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January 28, 2021
File No.: 240148.01018/15275

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Ms. Marija Tresoglavic, Acting Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. Fort Nelson Service Area Application for Deferral Account Treatment for 2021 and Changes to the Revenue Stabilization Adjustment Mechanism Rider

We enclose for filing in the above proceeding the Final Argument of FortisBC Energy Inc., dated January 28, 2021.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom*
*Law Corporation

CB/lh

Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

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

AND

**FORTISBC ENERGY INC. FORT NELSON SERVICE AREA
APPLICATION FOR DEFERRAL ACCOUNT TREATMENT FOR
2021 AND CHANGES TO THE REVENUE STABILIZATION
ADJUSTMENT MECHANISM RIDER**

FINAL ARGUMENT

OF

FORTISBC ENERGY INC.

JANUARY 28, 2021

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A. INTRODUCTION

1. On November 6, 2020, FortisBC Energy Inc. (FEI) filed with the British Columbia Utilities Commission (BCUC), pursuant to sections 59 to 61 of the *Utilities Commission Act*, an application (Application)¹ for approval for the Fort Nelson service area (FEFN) to maintain existing rates for 2021, to hold the forecast 2021 revenue surplus in a deferral account, and to adjust the Revenue Stabilization Adjustment Mechanism (RSAM) rate rider for 2021. In accordance with Order G-316-20, FEI filed Supplementary Information on December 9, 2020² and responses to BCUC Information Request (IR) No. 1 on January 14, 2021.³ Also on January 14, 2021, FEI filed an Evidentiary Update to update the Application based on 2020 preliminary actual data, which resulted in an updated forecast 2021 revenue surplus, and updated 2021 RSAM rate rider.⁴

2. Based on the Application and Evidentiary Update, FEI is seeking the following:

- (a) Approval to maintain existing delivery rates for FEFN on a permanent basis, effective January 1, 2021.
- (b) Approval to set the RSAM Rider to a refund of \$0.333/GJ for RS 1, RS 2, and RS 3 on a permanent basis, effective January 1, 2021.
- (c) Approval to establish a non-rate base deferral account to record the forecast 2021 revenue surplus of \$132 thousand and any BCUC direct costs or Participant Assistance/Cost Award costs related to the review of the Application, attracting a weighted average cost of capital return and with amortization to be determined in the next rate setting proceeding.

3. Pursuant to Order G-316-20, FEI will refund any differences between the interim rates approved by Order G-316-20 and the permanent rates approved in the final disposition of the

¹ Exhibit B-1.

² Exhibit B-3.

³ Exhibit B-4.

⁴ Exhibit B-5.

Application, with interest calculated at the average prime rate of FEI's principal bank for its most recent year.

4. In the following sections, FEI addresses the topics identified by the Panel in Exhibit A-5, BCUC IRs, and letters of comment filed in this proceeding.

B. DEFERRAL TREATMENT OF REVENUE SURPLUS

5. As stated in the Application, FEI proposes to hold its forecast revenue surplus and 2021 regulatory proceeding costs in a new deferral account to mitigate or phase in future rate increases, including any that result from FEI's upcoming application to move FEFN to common rates with FEI.⁵ FEI supported its request for the deferral account with the Deferral Account Checklist Considerations in Appendix B of the Application. In Exhibit A-5, the Panel requested that FEI elaborate in its written final argument on the reasons for this proposal, rather than implementing a delivery rate change effective January 1, 2021.

6. FEI's submits that it is preferable to record the forecast revenue surplus in the deferral account for the following reasons:

- (a) **Rate Stability:** FEI's proposal will result in more stable rates over time by giving FEI the ability to use the surplus to smooth rates and mitigate future rate increases. In the absence of the deferral account, delivery rates for FEFN would be reduced for 2021 and could subsequently increase in a future application, creating rate instability. The BCUC's Regulatory Account Filing Checklist contemplates the use of "rate smoothing" accounts to "reduce rate volatility", indicating that a rate smoothing account "should generally capture forecast, as opposed to actual, costs and revenues".⁶ Rate stability is a benefit to customers and a well-established rate

⁵ Exhibit B-1, p. 1.

⁶ Regulatory Account Filing Checklist, dated May 3, 2017, p. 2 of 3. Online: https://www.b cuc.com/Documents/Guidelines/2017/05-03-2017_RegulatoryAccountFilingChecklist.pdf

design principle that underlies the BCUC's frequent decisions to approve deferral accounts to hold revenue surpluses.⁷

- (b) **Optionality for Common Rates Application:** Having a surplus in the deferral account will provide options for potentially phasing in a transition to common rates with the rest of FEI. For example, when FortisBC Energy (Vancouver Island) Inc. (FEVI) amalgamated with FEI and transitioned to common rates, the surplus balance that FEVI had built up in its Revenue Surplus Deferral Account was instrumental in assisting a gradual transition to common rates.⁸
- (c) **FEFN Customers Will Receive the Benefit of the Surplus:** The balance in the deferral account will be available to be returned to FEFN customers, such that customers will see the benefit of the surplus in their rates. FEI's intention is to refund the balance in the Revenue Surplus deferral account only to FEFN customers, and only upon approval of the disposition of the deferral account by the BCUC, which FEI expects as part of the common rates application.⁹ Even if the BCUC were not to approve a transition to common rates, the BCUC would be able to direct FEI to refund the balance in the account to FEFN customers. As such, FEFN customers will see the benefit of the surplus in the near future and any intergenerational inequity would be low.

7. In FEI's submission there are material benefits to its proposal to hold the revenue surplus in a deferral account and no harm from doing so. As such, the proposal should be approved.

C. FEI UPDATED DEMAND FORECAST BASED ON 2020 PRELIMINARY ACTUAL DATA

8. FEI has updated its demand forecast with 2020 preliminary actual data, which FEI submits resolves the questions regarding the demand forecast in the BCUC IRs. Given that most of the

⁷ FEI Annual Review for 2017 Delivery Rates Decision and Order G-182-16; FEI Annual Review for 2018 Delivery Rates Decision and Order G-196-17; FortisBC Inc. Annual Review for 2018 Rates Decision and Order G-131-18; FortisBC Inc. Annual Review for 2019 Rates Decision and Order G-246-18; FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Decision and Order G-44-12, April 12, 2012 (at p. 106 of the Decision).

⁸ BCUC Decision and Order G-21-14, dated February 26, 2014.

⁹ Exhibit B-4, BCUC IR1 5.3.

2020 preliminary actual data was available and the impacts of the pandemic were uncertain, a number of BCUC IRs focussed on the 2020 data that FEI used in its forecast. However, by the time FEI responded to IRs in January 2021, the 2020 preliminary actual data was available. As such, FEI recalculated its 2021 demand forecast using the 2020 preliminary actual customer totals and use rates. FEI submits that this update results in the best forecast available at this time. As stated in its IR response:¹⁰

- (a) 2020 preliminary actual data represents the most recent information available;
- (b) 2020 preliminary actual data includes the impact of the COVID-19 pandemic; and
- (c) Using year-end data is consistent with FEI's forecast methods.

9. While the preliminary actual data is subject to change, as it is not yet finalized, a forecast using the preliminary data is still superior than using a mixture of actual and projected 2020 data.

10. FEI submits that its updated demand forecast uses the best information available and should be accepted.

D. RATE BASE RETURN ON DEFERRAL ACCOUNT BALANCE

11. FEI is proposing a new non-rate base Fort Nelson Revenue Surplus deferral account, attracting a weighted average cost of capital (WACC) return to record the forecast 2021 revenue surplus and any BCUC direct costs or PACA costs related to the review of this Application.

12. A WACC return is consistent with the treatment of FEFN's previously approved deferral accounts: except for the Fort Nelson Right-of-Way Agreement deferral account, all of FEFN's deferral accounts are approved to earn a WACC or rate base return. A WACC return is also consistent with the BCUC's previously approved treatment of revenue surpluses in FEI, including in FEFN. In the FEI Annual Review for 2017 Delivery Rates Decision and Order G-182-

¹⁰ Exhibit B-4, BCUC IR1 2.4.

16, the BCUC established the 2017 Revenue Surplus deferral account, which accrued carrying charges based on FEI's approved WACC. The BCUC again approved this treatment for the 2018 revenue surplus in the FEI Annual Review for 2018 Delivery Rates Decision and Order G-196-17. FEFN has also been previously approved to establish a rate base revenue surplus deferral account attracting WACC.¹¹

13. A WACC return, equivalent to a rate base return, recognizes the financing that is associated with the timing difference between when the revenues are collected from customers and when they are returned to customers. This is the correct regulatory treatment because it results in the credits collected from customers being financed for rate making purposes at the same rate they are financed by the utility.

E. A CPCN SHOULD NOT BE REQUIRED FOR THE RECREATION CENTRE DISTRICT STATION PROJECT

14. FEI provided information on the Recreation Centre District Station Project in its Supplementary Information, discussing the need, alternatives and estimated cost of the Project.¹² FEI's currently preferred option, which is to modify the station at the existing site, has an estimated total capital cost of \$682 thousand. FEI submits that the BCUC should not exercise its discretion to require a CPCN for this project. The estimated cost of the project is not of a magnitude that would warrant the filing of a CPCN and there are no public interest concerns related to this project that would warrant a CPCN.

15. As FEI discussed in response to BCUC IR1 7.2, a CPCN threshold for FEFN of \$1.2 million would strike an appropriate balance between ensuring prudent capital spending through proper regulatory oversight while avoiding unnecessary administrative burden and costs. FEI submits that the avoidance of unnecessary administrative burden and costs is of particular importance to a small service area like FEFN, as the cost of regulatory processes can have a material impact on customer rates.¹³

¹¹ Exhibit B-4, BCUC IR1 5.1.

¹² Exhibit B-3, pp. 5-6.

¹³ Exhibit B-4, BCUC IR1 7.2.

16. A \$1.2 million threshold equates to approximately 10 percent of FEFN's 2020 approved mid-year rate base, which is a general "rule of thumb" for measuring the significance of capital expenditures for a utility. Further, in general, projects below this threshold are not of a complex or significant nature for FEFN and, therefore, do not warrant the cost and administrative burden on all parties of a CPCN proceeding. This is borne out by the description of the Recreation Centre District Station Project, which reveals no significant complexity or public interest issues.¹⁴ A CPCN threshold of \$1.2 million is also relatively consistent with the informal CPCN filing threshold for Pacific Northern Gas (N.E.) Ltd. of \$1.5 million.¹⁵

17. A consideration of FEFN's historical CPCN projects also supports this threshold:¹⁶

- (a) The most recent CPCN for the Prophet River First Nation gas distribution system extension was requested because it was an expansion of FEFN's distribution system through the purchase of distribution assets and had increased complexities such as Indigenous consultation and federal permitting approvals.
- (b) FEI's Application for a CPCN to Construct and Operate a Transmission Pressure Pipeline Crossing of the Muskwa River (Muskwa River Crossing Project) was estimated to cost approximately \$7 million, which, at the time of filing, exceeded the CPCN materiality threshold for FEI of \$5 million.

18. In contrast, the Recreation Centre District Station Project is not an asset purchase, has no significant public interest considerations, and has a cost well below \$1 million.

19. FEI submits that there are no considerations which support requiring a CPCN for the project, while requiring a CPCN would impose undue administrative burden and costs on FEFN. As such, FEI requests that the BCUC not exercise its discretion to require a CPCN for this project.

¹⁴ Exhibit B-3, pp. 5-6.

¹⁵ Exhibit B-4, BCUC IR1 7.2.

¹⁶ Exhibit B-4, BCUC IR1 7.2.

F. FEI IS SENSITIVE TO THE IMPACTS ON CUSTOMERS FROM RATE INCREASES

20. FEI is sensitive to rate impacts to its customers and seeks to provide safe and reliable service to its customers at the lowest reasonable cost. In this proceeding, Carol Seidel filed a letter of comment stating that the rate increase in October is having detrimental effects¹⁷ and Joan Kinzett indicates that any rate increase would be detrimental.¹⁸ FEI recognizes that the commodity cost portion of customer bills has increased in 2020, including in October as referenced by Carol Seidel. FEI flows its commodity costs through to customers without any markup, and all changes in commodity rates are approved by the BCUC. In this proceeding, FEI is not seeking any delivery rate increase and FEI's adjustment to the RSAM rate rider will result in a credit on customer bills.

G. FEI WILL FILE A COMMON RATES APPLICATION IN 2021

21. To comply with the directive to FEI regarding common rates for FEFN in Order G-48-19, FEI will file an application in 2021 to implement common rates for FEFN to be the same as those for FEI's other customers.¹⁹ FEI will file the specific information directed by Order G-48-19 as part of the common rates application.²⁰ FEI will also engage and consult with FEFN's customers to solicit timely feedback to inform the application.²¹

22. FEI submits that its plan to file a common rates application is the best path forward, and that any process in advance of filing for common rates would only serve to delay the determination on whether common rates for FEFN is reasonable and appropriate, and therefore unnecessarily increase regulatory costs. The public hearing process on FEI's common rates application will include a full evidentiary record and submissions from interested parties that will facilitate the BCUC's decision on whether common rates are just and reasonable. A

¹⁷ Exhibit D-1-1.

¹⁸ Exhibit E-1.

¹⁹ Exhibit B-1, p. 9.

²⁰ Exhibit B-4, BCUC IR1 1.1.1. As discussed in this response, while FEI considers it would be in compliance with Order G-48-19, if the BCUC considers that a variation to the direction is warranted, FEI would request a variation to the directive to direct FEI to file the discussion and information regarding postage stamp rates in 2021, rather than in its next revenue requirements application.

²¹ Exhibit B-4, BCUC IR1 1.3.

separate advanced process to determine the merits of filing for common rates would, in FEI's view, unnecessarily bifurcate the matter and could lead to more confusing and duplicative review processes. At the end of the day, in order to make an informed decision, the BCUC will need to consider a full evidentiary record on the merits of common rates for FEFN. Any intermediary process, based on lesser information, can only delay what is required to resolve the issue.

H. CONCLUSION

23. FEI submits that its approvals sought are just and reasonable and should be approved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated:

January 28, 2021

[original signed by Chris Bystrom]

Chris Bystrom

Counsel for FortisBC Inc.