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

Attention: Commission Secretary

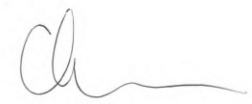
Dear Sirs/Mesdames:

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

We enclose for filing in the above proceeding the Reply Submission of FortisBC Inc., dated August 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

REPLY SUBMISSION

OF

FORTISBC INC.

August 18, 2025

Table of Contents

PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Inc. (FBC) submits that the intervener submissions filed in this proceeding exhibit strong support for FBC's proposals 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]

2. Five interveners filed submissions. Four of the five interveners support the approval of the Updated Application, with two of these interveners suggesting relatively minor recommendations for change:

(a) The British Columbia Municipal Electric Utilities (BCMEU) endorse FBC's proposed Option 2, and request that the BCUC approve the Updated Application as filed.[3]

(b) The Residential Consumer Intervener Association (RCIA) concludes that FBC's COSA is sound, supports FBC's Option 2, and submits that there should be a five-year maximum interval for future COSA studies, with earlier filings when significant changes occur.[4]

(c) The Industrial Customers Group (ICG) supports FBC's Option 2, with an adjustment to the Rate Schedule (RS) 31 revenue to cost ratio (R/C ratio) to include RS 37 revenues, and requests that FBC's Electric Tariff be amended to use a demand window interval of 30 minutes.[5]

(d) The British Columbia Old Age Pensioners' Organization *et al*. (BCOAPO) supports FBC's Option 2, with a different allocation of costs to Lighting customers and a shorter phase-in period for RS 60. BCOAPO also makes several other recommendations for FBC's COSA studies.

3. Only one intervener opposes FBC's proposed rebalancing Option 2:

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1 Exhibit B-1, Application.

2 Exhibit B-1-1, Updated Application.

3 BCMEU Final Submission.

4 RCIA Final Submission, p. 10.

5 ICG Final Submission, para 1.

(a) The Commercial Energy Consumers Association of BC (CEC) submits that Option 3 is superior to Option 2, and also makes recommendations for either the current COSA study or future studies.

FBC submits that the intervener submissions do not identify any issue with FBC's COSA Study and that Option 2 remains the best rebalancing option and should be approved with a five-year phase-in for RS 60 as proposed.

4. In the remainder of this Reply Submission, FBC responds to the comments of interveners. FBC has not addressed proposals that are unopposed, such as FBC's proposed transformation discounts. FBC has sought to address the main points of each intervener argument; silence in this submission is not indicative of FBC's agreement. FBC has followed the organization of its Final Submission where practical.

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

5. In this Part, FBC addresses the topics raised by interveners related to the COSA study, as well as ICG's request that FBC adopt a 30-minute demand window in its Electric Tariff which FBC submits is outside the scope of this proceeding.

A. TREATMENT OF RS 37 REVENUE

6. Rather than attributing RS 37 revenue to all customers as FBC has proposed and was approved for in the previous COSA study, ICG submits that RS 37 revenue should be attributed only to RS 31 customers for the purposes of calculating the RS 31 R/C ratio, based on the rationale that RS 37 customers must take service under RS 31.[6] While FBC has explained that this would be inappropriate and, at the very least, that there would need to be a matching increase in direct assigned costs,[7] ICG submits that the directly assigned costs would be negligible and the impact to RS 31 significant.[8] FBC submits that ICG's position should be rejected.

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6 ICG Final Submission, paras. 3 to 5.

7 Exhibit B-7, ICG IR1 9.1.

8 ICG Final Submission, para. 4.

7. Contrary to ICG's submission, RS 31 and RS 37 are separate services. RS 31 is a COSA-based rate that reflects all the RS 31 revenues and allocated costs, while RS 37 is a separate stand-by service for Large Commercial customers with a rate developed outside the COSA. ICG has not identified any valid rate design principle on which RS 37 revenues should be allocated to RS 31.

8. Moreover, ICG's position does not follow the principle of cost causation because the system required to provide RS 37 service is paid for by all customers, not just those served on RS 31. This is a key reason why the BCUC previously found that RS 37 revenue should be attributed to all customers. As the Panel determined in the 2017 COSA and RDA Decision:[9]

> 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.

ICG has not identified any valid reason why the BCUC should change its position on the treatment of RS 37 revenue.

9. Finally, FBC notes that ICG relies on FBC's response to ICG IR1 9.1 for an R/C ratio of 117.6 for RS 31. However, in that response, FBC only allocated all the RS 37 revenues to RS 31 without any other adjustments to the COSA. FBC's response to ICG IR2 5.1 notes that, at the very least, there would be additional power supply costs to allocate along with the RS 37 revenue. As such, the R/C ratio of 117.6 does not reflect a full allocation of RS 37 costs and revenues to RS 31.

B. TREATMENT OF RS 38 REVENUE

10. CEC supports FBC's treatment of RS 38 revenue, but argues that the BCUC should "direct FBC to consider, in the next COSA study, the impact of transitions from RS 31 to RS

[9] Decision and Order G-40-19, p. 17.

38 and the potential that RS 38 should be included in the COSA study."[10] FBC submits that this direction is not necessary and should not be issued. Order G-136-23, which approved RS 38 on a pilot basis for five years, already requires FBC to report annually to the BCUC on RS 38.[11] Assuming RS 38 has been approved on a permanent basis by the time of FBC's next COSA study, FBC will, as a matter of course, take into consideration circumstances as they exist at that time, including any impact of transitions from RS 31 to RS 38. No direction is needed in this regard.

11. BCOAPO accepts FBC's treatment of RS 38 revenue, but questions whether including RS 38 revenues is consistent with the point-in-time principle.[12] In reply, FBC followed common industry practice in adjusting for RS 38 revenues as it was a known and measurable change.[13] RS 38 was approved by the BCUC and the impact on revenues was measurable; therefore, this was a prudent adjustment to make to 2024 revenues. The alternative of not making the change would mean that RS 31 load would be high in the COSA, even though it has actually dropped significantly due to RS 38, meaning the COSA would be known to be out of date before it was even completed. FBC submits that it followed standard industry practice by making the adjustment for a known and measurable change and the adjustment was reasonable.

C. AVERAGE LOAD FACTORS

12. CEC recommends that the BCUC direct FBC to use average (multi-year) load factors for all rate classes in the next COSA or make the adjustment to the Commercial rate classes in a compliance filing for the present COSA.[14] BCOAPO does not object to FBC's load factors based on 2022 data, but submits that FBC should be directed to assess in its next COSA

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[10] CEC Final Submission, para. 50.

[11] FortisBC Inc. ~ Large Commercial Interruptible Rate ~ Decision and G-136-23 - British Columbia Utilities Commission

[12] BCOAPO Final Submission, p. 5.

[13] Exhibit B-1-1, Updated Application, p. 13.

[14] CEC Final Submission, para. 61.

study whether the use of average load factors are warranted.[15] FBC submits that there is no need for smoothing of load factors in the current COSA and that a direction to use average load factors in the next COSA would be premature.

13. As a general principle, averaging goes against the point-in-time nature of the COSA, and adds complexity and cost. While there are exceptions to the point-in-time approach (e.g., using two years for rate base and adjusting for known and measurable changes), these are indeed exceptions, as the vast majority of the data are point in time in nature.[16] As stated by EES:[17]

> … a COSA study is a point in time study with point in time data. Taking a rolling current year or similar approach to factors can be complex (and potentially costly) and there is no certainty that such an approach would yield beneficial results unless there is a case for smoothing.

While using average load factors *could* benefit[18] an individual customer whose load changes significantly in the test year, it would be at the expense of other rate classes. Therefore, averaging should only be used when there is a strong case to do so, such as when there is a substantial amount of suspect or missing data.[19]

14. EES explained that it did not see a strong case for averaging load factors in the current COSA, as the interval data set was largely complete for all meters and rate classes.[20] EES explained:[21]

> The current COSA study does not use averaged load factors for any rate class. All classes are treated the same based on the loads in 2022. EES did not make adjustments to the 2025 COSA to average certain load factors across studies

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15 BCOAPO Final Submission, pp. 18-19.

16 Exhibit B-14, CEC IR2 9.1.

17 Exhibit B-14, CEC IR2 9.2.

18 Contrary to BCOAPO's submission (p. 18), EES's evidence was not that using average load factors would necessarily benefit certain customers, but that it *could* do so. The point was that any potential benefit to some customers would come at a cost to others.

19 Exhibit B-14, CEC IR2 9.1.

20 Exhibit B-14, CEC IR2 9.1.

21 Exhibit B-5, BCUC IR1 9.2.

> because the data overall was more complete due to the availability of AMI readings, and averaging a more complete data set with aspects of a less complete data set would tend to dilute the value of the higher quality data.

EES also concluded:[22]

> Given that other costs and inputs are not smoothed out over multiple years and the interval data set is largely complete for all meters and rate classes for the test year, the use of average load factors for these rate classes would result in a less fair cost allocation without significant multi-year adjustments elsewhere and to all other rate classes.

Moreover, EES analyzed the load factors over the 2017, 2020 and 2025 COSA studies and concluded that they have been relatively stable over time. EES states: "Considering that RS 1, RS 20, RS 21 and RS 40 account for approximately 87 percent of revenues and all had a reasonably tight spread, EES considers the overall results to be reasonably stable over the three studies."[23] Therefore, there is no indication of a need to use average load factors in the current COSA.

15. FBC will consider the need for the use of average load factors in the ordinary course as part of the next COSA study. No direction is needed in this regard.

D. STREET LIGHTING

16. BCOAPO submits that FBC should revise the 2025 COSA to allocate to the Lighting class an appropriate share of the customer-related Primary and Second Distribution costs identified using the MSS.[24] However, there is no need to make this change in the 2025 COSA.

17. EES's approach to Lighting was informed by the fact that lighting has its distribution costs direct-assigned. Unlike for other rate classes, direct assignment is possible because FBC tracks both the capital cost and lighting-related O&M separately. If lighting were

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[22] Exhibit B-14, CEC IR2 9.1.

[23] Exhibit B-8, CEC IR1 3.1.

[24] BCOAPO Final Submission, p. 7.

separately allocated costs in addition to those that are directly assigned, it would double count costs attributable to lighting.[25] EES further explained:[26]

> The current 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.

18. In reply to BCOAPO, it is well known that the switch to LED lighting has resulted in significant and sustained reductions to the wattage requirements for street lighting. While other methods could have been used, the end result in the COSA is reasonable in that few distribution costs should be allocated to Lighting and the directly allocated costs are a reasonable proxy for this amount. FBC can revisit its methodology in the next COSA, but considers that there is no material change to be made in the current study.

E. RATE BASE

19. BCOAPO accepts FBC's approach to calculating rate base, but states that "FBC's Annual Review for 2024 Rates is not at the level of detail required for the COSA Study"[27] and recommends that, for future COSAs, FBC be directed "to use the available averages of the year end values forecast for 2023 and 2024 (i.e., the mid-year 2017 rate base) for each of these major categories and then use the more detailed account information from 2021-2022 to breakdown the totals (per the 2024 test year forecast) for each of the Hydro Production, Transmission, Distribution and General Plant categories into the required account level information."[28]

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[25] Exhibit B-9, BCOAPO IR1 8.2.

[26] Exhibit B-15, BCOAPO IR2 17.1.

[27] BCOAPO Final Submission, p. 14.

[28] BCOAPO Final Submission, pp. 14-15.

20. BCOAPO is not correct in its assertion that the level of detail in the 2025 COSA is insufficient or less than that used in the 2017 COSA. BCOAPO did not ask about the level of detail that FBC used. In fact, FBC used a two-year average rate base with the same level of detail as was used in 2017, and used the most recent filed and approved version available when the COSA was completed. In general, FBC uses the best available information at the time.

21. FBC compared the percentage breakdown of the rate base component between the 2025 COSA Model and the Rate Base Forecast from FBC's 2024 Annual Review, which is reproduced below.[29] As shown below, using 2024 values would have a negligible impact on the COSA results.

[29] Exhibit B-9, BCOAPO IR1 5.1.

Row	Item	2025 COSA Model Mid-Year Value ($000s)	F2024 Annual Review Mid-Year Value ($000s)	Difference
#1	Hydraulic Production -Gross Plant -Accumulated Depreciation -Net Plant	17%	17%	0%
#2	Transmission -Gross Plant -Accumulated Depreciation -Net Plant	23%	22%	-1%
#3	Distribution -Gross Plant -Accumulated Depreciation -Net Plant	57%	56%	-1%
#4	General Plant -Gross Plant -Accumulated Depreciation -Net Plant	10%	9%	-1%
#5	CIAC -Gross Plant -Accumulated Depreciation -Net Plant	-15%	-12%	3%
#6	Total Plant -Gross Plant -Accumulated Depreciation -Net Plant	92%	92%	0%
#7	Working Capital	0.4%	0.4%	0%
#8	Other Rate Base Items	8%	8%	0%
#9	Total Rate Base	100%	100%	0%

22. FBC submits that no change to its treatment of Rate Base in the 2025 COSA is required.

23. FBC also submits that it is unnecessary and would be premature to direct FBC to calculate Rate Base in future COSAs in the particular way BCOAPO suggests. As always, FBC will use the best information available, and no direction is needed in this regard. Moreover, the very particular method that BCOAPO has suggested is unnecessarily complicated as it is based on a misunderstanding of the information available.

F. NET METERING

24. CEC recommends that the BCUC "direct FBC to provide in its next COSA study, a discussion on the effects of increased net metering penetration levels on COSA allocations and, if applicable, on the MSS scope. Alternatively, the CEC recommends that the Commission could reasonably consider directing FBC to provide a compliance filing implementing inclusion in the 2025 COSA study of NCP and CP load factors for the Commercial rate classes that reflect commercial net metering data."[30] FBC submits that no direction is needed with respect to net metering.

25. First, while FBC appreciates that the number of net metering customers is growing, they are, at this time, immaterial to the COSA. For example, the Annual NCP and CP Load Factor is virtually the same for the Residential class with and without net metering.[31] As there are even fewer commercial net metering customers than residential, there is no benefit to filing a compliance filing with the NCP and CP load factors for the Commercial rate classes that reflect commercial net metering data, as CEC suggests. This would not have any material impact and would serve no purpose.

26. Second, net metering would not impact the MSS, as CEC speculates,[32] because the net metering rate has an installed-system cap set at annual consumption,[33] so exports are minimal by design.

27. Third, FBC will consider the effects of increased net metering penetration levels in its next COSA studies, in the ordinary course. FBC's COSA studies are conducted in accordance with the principle of cost causation and use the best information available at

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30 CEC Final Submission, para. 89.

31 Exhibit B-8, CEC IR1 6.3.

32 CEC Final Submission, para. 86.

33 FBC Electric Tariff, RS 95, Eligibility, "The generation equipment must be located on the Customer's Premises, Service only the Customer's Premises and must be intended to offset only a portion or all of the Customer's requirements for Electricity on an annual basis. …A Customer who is already a participant in the Net Metering Program, and wishes to remain so, must not increase their generating capacity without prior approval of FBC, which shall be granted on the same basis as a new customer will be evaluated for entry into the Net Metering Program.

the time. As net metering grows, FBC is aware that it will need to consider the impacts in its COSA studies to ensure customers are paying their fair share of system costs.

G. MINIMUM SYSTEM ANALYSIS

28. CEC recommends that the BCUC direct FBC to take a simpler (100% Demand) approach to classifying distribution costs in the 2025 COSA study or take such an approach in its next COSA study.[34] FBC submits that the simpler, 100% Demand approach, is unreasonable and should not be directed for the current or future COSA studies.

29. First, at paragraph 97 of its submission, CEC mischaracterizes the rationale for FBC's MSS approach as being for consistency and to avoid rate impacts. This is incorrect. FBC described the reasons supporting its MSS approach in its Final Submission at paragraphs 28 to 35. In summary, the MSS approach strikes a reasonable balance between simplicity and complexity, is theoretically sound and the calculations reasonable, providing assurance that the results can be reasonably relied on, maintains a consistent method with past studies, which means results are comparable to previous COSA study results, and has no downsides. The CEC has not responded to the substance of FBC's submission on this matter.

30. Second, CEC's rationale[35] for taking a simpler approach is not accurate or compelling. 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.[36] Moreover, there is no theoretically sound justification for a 100% Demand approach, as CEC appears to support. A 100% demand approach is not reasonable as it fails to recognize that a component of the distribution system is used and needed to connect customers regardless of the level of

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[34] CEC Final Submission, para. 100.

[35] CEC Final Submission, para. 99.

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

demand.[37] Finally, the potential for net metering to "blur" the definition of the MSS is not an issue, as the net metering rate (RS 95) has an installed-system cap set at annual consumption and there are too few meter metering customers for this to have a material impact in any case.

31. FBC submits that CEC's proposal should be rejected.

H. LOAD FORECASTING VARIANCES

32. CEC recommends the that the BCUC direct FBC "to provide in a compliance filing the CEC-requested information regarding the R/C ratios for RS 30 and RS 31 per CEC IR1 2.3 and CEC IR2 10 series [i.e. using Actual Load]."[38] The CEC's recommendation should be rejected.

33. FBC declined to provide the R/C ratios that CEC requested for RS 30 and RS 31 using Actual loads (in retrospect) in each of the 2017, 2020 and 2024 COSA studies because it is not reasonable to use actual load data in conjunction with the forecast cost of service in the COSA. FBC explained in detail as follows:[39]

> FBC's rates (and revenue) are set based on the forecast demand and forecast cost of service; therefore, it is appropriate to calculate the R/C ratios based on the forecast revenue and forecast cost of service in the COSA model and use the resulting ratios to inform the need for revenue rebalancing. It would be incorrect to use actual revenue to calculate the R/C ratios and use these results to determine if the rates of each individual customer group are recovering the fair apportionment of cost to serve them, when the rates are set based on the forecast cost of service, not the actual cost of service.
>
> Further, variances in revenue due to the difference between forecast and actual load are captured in the approved Flow-through deferral account. As such, the amortization and any associated deferral account financing costs are already part of FBC's forecast cost of service used to set rates. In other words, variances in revenue due to differences between forecast and actual

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

[38] CEC Final Submission, para. 108.

[39] Exhibit B-8, CEC IR1 2.3.

> load are already included in the COSA model and are part of the calculation of the R/C ratios of each rate schedule.
>
> There are also many factors that could lead to variances in actual versus forecast revenue, such as weather, energy efficiency advancement in electrical equipment, and economic circumstances that have no relevance toward the fair apportionment of costs to serve each customer group. Therefore, using actual revenue (based on actual load from prior years) would introduce a degree of inaccuracy in the COSA that is not related to the fair apportionment of costs. For example, if the R/C ratio of a particular rate schedule is at 95 percent based on the forecast revenue and cost of service, but due to weather or other economic factors, the R/C ratio becomes 94 percent when it is calculated based on actual revenue, this would inappropriately lead to rebalancing, as the R/C ratio would now be outside of the RoR.
>
> Finally, using actual load/revenue and the actual revenue requirement in the calculation of the R/C ratios is impractical, as it extends the length of time between the data used to determine the R/C ratios and the implementation of the changes to the R/C ratios through rebalancing. Using the 2025 COSA as an example, the most recent actuals that FBC could have used would be 2023, and the earliest implementation of any proposed changes from the COSA study would be 2026, resulting in a three-year gap between the actual data used for evaluation and the implementation on any proposed changes. In contrast, the 2025 COSA was based on 2024 forecast revenue, thus shortening the time between the data used for evaluation and the implementation of the results of the data.

34. CEC has not responded to any of these points or otherwise explained why it would be reasonable to use actual load in conjunction with forecast costs.

35. Furthermore, if the actual loads were lower than forecast, the actual costs for allocation such as power supply costs would also be lower. As such, the lower actual costs for allocation purposes would offset the reduced revenue from lower actual load, thereby mitigating the impact on the R/C ratios resulting from load forecasting variances.[40] This, combined with the fact that the difference between forecast and actual load are captured in the approved Flow-through deferral account, means that load forecast variances would not have the material impact that CEC appears to believe they do.

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[40] Exhibit B-14, CEC IR2 10.1.

36. As such, FBC submits that it is not reasonable for FBC to spend time and resources to provide the information requested by CEC. It would be unreasonable and inappropriate to use actual load data in conjunction with forecast costs, and therefore the CEC's recommendations should be rejected.

I. FILING OF NEXT COSA STUDY

37. CEC submits that FBC should file its next COSA report no later than 2030,[41] while RCIA recommends that the next COSA study be conducted within five years, or earlier, if triggered by material changes in FBC's operations, system configuration, or rate design.[42] BCOAPO does not object to FBC's five-year timeframe, if a rate design would be triggered by "significant changes in FBC's cost structure (e.g., the proportions of rate base functionalized as Generation versus Transmission versus Distribution) as well as material changes in the CP and NCP load factors for the various rate schedules".[43]

38. FBC continues to be of the view that the BCUC need not direct the timing of the next COSA report. A report may or may not be needed in five years. However, if the next COSA report must be filed in five years, it should be five years from the effective date of any rate adjustments approved by the Commission as a result of the current Application, which FBC has proposed to be January 1, 2026 . This would allow time for the five-year phase in for RS 60 to complete before the filing of the next COSA. This is important as it would complicate the next COSA if RS 60 was still being phased-in at the same time that the potential for further rebalancing was being considered. Further, given the amount of time to undertake a COSA study, and lag in the historical data used to perform the COSA, January 1, 2031, would the soonest the next COSA report should be filed.

39. Finally, BCOAPO's suggestion that FBC should be monitoring factors such as proportions of rate base and load factors, and that these factors could trigger a COSA even

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41 CEC Final Submission, para. 10.

42 RCIA Final Submission, p. 10.

43 BCOAPO Final Submission, p. 41.

earlier than five years is unreasonable. By this standard, FBC would have to complete a good portion of the COSA study every year to determine whether such factors have changed. Instead, the changes that could trigger the need for a COSA study should be more material and manifest in FBC's operations, structure or rate design. At this time, there is no reason to believe any such change will occur over the coming five-year period.

J. DEMAND WINDOWS

40. ICG requests that the BCUC "compel FBC to adopt the 30 minute interval for demand billing in its own electric tariff based on the grounds of FBC's RS 3808 power supply contract, provincial consistency in the industrial sector, and ultimately, fairness."[44]

41. The topic of which demand window FBC should use is a rate design issue that is beyond the scope of the COSA study and rebalancing of rates and has not been the subject of any evidence in this proceeding. EES adopted a reasonable assumption regarding demand windows for the purposes of conducting its COSA study, but this has no bearing on demand windows that FBC uses for billing purposes. ICG's attempt to leverage EES's IR responses to further its position on demand windows is, therefore, misleading.

42. As such, FBC submits that this topic is out of scope of this proceeding and that there is no evidentiary foundation on which the BCUC could make a reasonable decision in any case. The BCUC should not entertain potential changes to rate design without evidence, including on the potential impacts to customers.

43. FBC submits that paragraph 11 of ICG's submission is new evidence that is not on the record in this proceeding and should be disregarded.

44. Finally, while not in scope of this proceeding, FBC does not accept ICG's argument that it should simply adopt the demand window for demand billing in BC Hydro's tariff.

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[44] ICG Final Submission, para. 14.

FBC's existing Electric Tariff has been reviewed and approved by the BCUC and is based on FBC's own circumstances, which are different than BC Hydro's.

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

45. The CEC is the only intervener to take issue with FBC's analysis regarding the range of reasonableness (RoR) and target for rebalancing. Specifically, CEC recommends that FBC consider moving R/C ratios to within the RoR, rather than to the edge of the RoR, to increase fairness.[45] The central tenant of CEC's position is that rebalancing to within the RoR could be more fair than rebalancing to the edge of the RoR – CEC submits that a Large Commercial customer would argue that bringing its R/C ratio to 104 percent is more fair than 105 percent.[46] However, since an R/C ratio falling anywhere within the RoR is recovering its full cost of service, there is no evidence that an R/C ratio of 105 percent is any less fair than any other R/C ratio within the RoR. While every customer class will want its rates lower, if the R/C ratio of one rate class is lowered, others must increase. Therefore, all customer classes must be considered, and evidence is required to justify a reduction in an R/C ratio.

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

46. In this Part, FBC responds to BCOAPO and CEC regarding FBC's proposed rebalancing Option 2. BCOAPO and CEC are the only interveners to take issue with either FBC's proposed Option 2 or proposed phase-in to mitigate the impacts to RS 60. While BCOAPO proposes a shorter phase-in period, CEC advocates for Option 3 over Option 2.

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[45] CEC Final Submission, para. 131. "The CEC recommends that the Commission make its own decision with respect to allowing rebalancing of R/C ratios even though the ratios are within the RoR boundaries, as a means of delivering greater fairness for all rate classes under circumstances where more rate classes can be accommodated well within the RoR boundaries and direct FBC to implement this fairness adjustment."

[46] CEC Final Submission, para. 122.

A. BCOAPO SUPPORTS OPTION 2 WITH A SHORTER PHASE-IN PERIOD

47. BCOAPO supports FBC's proposed Option 2, albeit with a shorter phase-in period. BCOAPO concludes its discussion at page 40, as follows (note that the underlined words describe Option 2):[47]

> Based on the foregoing BCOAPO submits that the COSA methodology should be revised such that the Lighting class is allocated an appropriate share... In addition, with the exception of RS 60, all rate schedules with R/C ratios outside the RoR should be rebalanced to the RoR boundary effective January 1, 2026 with RS 60 being re-balanced to maintain revenue neutrality. BCOAPO also supports a phasing-in of the R/C ratio adjustment for RS 60 so FBC can achieve a material improvement in the R/C ratio for RS 60 while avoiding rate shock. The utilization of a deferral account to maintain revenue neutrality would be ideal because it would allow the R/C ratios for RS 20 and 31 to move to the RoR boundary more quickly than BCOAPO Option 22.1. Finally, BCOAPO submits that it should be possible to adopt a shorter phase-in period for RS 60 than five years resulting in annual RS 60 bill/rate increases of less than 4%.
>
> This recommended approach would allow FBC to achieve the targeted R/C ratio for RS 60 sooner while ensuring that the annual bill/rate impact for RS 60 is less than 10% even after the deferral account recovery is included. Furthermore, this recommended approach would be similar to FBC's proposed Option 2P in terms of its alignment with Bonbright's Principle 4. [Emphasis added.]

Thus, BCOAPO ultimately supports FBC's proposed Option 2.

48. FBC has addressed the length of the phase-in period in its Final Submission. To reiterate, 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.[48] Assuming potential annual rate

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[47] BCOAPO Final Submission, p. 40.

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

increases of between 4% and 6%, FBC considers that these shorter phase-in periods do not adequately mitigate the impacts to RS 60, as they could result in rate shock.

49. Given that BCOAPO supports Option 2, FBC has not sought to respond to every point of disagreement with BCOAPO's analysis. FBC provides the following responses below which address in a general way BCOAPO's comments:

- Regarding BCOAPO's first concern with FBC's application of the Bonbright Principles, FBC's consideration of Bonbright Principle 4 (Customer Understanding and Acceptance) does not duplicate in any inappropriate way its consideration of Bonbright Principle 2 (Fair Apportionment of Costs). Principle 2 considers whether the rates of each customer class are within the RoR or not. However, it is possible to have fair apportionment of costs, but customers still not understanding or accepting the change, or vice versa. The Bonbright Principles should not be considered mathematically such that each operates within strictly confined boxes, with concerns about "double counting" as BCOAPO alleges. The Bonbright Principles together help identify the appropriate concerns with various rate design options, and these concerns could potentially be related or overlapping to a degree. This is the nature of the analysis, not a flaw of the Bonbright Principes.

- Regarding BCOAPO's second concern with FBC's application of the Bonbright Principles, FBC applied Principle 4 consistently at each stage of its analysis. First, FBC identified the best option amongst the five different rebalancing options in Section 7.2 of the Updated Application. FBC selected Option 2 as the one that provides the best balance amongst Principles 2, 4, and 6, recognizing that Option 2 does not meet Principle 6. FBC applied Bonbright Principle 4 consistently in its analysis of these options. Second, once the preferred option was selected, FBC looked at ways to mitigate the large rate impact to RS 60 customers and decided a phase-in approach would be appropriate for RS 60 customers. FBC also applied Bonbright Principle 4 consistently amongst the phase-in options. In each stage of the analysis, the Bonbright Principle is applied in that context to help evaluate amongst the options. Again, this is not a mathematical exercise *per se*, but an exercise to identify the relevant distinctions amongst the alternatives to help chose the best option or mitigation.

  Thus, when considering the rate impact to other customers due to the amortization of the phase-in under Option 2, the level of rate impact would be similar to those under Options 1 and 3 that BCOAPO refers to. However, at the first stage of the analysis, the question is which option strikes the best

balance between the three principles before any mitigation, such as phase-in, is applied.

In any case, whether the phase-in is considered separately or in combination with the options analysis, the conclusion is the same:

- The main issue with Option 1 is the significant rate impact to RS 60 customers. As shown in ICG IR1 2.2, 96 percent of Irrigation customers would have a bill impact of over 10 percent under Option 1. As shown in BCUC IR1 8.1.2, a phase-in period of at least 6 or 7 years would be needed to avoid rate shock. In this context, the 0.1 percent rate impact to other customers resulting from a phase-in is not a material consideration on deciding whether this option is better than others.

- The main issue with Option 3 is that RS 60 will only be rebalanced to 85 percent, which is 10 percent away from the lower bound of the RoR. Again, in this context, the 0.1 percent rate impact to other customers resulting from a phase-in is not a material consideration on deciding which option would be better.

- Further to the above, BCOAPO's analysis is unnecessarily confusing because it conflates the comparison of rebalancing options with the mitigation through a phase-in. A phase-in can be applied to any option, so it is best considered after the best option is selected.

- BCOAPO's Option 22.1 is plainly more confusing and difficult to understand relative to the other options, as this approach would require rebalancing and recalculation of rates each year.

50. Overall, FBC submits that its proposed Option 2 is the best option and that BCOAPO's submissions ultimately support that conclusion. While BCOAPO prefers a shorter phase-in period, FBC submits that it has identified the length of phase-in that best mitigates the rate impacts.

B. OPTION 2 IS SUPERIOR TO OPTION 3

51. CEC is the only intervener to advocate for an option other than Option 2. CEC submits that Option 3 strikes a better balance than Option 2 in mitigating the rate impact to RS 60 because it caps the impact at 85 percent, while sufficiently minimizing the impacts on

other affected rate schedules.[49] FBC submits that CEC has not made a compelling case for Option 3 over Option 2, and that its recommendation should be rejected.

52. The primary difference between Option 2 and Option 3 is that Option 3 caps the rebalancing of RS 60 to 85 percent, which has impacts for other rate schedules already within the RoR. FBC explained in its Updated Application as follows:[50]

> In order to somewhat mitigate the rate impact to RS 60 customers, the RS 60 R/C ratio will be capped at 85 percent, which will result in an increased revenue recovery from RS 60 customers of approximately $0.405 million. However, in order to ensure revenue neutrality after the rebalancing, the debit variance of approximately $0.203 million (i.e., the sum of $0.581 million and $0.405 million, less the sum of $1.134 million and $0.055 million) will be distributed to other rate schedules that currently have R/C ratios under 100 percent (i.e., RS 01, RS 41 and RS 50) proportionally based on their revenue at 2024 Approved rates.

53. In summary, the result is that RS 60 is artificially capped at 85 percent and, to compensate, the R/C ratios of RS 1, RS 40 and RS 41 are increased even though they are already within the RoR. FBC submits that capping RS 60's R/C ratio at 85 percent, at the expense of RS 1, RS 40 and RS 41, is not as reasonable as Option 2, which brings RS 60 closer to the RoR without increasing the R/C ratio of any other customer class.

54. FBC's analysis of Option 3 remains reasonable:

> When assessed against the Bonbright rate design principles, Option 3 does not fully align with principles 2, 4 or 6:
>
> - **<u>Principle 2 – Fair apportionment of costs among customers</u>**
>
> Except for RS 60, all R/C ratios of the applicable rate schedules fall within the RoR. However, RS 60 will only be rebalanced to an R/C ratio of 85 percent to moderately mitigate the rate impact to RS 60 customers.

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[49] CEC Final Submission, para. 140.

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

- **Principle 4 – Customer understanding and acceptance**

  Option 3 results in adjustments to the revenues of RS 01, RS 41 and RS 50 even though their R/C ratios are already within the RoR. Although the rate increases to these customer groups are minor at around 0.1 percent, the change in rates affects the majority of rate schedules and is, therefore, considered to have a greater impact on customer understanding and acceptance.

- **Principle 6 – Rate Stability (Customer rate impact should be managed)**

  The rate impact of approximately 9.9 percent to RS 60 customers would be significant under Option 3. When combined with FBC's annual general rate increase, this level of rate increase would likely be considered rate shock.

55. As noted by CEC, the rate impact to RS 60 could be mitigated by a phase-in, as FBC has proposed for Option 2. However, given the availability of the phase-in to mitigate the impact to RS 60, capping RS 60 at 85 percent is not as reasonable as rebalancing to close to 90 percent under Option 2. This is especially the case since capping RS 60 at 85 percent has adverse rate impacts for three other rate classes that have R/C ratios within the RoR. FBC submits that these deficits compared to Option 2 have not been justified by CEC's analysis.

56. FBC submits that Option 2 is superior to Option 3 and should be approved.

PART FIVE: 2025 COSA DEFERRAL ACCOUNT

57. FBC has proposed a one-year amortization period for the 2025 COSA Deferral Account, given that the rate impact of a one-year amortization period is only 0.13 percent. BCOAPO prefers a longer (presumably 5-year) period, submitting that, given all other rate pressures, the amortization period should match the benefits matching period.[51] FBC replies that the benefit of stretching the amortization period over longer than a year is negligible and that it is more appropriate to recover these expenses over a short period to minimize the income tax expense and financing costs accruing on the account balance.[52]

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[51] BCOAPO Final Submission, pp. 42-43.

[52] Exhibit B-9, BCOAPO IR1 12.1.

PART SIX: CONCLUSION

58. FBC submits that the intervener arguments have not identified a need to make revisions to the 2025 COSA study, which has been conducted reasonably in accordance with a sound methodology. Intervener submissions overall express strong support for FBC's proposed Option 2, with a five-year phase-in period to rebalance RS 60. FBC submits that its approvals sought in its Updated Application are just and reasonable and should be approved as filed.

59. ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: August 18, 2025

Chris Bystrom
Counsel for FortisBC Inc.