2 22.1.

[83] Exhibit B-15, BCOAPO IR2 22.1.

PART FIVE: FBC'S PROPOSED TRANSFORMATION DISCOUNTS ARE JUST AND REASONABLE.

84. FBC's updated transformation discounts for RS 21, RS 30 and RS 40 flow directly from the COSA study results, are just and reasonable and should be approved.

85. Consistent with the 2017 COSA and RDA, FBC has updated the transformation discount available for customers under RS 21, 30, and 40. FBC currently has 27 customers under RS 21, two customers under RS 30, and one customer under RS 40 that are receiving the transformation discount.[84]

86. The updated transformation discounts for RS 21, 30, and 40 based on the results of the 2025 COSA study are presented below:

(a) For RS 21, the transformation discount will be increased from the current level of $0.409 per kW to $0.4841 per kW (from $0.371 to $0.4357 on a kVA basis) of Billing Demand.

(b) For RS 30, the transformation discount will be reduced from the current level of $6.727 per kVA to $5.98 per kVA of Billing Demand.

(c) For RS 40, the transformation discount will be increased from the current level of $3.390 per kVA to $3.78 per kVA of Billing Demand applied to the Wires Charge portion of the eligible customer's bill, and reduced from $0.00985 per kWh to $0.00926 per kWh applied to the Energy Charge of the eligible customer's bill.

87. The changes to the transformation discount result in the following impacts to average monthly bills. The RS 30 Customer #2 in the table below is the FEI compressor station near Hedley, BC.[85]

	Average Bill Difference ($)	**Average Bill Difference (%)**
RS 21 Rate Class	(2.55)	(0.08)
RS 30 Customer #1	390	1.62

[84] Exhibit B-1-1, Updated Application, p. 38.

[85] Exhibit B-8, CEC IR1 5.2.

	Average Bill Difference ($)	Average Bill Difference (%)
RS 30 Customer #2	1,610	4.20
RS 40	(1,054)	(0.36)

88. The updated discount amounts flow directly from the COSA model. The changes are due to a combination of factors, such as changes in the proportion of primary versus secondary demand customers as a proportion of total system demand, and changes to the customer portion of the minimum system versus the demand portion split between primary and secondary. A reduction in the discount may result when cost savings associated with service at the higher voltage are diminished.[86]

89. FBC submits that the transformation discount is just and reasonable and should be approved.

[86] Exhibit B-8, CEC IR1 5.2.

PART SIX: CONCLUSION

90. FBC submits that its approvals sought in its Updated Application are just and reasonable and should be approved as filed. The 2025 COSA has been conducted reasonably in accordance with a sound methodology, appropriately guided by the principle of cost causality. FBC has appropriately applied the 95 percent to 105 percent RoR and sought to rebalance to the edge of the RoR, subject to other rate design considerations. In identifying and evaluating rate design options, FBC has appropriately applied Bonbright's rate design principles and its proposed Option 2 reflects the best balance of these principles. FBC submits that its proposed five-year phase-in period to rebalance RS 60 reasonably mitigates the impacts to RS 60 customers, and is superior to the alternatives. FBC, therefore, requests that its Updated Application be approved as filed.

91. ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: July 18, 2025

[original signed by Chris Bystrom]

Chris Bystrom
Counsel for FortisBC Inc.