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December 9, 2021

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

Re: FortisBC Energy Inc. (FEI)

Project No. 1599246

Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application)

Response to the British Columbia Utilities Commission (BCUC) Information Request (IR) No. 1 on 2022 Delivery Rates

On August 12, 2021, FEI filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-315-21 for the review of the Application, FEI respectfully submits the attached response to BCUC IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Registered Parties

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A. INTRODUCTION

1.0 Reference: INTRODUCTION

Exhibit B-1 (Application), Section 8.1, p. 86; Section 8.6.2.3, p. 110

Accounting Policies

On page 86 of the FortisBC Energy Inc. (FEI) Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application), FEI states:

> FEI notes a certain percentage of FEFN's revenue requirement is impacted by the accounting policies approved for FEI. Consistent with the treatment approved in previous revenue requirements for FEFN, FEI is seeking approval to adopt updated common accounting policies that were recently approved for FEI. Specifically, FEI seeks approval of the following for FEFN which were approved for FEI as part of the MRP Decision and Order G-165-20:
>
> - Capitalized overhead rate of 16 percent (previously 12 percent);
> - Depreciation and net salvage rates as determined in FEI's most recent depreciation study approved through Order G-165-20; and
> - Modification to the lead/lag days, as set out in FEI's most recent lead/lag study approved through Order G-165-20, for calculation of FEFN's cash working capital.

On page 110 of the Application, FEI states: "FEFN's assets were included with FEI's assets in the data used to prepare the depreciation study, as such, the recommended depreciation and net salvage rates are applicable to FEFN."

1.1 Other than being consistent with past Fort Nelson Service Area (FEFN) revenue requirements, please explain why the proposed capitalized overhead rate and lead/lag days are appropriate for FEFN.

Response:

In addition to being consistent with FEFN's past revenue requirements, adoption of the FEI capitalized overhead rate and lead lag days approved as part of the MRP Decision and Order G-165-20 provides a reasonable and appropriate approximation of FEFN's capitalized overhead rate and cash working capital requirements for FEFN's revenue requirements.

The capitalized overhead rate is the percentage of gross operations and maintenance (O&M) costs related to capital activity which have not been directly charged to capital. The BCUC-approved FEI capitalized overhead rate was determined in part by reviewing FEI's various departmental O&M costs for the estimated associated capitalized overhead activities. As FEFN's direct O&M (i.e., field system operations) costs are similar to FEI's field activities and practices and the Shared Services fee reflects an allocation of O&M costs from those FEI departments that provide functional support to FEFN, adopting FEI's approved capitalized overhead rate for FEFN's revenue requirements is logical and reasonable.

Similarly, the lead lag days provide for a measure of FEFN's cash working capital needs. Cash working capital is defined as the average amount of capital provided by investors in the company, over and above investments in plant and intangibles, to bridge the gap between the time expenditures are required to provide service and the time collections are received for that service. The timing differences for FEFN's revenues and expenses are similar to FEI's as the result of similar billing and payment policies. Therefore, adopting FEI's approved lead lag days for FEFN's revenue requirements is logical and reasonable.

In addition, adopting FEI's approved capitalized overhead rate and lead lag days for FEFN simplifies the administration of the capitalized overhead rate and lead lag days by eliminating the need to perform separate studies specifically for FEFN, which would then be subject to review and approval by the BCUC. Separate studies for FEFN would result in incremental costs, including the costs to prepare the studies and the costs of the regulatory process to review the studies. All of these costs would be allocated entirely to the customers in Fort Nelson each time a study is undertaken.

For these reasons, the proposed capitalized overhead rate and lead/lag days are appropriate for FEFN.

1.2 Please discuss any alternative capitalized overhead rate(s) considered by FEI for FEFN, including the pros and cons of each and please explain why each alternative was rejected.

Response:

Please refer to the response to BCUC IR1 1.1 for why FEI's approved capitalized overhead rate is appropriate for FEFN and why no separate review and study was completed to develop an alternative capitalized overhead rate.

B. GAS SALES AND DEMAND

2.0 Reference: GAS SALES AND DEMAND

Exhibit B-1, Section 8.3.3, pp. 88, 90; Appendix A3, p. 4

Residential Customer Additions

On page 88 of the Application, FEI states: "Actual years are those for which actual data exists for the full calendar year. The 2022 revenue requirement is based on actual data up to and including 2020."

On page 90 of the Application, FEI states: "Customer losses in 2020 were slightly less than in 2019. FEI is forecasting a decline of 13 customers in 2022."

On page 4 of Appendix A3, FEI describes how it uses housing starts data for 2020 and 2021 from the Conference Board of Canada economic forecast to develop its residential customer additions forecast for 2022.

2.1 In the context of the impact of the COVID-19 pandemic on the residential customer additions, please discuss the reasonableness of using 2020 and 2021 data to develop the forecast 2022 customer additions/losses.

Response:

FEI did not consider an alternative forecast method for residential customer additions for 2022, as FEI cannot predict the trajectory of the COVID-19 pandemic and when recovery might occur, nor the impact of the pandemic, if any, on residential customer additions. However, FEI considers the existing forecast method to be reasonable.

As shown in Figure 8-2 in Section 8.3.3.1 of the Application, the residential customer additions have been consistent since 2016 at an average of -17 customers per year. Given that the decline in customer additions for 2020 was -18, which is consistent with the most recent previous years' customer additions, customer additions do not appear to have been impacted by the COVID-19 pandemic. As a result, FEI considers that using the 2020 data, consistent with the current residential forecasting method, is a reasonable starting point for the forecast. FEI notes that no 2021 data was used to prepare the forecast for 2022.

In addition to the 2020 year-end actual customer data, the FEFN residential customer forecast utilizes the Conference Board of Canada (CBOC) housing starts growth rates from the CBOC's Provincial Long Term Economic Forecast published in April 2021. FEI believes that the CBOC forecast provides the best guidance available about pandemic impacts on housing starts. The CBOC data is provided in Table A1-1 in Appendix A-1.

FEI does not know the exact reasons for the ongoing decline in residential customer accounts, but assumes the decline is connected to reduced economic activity in the region, which is also reflected in declining population trends in Fort Nelson. For example, Fort Nelson's population was 3,561 in the 2011 Census but this declined to 3,366 in the 2016 Census.[1]

FEI also notes that load forecasting variances are recorded in the Revenue Stabilization Adjustment Mechanism (RSAM) deferral account, such that customers are kept whole from any variances in load that might be caused by factors such as the COVID-19 pandemic.

2.2 Please explain the reasons why the residential customer count has been declining in recent years and why it is expected to continue to decline.

Response:

FEI believes the decline in customer additions is due to the declining rate of new homes built in the Fort Nelson area over the years, which, as explained in the response to BCUC IR1 2.1, is likely connected to reduced economic activity in the region as reflected in the declining population trends. Based on current data, there is no indication that the current trend will change. Therefore, FEI is forecasting a decline of 13 customers in 2022. This is consistent with Statistics Canada's assessment of the region.

[1] Census Profile, 2016 Census - Fort Nelson [Population centre], British Columbia and British Columbia [Province] (statcan.gc.ca)

3.0 Reference: GAS SALES AND DEMAND

Exhibit B-1, Section 8.3.3, p. 91; Appendix A3, p. 5; FEI Application for Approval of Deferral Account Treatment for 2021 and Changes to the Revenue Stabilization Adjustment Mechanism Rider for the Fort Nelson Service Area (2021 FEFN RRA) Exhibit B-3 (Supplemental Information), Appendix A, p. 6

Commercial Customer Additions

On page 91 of the Application, FEI states: "FEI develops the commercial customer forecast with a three-year average of customer additions and therefore is forecasting a decline of four[2] customers in 2022."

On page 5 of Appendix A3 to the Application, FEI provides the following table showing the calculation of rate schedule (RS) 2 commercial customer additions using an average of the customer additions from the prior three-years:

Table A3-6: Customer Additions for Fort Nelson RS 2

Year	Customers Rate Schedule 2	Customer Additions	Average 2018-2020
2017	462.000		
2018	457.000	(5)	
2019	460.000	3	
2020	452.000	(8)	(3.333)
2021S	448.667		
2022F	445.333		

On page 6 of Appendix A of the Supplemental Information in the 2021 FEFN RRA, FEI provides the following table showing the commercial customer additions for RS 2:

Table A-6: Customer Additions for RS 2

Year	Customers	Customer Additions	Average 2017-2019
2016	452		
2017	453	1	
2018	457	4	
2019	460	3	3
2020S	463		
2021F	466		

[2] Exhibit B-1, p. 91, Footnote 49: FEI notes that this is the aggregate of RS 2 and RS 3. RS 2 customer additions are forecast to be declining by 3 while RS 3 customer additions are forecast to be declining by 1.

3.1 Please explain why the number of customers in 2017 in Table A3-6 of 462 customers varies compared to Table A-6 which shows 453 customers in 2017, impacting the customer additions calculation and please confirm the accurate number of customers in 2017 for RS 2.

3.1.1 Please provide a revised Table A3-6 if applicable.

Response:

The difference between the 2017 customer count provided in the current Application and that provided in the 2021 RRA is due to a change in the way customers were mapped to Rate Schedule (RS) 2 in that year. The mapping provided for the current Application is more appropriate and FEI has used this mapping method to prepare its current forecasts. As a result, a revised Table A3-6 is not required. FEI explains further below.

With the approval of FEI's 2016 Rate Design Application (RDA),[3] which was implemented starting in 2019, FEFN's commercial customers began taking service under RS 2 and RS 3 rather than the previous Rates 2.1 and 2.2, with a separation point between RS 2 and RS 3 of 2,000 GJ per year (rather than the previous 6,000 GJ per year for Rates 2.1 and 2.2). Since FEI's forecast methods require historical information used in producing the forecasts to be based on the same rate schedules as the forecast years, FEI had to map the pre-2019 commercial customer count to RS 2 and RS 3. FEI's initial approach was to complete this mapping using the customers' average annual weather normalized consumption in those years.

In the response to BCUC IR1 4.1 in the 2019 and 2020 Revenue Requirements and Rates Application for the Fort Nelson Service Area (2019-2020 FEFN RRA), FEI explained that customers were mapped to RS 2 and RS 3 by calculating the four-year average consumption for each premise at the end of 2017. Based on that average, FEI assigned each customer to either RS 2 (if the consumption was less than 2,000 GJ) or RS 3 (if the consumption was greater than 2,000 GJ). As noted in the response to that IR, the method resulted in inconsistencies with the prior Rate 2.1 and 2.2 year-end customer count totals because of mid-year changes due to rate switching and customer additions and closures. This mapping method was used in the 2021 FEFN RRA and for the preparation of Table A-6 in Appendix A which shows 453 customers for 2017.

Since the preparation of the forecast for the 2021 FEFN RRA, FEI developed a mapping approach (the Proportion Method) that resolves the issue and is based on the proportion of total Rate 2.1 and 2.2 customers. Mapping RS 2 customer totals for 2017 using the Proportion Method results in 462 customers for RS 2 in 2017, calculated as follows:

[3] On January 9, 2018, the BCUC issued Order G-4-18 and Reasons for Decision on FEI's proposed Cost of Service Analysis and Revenue to Cost Ratios, and on July 20, 2018 the BCUC issued Order G-135-18 and Reasons for Decision on the balance of FEI's RDA (together referred to as the RDA Decision).

	Rate 2	2017
1	2017 commercial customers that mapped to RS 2	95.8%
2	Total RS 2.1 + RS 2.2 Customers in 2017	482
3	Proportion of 2017 commercial customers in RS 2	462

Notes to table:

1) In 2017 95.8% of commercial customers used 2,000 GJ or less and would have been in Rate Schedule 2.
2) The actual total commercial customers in 2017 in Rates 2.1 and 2.2 were 482.
3) Using the proportion from Row 1, the Rate Schedule 2 customers in 2017 are 482 X 95.8%, or 462.

The following table shows the RS 2 demand calculation for both the prior method (Original Method) and the Proportion Method. FEI notes that 2018 results were the same under both methods, and only 2017 is affected. As a result, the three-year average of customer additions is lower (-3.33) using the Proportion Method than using the Original Method. All else equal, this results in a slightly lower demand for RS 2.

	Year End Customers					Customer Forecast		Use Rate, GJ		Demand, TJ	
Rate Schedue 2	2017	2018	2019	2020	3 Year Average of Additions	2021S	2022F	2021S	2022F	2021S	2022F
Original Method	453	457	460	452	0.00	452.0	452.0	350.8	336.9	158.6	152.3
Proportion Method	462	457	460	452	-3.33	448.7	445.3	350.8	336.9	157.4	150.0
Delta, TJ										-1.2	-2.2
Delta, %										-0.7%	-1.5%

3.2 In the context of the impact of the COVID-19 pandemic on the commercial customer additions, please discuss the reasonableness of using an average from 2017 to 2020 to develop the forecast 2022 commercial customer additions.

Response:

FEI did not consider an alternative forecast method for commercial customer additions for 2022. FEI cannot predict the trajectory of the COVID-19 pandemic and when recovery might occur; however, FEI considers the existing forecast method to be reasonable.

The commercial customer additions forecast method uses the most recent three-year average of actual customer additions by rate class and, by reforecasting each year, the actual impacts from the COVID-19 pandemic will be accounted for.

As shown in Figure 8-3 of the Application, commercial additions have been negative since 2017. While the decline in 2020 was larger than other years, the impact is minimized through the use of the three-year average forecast method. FEI is not able to determine which customers ceased operations as a result of the pandemic, and as a result, FEI considers that the continued use of the three-year average method and resulting forecast of -4 customers per year is reasonable.

FEI recently completed the Forecasting Method Study, filed as Appendix B2 in FortisBC's 2020-2024 MRP Application. The Forecasting Method Study represented the culmination of a number of years of research and testing of alternative forecasting methods in response to the forecasting directives in Order G-86-15 and accompanying Decision related to the FEI Annual Review for 2015 Delivery Rates Application. As a result of this study, FEI concluded that the existing three-year average method for forecasting commercial customer additions resulted in the lowest demand variance. FEI is not aware of any other methods that were not tested as part of the Forecasting Method Study that would be capable of accurately forecasting the trajectory of the COVID-19 pandemic and its impact on potential future commercial customers.

FEI also notes that load forecasting variances are recorded in the RSAM deferral account, such that customers are kept whole from any variances in load that might be caused by factors such as the COVID-19 pandemic.

4.0 Reference: GAS SALES AND DEMAND

Exhibit B-1, Appendix A3, p. 6

Residential Use Per Customer (UPC)

On page 6 of Appendix A3 to the Application, FEI explains its method for calculating residential UPC and provides the following table showing the past ten years of weather normalized UPCs:

Fort Nelson UPC		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Rate Schedule 1		137.8	138.8	138.6	136.5	135.5	134.2	129.9	127.6	128.1	128.9

Further, on page 6 of Appendix A3 to the Application, FEI explains that a forecasting function in excel is used to generate the 2021 and 2022 UPC forecasts of 127.2 and 125.8, respectively.

4.1 Please explain why Fort Nelson's residential UPC is mostly declining over the past 10 years and please explain why this declining trend is expected to continue in the 2022 forecast.

Response:

FEI cannot definitively explain any change in UPC in a given year as it is a result of many factors impacting nearly two thousand customers that may be both compounding and offsetting. For example, use rates may go down due to increased appliance efficiency and/or improvements in building envelopes, but this may be offset by an increase in the number of appliances, a change in how appliances are used and/or the occupancy levels in customer premises.

As explained in Section 1 of Appendix A3, FEI has adopted the Exponential Smoothing (ETS) method for the purpose of forecasting residential use rates, as ETS proved to be the most accurate method for this purpose. The ETS method considers 10 years of historical data when preparing the UPC forecast. The UPC forecast is based on objective, statistical methods. FEI does not apply a subjective adjustment or override the objective forecast results based on recent events. Based on the statistical forecast methods, the decline is expected to continue.

4.1.1 Please explain whether there is a level below which using a declining UPC forecast is not reasonable. For example, a level below which an average residential customer is unable to heat their home to a reasonable degree in winter in a climate such as Fort Nelson.

Response:

FEI uses actual measured UPC as the basis for the residential UPC forecast; therefore, FEI does not foresee a scenario where it would consider the forecast to be “unreasonable”; rather it would be a reflection of the various end uses.

All end uses, including space heating, are intrinsic in the actual data used for developing the use rate forecast. As long as space heating remains embedded in the historical data, the ETS use rate forecast will always allow for that space heating load in the forecast.

5.0 Reference: GAS SALES AND DEMAND

Exhibit B-1, Section 7.1, p. 78; Section 8.2, p. 87; Appendix A2, p. 5

Commercial Use Per Customer (UPC) and Revenue Stabilization Adjustment Mechanism (RSAM)

In Table A2-4 in Appendix A2, FEI presents its historical UPC variances for the years 2011 through 2020:

Table A2-4: FEFN UPC Variances

Rate Schedule 1 - Residential	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast	133	140	140	138	136	135	133	132	125	123
Actual	138	139	139	137	136	134	130	128	128	129
Error = (ACT-FCST)	5	(1)	(1)	(1)	(1)	(1)	(3)	(5)	3	6
Percent Error = (Error/ACT)	3.5%	-1.1%	-1.0%	-0.8%	-0.5%	-0.4%	-2.6%	-3.7%	2.2%	4.6%

Rate Schedule 2.1/2 - Small Commercial	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast Rate Schedule 2.1	435	466	465	463	453	443	444	425		
Forecast Rate Schedule 2									349	323
Actual Rate Schedule 2.1	476	465	460	456	482	466	448	435		
Actual Rate Schedule 2									402	383
Error = (ACT-FCST)	41	(1)	(5)	(7)	29	23	4	9	53	60
Percent Error = (Error/ACT)	8.6%	-0.3%	-1.1%	-1.6%	6.1%	4.9%	0.8%	2.2%	13.2%	15.7%

Rate Schedule 2.2/3 - Small Commercial	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast Rate Schedule 2.2	3,385	3,609	3,726	3,487	3,535	3,584	8,081	8,103		
Forecast Rate Schedule 3									3,164	2,802
Actual Rate Schedule 2.2	3,326	3,228	3,555	3,425	6,616	7,869	8,086	9,169		
Actual Rate Schedule 3									4,910	4,643
Error = (ACT-FCST)	(59)	(381)	(171)	(62)	3,081	4,285	4	1,066	1,746	1,842
Percent Error = (Error/ACT)	-1.8%	-11.8%	-4.8%	-1.8%	46.6%	54.5%	0.1%	11.6%	35.6%	39.7%

5.1 Please explain whether the commercial customer UPC actuals show that consumption is decreasing, but at a slower rate than FEI has forecasted.

Response:

Based on the historical variances between actual and forecast UPC, FEI does not believe it is reasonable to conclude that the actual rate of consumption has been decreasing at a slower rate than what FEI had forecast.

FEI notes that the large variances recorded in 2015, 2016, 2019 and 2020 were the result of a significant number of customers switching rate classes between RS 2.1/2 and RS 2.2/3. Therefore, the variances in these years are not an indication that the actual commercial UPC is increasing or decreasing at a slower or faster rate than FEI had forecast. Please refer to the response to BCUC IR1 5.2 for further detail.

For the years between 2011 and 2014, FEI notes that the forecast variances in both commercial classes were relatively small, and all negative, indicating that actual demand was slightly less than forecast. In other words, the use rate was actually decreasing more quickly than forecast. For years 2017 and 2018, the absolute variances (which were not affected by any significant rate switching between the two commercial rate classes) were at a level comparable to the years prior to 2015.

5.2 Please explain the reasons for the historical variances in UPC between forecast and actuals for each of RS2/2.1 and RS3/2.2 between 2015 and 2020.

<u>Response:</u>

The commercial UPC variances in four of the six years between 2015 and 2020 were due to a significant number of customers switching between the two commercial rate classes:

- In 2015, 24 of the 31 RS 2.2 customers were switched to RS 2.1 mid-year. These 24 customers originally in RS 2.2 were all relatively small volume compared to other RS 2.2 customers; therefore, the switch to RS 2.1 for these customers resulted in the actual RS 2.2 UPC being significantly higher than the forecast RS 2.2 UPC. As the UPC forecast for both 2015 and 2016 was developed in 2014 using 2013 actuals (i.e., two-year RRA for 2015 and 2016), large variances between actual and forecast UPC were recorded in both 2015 and 2016; and
- In 2019, FEI implemented the 2016 RDA Decision which aligned FEFN's RS 2.1 and 2.2 with FEI's RS 2 and 3. The alignment with FEI reduced the annual demand threshold between RS 2.1/2 and RS 2.2/3 from 6,000 GJ to 2,000 GJ which resulted in some customers originally in RS 2.1/2 being switched to RS 2.2/3 as their annual consumption was higher than the new threshold of 2,000 GJ. As the UPC forecasts were developed in 2018 using 2017 actuals (with rate switching mapped between the two commercial rate classes), this resulted in lower UPC forecasts for both RS 2 and 3 than the actuals. Since the RRA was for two years (i.e., 2019 and 2020), the lower UPC forecasts in 2019 were carried through to 2020, resulting in large variances recorded in both 2019 and 2020.

Generally, variances in UPC would be expected to fluctuate more in regions where the customer count is small such as FEFN. Additionally, all forecasts are expected to have some variance compared to actual values, and the small variances are a result of many factors that may be both compounding and offsetting. It can be seen from Table A2-4 in the preamble that the variances in 2017 and 2018, which were not affected by a significant number of customers switching between the two commercial rate classes, were much smaller and also relatively comparable to the years prior to 2015.

Finally, FEI notes that load forecasting variances between actual and forecast are recorded in the RSAM deferral account and are returned to or recovered from customers in subsequent years. As such, customers are kept whole from any variances due to use rates.

5.3 In light of the variances in UPC between forecast and actuals, please explain whether FEI has considered revising its forecast method for Commercial UPC. If not, please explain why not.

Response:

FEI has not considered revising its forecast method for Commercial UPC. Please refer to the responses to BCUC IR1 5.1 and 5.2.

5.4 Please provide the impact on the F2022 UPC and load for each of RS 2.1/2 and RS2.2/3, the F2022 revenue requirement and rates if the forecast 2022 commercial UPC is set at each of 5 percent and 10 percent lower than the forecast included in the Application. Please discuss the reasonableness of these revised UPC amounts.

Response:

Please refer to the table below, which summarizes the impact to delivery rates and the overall rate impact if the 2022 UPC and load for RS 2.1/2 and RS 2.2/3 is reduced by 5 and 10 percent from what was included in the Application. Reducing the commercial UPC forecast by 5 percent and 10 percent would increase the 2022 delivery rate increase from 3.41 percent to 6.07 percent and 8.60 percent, respectively. The overall rate impact would be an increase from 2.15 percent to 3.82 percent and 5.43 percent, respectively.

	2022 Forecast (As-Filed)	-5%	-10%
Rate Schedule 2 UPC (GJ)	337	320	303
Rate Schedule 3 UPC (GJ)	6,338	6,021	5,704
Rate Schedule 2 Demand (TJ)	150	143	135
Rate Schedule 3 Demand (TJ)	87	83	78
Total Commcerial Demand (TJ)	237	226	214
Rate Schedule 1 Demand (TJ)	234	234	234
Total Volumes TJs	**471.2**	**459.3**	**447.5**
Delivery Margin @ Existing Rate ($000s)	2,434	2,373	2,318
Delivery Margin Required ($000s)	2,517	2,517	2,517
Deficiency/(Surplus) ($000s)	83	144	199
Delivery Rate Increase (%)	**3.41%**	**6.07%**	**8.60%**
Revenue @ Existing Rate ($000s)	3,866	3,769	3,672
Revenue Requirement ($000s)	3,949	3,913	3,871
Deficiency/(Surplus) ($000s)	83	144	199
Rate impact	**2.15%**	**3.82%**	**5.43%**

FEI does not have any evidence to support the alternative commercial UPC forecast suggested by this information request. FEI's UPC forecasts were developed based on a methodology used and approved in the past as described in Section 8.3.2 of the Application. Further, as discussed in the response to BCUC IR1 5.2, the relatively large variances between actual and forecast commercial UPC in 2015, 2016, 2019 and 2020 were primarily due to a significant number of commercial customers switching between the two commercial rate classes. Accordingly, FEI does not consider there to be any basis on which to revise the commercial UPC forecasts as suggested in this information request, nor does FEI consider the alternative forecasts to be reasonable.

On page 78 of the Application, FEI explains its deferral account treatment following the proposed implementation of common rates: "FEFN currently has 12 rate base deferral accounts and three non-rate base deferral accounts. FEI will consolidate the FEI and FEFN deferral accounts as part of the implementation of common rates."

5.5 Please confirm, or explain otherwise, that FEI's proposal for the FEFN RSAM means that any variance in F2022 commercial UPC will be refunded to or recovered from all FEI customers including FEFN, rather than only FEFN customers. Please discuss any issues with this approach, given the historical variances in commercial UPC.

Response:

Confirmed. Given the explanations provided in FEI's responses to BCUC IR1 5.1 to 5.4, FEI does not see any issues with this approach due to the historical variances in commercial UPC. This approach is consistent with Order G-21-14 which approved the merging of the FEI and FEW RSAM deferral accounts as part of the amalgamation of FEI, FEVI and FEW. The amortization period of the RSAM deferral accounts are the same for both FEI and FEFN, and consolidating (or merging) the two deferral accounts is the most administratively efficient way of managing the deferral accounts. Further, consolidating FEFN's RSAM deferral account with FEI's RSAM deferral account will have almost no impact on the calculation of FEI's RSAM rate rider. As shown in the table below, using the FEI[4] and FEFN 2021 RSAM deferral account balances, which would include the historical variances of FEFN's commercial UPC, FEI's 2022 RSAM rate rider in $ per GJ would change by just $0.001 per GJ (or approximately 9 cents per year for the average FEI residential customer with 90 GJ of consumption annually) before and after consolidating with FEFN's RSAM deferral account.

[4] As proposed in FEI's Annual Review for 2022 Delivery Rates, filed on July 30, 2021, Section 10.3.2.

RSAM Rider Calculation (FEI Only)	
FEI 2021 RSAM + Interest Closing Balance ($000)	2,473
Amortization Period (Years)	2
FEI 2022 Amortization Post-Tax ($000)	1,237
Tax Rate	27%
FEI 2022 Amortization Pre-Tax ($000)	1,694

RSAM (Rider 5) Calculation (FEI Only)

Rate Class	RSAM Amortization ($000)	2022 Volume (TJ)	Rider ($/GJ)
Rate 1/1BU/1U/1X		81,494	0.012
Rate 2/2BU/2U/2X		29,000	0.012
Rate 3/3BU/3U/3X		24,886	0.012
Rate 23		4,125	0.012
	1,694	139,506	0.012

RSAM Rider Calculation (Consolidation between FEI and FEFN)	
FEI 2021 RSAM + Interest Closing Balance ($000)	2,473
FEFN 2021 RSAM + Interest Closing Balance ($000s)	(285)
Total RSAM + Interest Closing Balance ($000s)	2,188
Amortization Period (Years)	2
2022 Amortization Post-Tax ($000)	1,094
Tax Rate	27%
2022 Amortization Pre-Tax ($000)	1,499

RSAM (Rider 5) Calculation (Consolidation between FEI and FEFN)

Rate Class	RSAM Amortization ($000)	2022 Volume (TJ)	Rider ($/GJ)
FEI Rate 1/1BU/1U/1X		81,494	0.011
FEI Rate 2/2BU/2U/2X		29,000	0.011
FEI Rate 3/3BU/3U/3X		24,886	0.011
FEI Rate 23		4,125	0.011
FEFN Rate 1		234	0.011
FEFN Rate 2		150	0.011
FEFN Rate 3		87	0.011
	1,499	139,976	0.011

6.0 Reference: GAS SALES AND DEMAND

Exhibit B-1, Section 8.3.6, pp. 99–100

Revenue and Delivery Margin Forecast

On page 99 of the Application, FEI provides Table 8-3 showing a summary of "the revenues for 2020 Actual, 2021 Projected and 2022 Forecast based on the approved 2021 rates, by customer rate classes", as follows:

Revenue ($000s)	2020 Actual	2021 Projected	2022 Forecast
Rate Schedule 1 - Residential	1,743	1,958	1,925
Rate Schedule 2 - Small Commercial	1,317	1,381	1,324
Rate Schedule 3 - Large Commercial	403	679	617
Rate Schedule 25 - Transportation	144	-	-
Total	**3,607**	**4,017**	**3,866**

On page 100 of the Application, FEI provides Table 8-4 showing a summary of "the delivery margins for 2020 Actual, 2021 Projected and 2022 Forecast by customer rate classes", as follows:

Delivery Margin ($000s)	2020 Actual	2021 Projected	2022 Forecast
Rate Schedule 1 - Residential	1,322	1,233	1,214
Rate Schedule 2 - Small Commercial	1,021	902	867
Rate Schedule 3 - Large Commercial	286	388	353
Rate Schedule 25 - Transportation	143	-	-
Total	**2,772**	**2,523**	**2,434**

6.1 Please provide Table 8-3 and Table 8-4 with additional columns to include 2020 approved and 2021 approved amounts and please provide an explanation for any variances between approved versus actual/projected for 2020 and 2021.

<u>Response:</u>

FEI provides the following tables that replicate Table 8-3 and Table 8-4 and include the requested 2020 and 2021 Approved amounts and variances.

Table 8-3 Revenue ($000s)	2020 Approved	2020 Actual	2020 Variance	2021 Approved	2021 Projected	2021 Variance	2022 Forecast
Rate Schedule 1 - Residential	1,608	1,743	135	1,631	1,958	327	1,925
Rate Schedule 2 - Small Commercial	1,114	1,317	203	1,235	1,381	146	1,324
Rate Schedule 3 - Large Commercial	314	403	89	526	679	153	617
Rate Schedule 25 - Transportation	177	144	(33)			-	
Total	**3,213**	**3,607**	**394**	**3,392**	**4,017**	**626**	**3,866**

Table 8-4 Delivery Margin ($000s)	2020 Approved	2020 Actual	2020 Variance	2021 Approved	2021 Projected	2021 Variance	2022 Forecast
Rate Schedule 1 - Residential	1,236	1,322	86	1,220	1,233	13	1,214
Rate Schedule 2 - Small Commercial	878	1,021	143	944	902	(42)	867
Rate Schedule 3 - Large Commercial	230	286	56	369	388	19	353
Rate Schedule 25 - Transportation	177	143	(34)			-	
Total	**2,521**	**2,772**	**251**	**2,533**	**2,523**	**(10)**	**2,434**

For 2020, the variance between 2020 Actual and 2020 Approved revenue was $394 thousand and the delivery margin variance was $251 thousand. The variances are primarily driven by an increase in volumes. The approved 2020 volume was 482 TJ and the 2020 actual volume was 541 TJ.

For 2021, the projected revenue variance is $626 thousand, which is primarily driven by an increase in commodity costs as the 2021 Projected delivery margin variance is relatively small at negative $10 thousand. FEI clarifies that the 2021 Approved revenue forecast, which was developed in 2020, was based on the FEFN cost of gas rate of $1.695 per GJ, effective on August 1, 2020 as approved by Order G-190-20. In contrast, the 2021 Projected revenue, which was developed in 2021, was based on the FEFN cost of gas rate of $2.999 per GJ, effective January 1, 2021 as approved by Order G-312-20. Therefore, the difference in cost of gas rates between the 2021 Approved revenue and the 2021 Projected revenue, which is due to the timing of when the forecasts and projected revenue were developed, is the reason behind the variances. For the small variance of negative $10 thousand between the 2021 Approved and Projected margin, this is primarily driven by a shift in the mix of volume coming from the rate classes. As seen in Figure 8-7 of the Application, the total volumes between 2021 Approved and Projected are almost identical (i.e., 492.3 TJ vs. 491.5 TJ); however, the volumes for RS 1 are projected to be 1 percent higher than the 2021 Approved level while the volumes for RS 2 and 3 are projected to be 6 percent lower and 3.6 percent higher, respectively. This shift in the mix of volumes has resulted in a projected $10 thousand reduction in margin recovery as the rate classes each have different delivery charges.

FEI notes that variances in FEFN's commodity costs are captured in the Gas Cost Reconciliation Account (GCRA) and variances in the load are captured in the RSAM deferral account. The variances due to commodity costs as well as volumes, as mentioned above, will be recovered from or returned to customers in the following years. Therefore, customers are held whole for these variances and only actuals are recovered from customers.

C. OPERATING AND MAINTENANCE EXPENSES

7.0 Reference: OPERATING AND MAINTENANCE EXPENSES

Exhibit B-1, Section 8.4.2, pp. 102–103

Forecast O&M

On page 102 of the Application, FEI provides the following table outlining operating and maintenance (O&M) expenses:

Table 8-6: FEFN O&M ($000s)

Particulars	2020 Approved	2020 Actual	2021 Approved	2021 Projected	2022 Forecast
M&E Costs	$ 19	$ 7	$ 18	$ 18	$ 18
IBEW Costs	331	242	242	250	255
Labour Costs	**350**	**249**	**260**	**268**	**273**
Vehicle Costs	45	32	26	45	46
Employee Expenses	20	9	12	6	6
Materials and Supplies	8	6	2	18	19
Fees and Administration Costs	535	562	587	586	576
Contractor Costs	22	10	15	35	36
Facilities	37	39	34	25	26
Recoveries & Revenue	(2)	(1)	(1)	(6)	(6)
Non-Labour Costs	**665**	**657**	**675**	**709**	**703**
Total Gross O&M Expenses	**1,015**	**906**	**935**	**977**	**976**
Less: Capitalized Overhead	(122)	(122)	(112)	(112)	(156)
Total O&M Expenses	**$ 893**	**$ 784**	**$ 823**	**$ 865**	**$ 820**

On page 103 of the Application, FEI states:

> The 2021 Projected vehicle costs are estimated to be higher than 2021 Approved primarily due to an increase in repair costs for the vehicles used by the FEFN staff. FEI expects this level of repair costs will continue in 2022, which is reflected in the 2022 Forecast, plus an inflationary increase assumed at FEI's 2022 net inflation factor of 3.324 percent.

7.1 Please explain why FEI expects the increased level of repair costs to continue in 2022.

Response:

FEI expects the increased level of repair costs to continue primarily due to the aging fleet of vehicles used by FEFN. The current age of the FEFN vehicles in use mostly date back to about a decade ago, with vehicle model years of 2011, 2013 and 2015. Generally, as the vehicles age, the number of repairs increases and the types of repairs can be more costly. Also, given the small number of vehicles used by FEFN, vehicle repair costs can be volatile and unpredictable. For example, recent repair costs include the repair of a backhoe and a F350 pickup truck totaling to over $30 thousand. In addition to higher repair costs, an increase in the number of meter exchanges is expected in 2022 and 2023, thereby increasing the travelling required which contributes to the higher vehicle costs.

Further, on page 103 of the Application, FEI states:

> The 2021 Projected costs of $18 thousand for material and supplies and $35 thousand for contractor costs are estimated to be higher than 2021 Approved by approximately $16 thousand and $20 thousand, respectively. The increase for 2021 Projected is primarily due to the increased service required for the distribution system which is reflected in the increased contractor costs and materials needed for the servicing. FEI expects the level of servicing required will continue in 2022, which is reflected in the 2022 Forecast, plus an inflationary increase assumed at FEI's 2022 net inflation factor of 3.324 percent.

7.2 Please elaborate on the increased service required for the distribution system which is driving increases in materials and supplies and contractor costs in 2021 and please explain why this level of servicing is expected to continue in 2022.

Response:

FEI expects the recent trend in higher contractor and materials costs to continue into 2022 and 2023, as the FEFN distribution system ages and the higher volume of meter exchanges continues.

With an aging distribution system originally installed in 1970, FEI expects overall maintenance costs to increase in order to keep the FEFN system operating reliably and safely. In addition, the costs of the repairs are expected to be higher depending on the time of the year the maintenance is required. For example, in early 2021 during winter conditions, FEI discovered and repaired a leak on the distribution system. Because of the colder weather conditions and frost on the ground at the time of the repairs, the maintenance expenditures were higher than if the repairs had occurred during milder weather conditions. Another factor expected to contribute to higher contractor costs is the availability of local qualified contractors in the Fort Nelson area. Due to the downturn in the Fort Nelson economy, it is difficult to find local qualified contractors. As a result, FEI now often needs to hire contractors from the Fort St. John area, leading to higher costs.

Regarding the increase in materials costs, higher material costs are expected with an increase in the number of industrial meter exchanges. Typically, fittings, meters and regulators for this type of work are significantly more expensive than for residential meter exchanges. Additionally, general pricing pressure on material costs due to the current challenges with world-wide supply and pricing of commodities and finished products may add further to the costs experienced. This, along with the higher number of meter exchanges expected to continue into 2022 and 2023, are contributing to the higher expected material costs.

D. RATE BASE AND CAPITAL ADDITIONS

8.0 Reference: RATE BASE AND CAPITAL ADDITIONS

Exhibit B-1, Section 8.6.2, p. 109

Recreation Centre District Station Project

On page 109 of the Application, FEI states:

> As directed in Order G-78-21, FEI provides the current scope, timing and capital additions for this project in Table 8-13 below. Due to the original uncertainty regarding the location of the station, FEI was delayed in commencing the project; thus, the $103 thousand forecast to be spent in 2021 as part of the FEFN 2021 Deferral Account Application is now forecast to be spent in 2022. FEI expects the construction of the project to be completed in 2022, with some minor expenditures related to site clean up occurring in 2023.

Table 8-13: Scope of Work and Timing of Capital Additions for the Recreation Centre District Station Project ($000s)

Recreation Centre Station Capital Additions	2022 Forecast	2023 Forecast
Project Management	$ 58	$ 20
Design	108	-
Procurement	214	-
Prefabrication	31	-
Construction/Commission	212	-
Site Cleanup	-	12
Total ($000s)	**$ 623**	**$ 32**

8.1 Please explain the reasonableness of the expectation that this project will be complete and the asset will be in service in F2022.

8.1.1 Please discuss the risks to the timeline for completion of the project, the likelihood of these risks occurring, and the mitigation strategies FEI will use to address these risks.

<u>Response:</u>

FEI does not foresee any significant risks to the timeline for completion of the Recreation Centre District Station project in 2022.

Typical risks with respect to the alteration of stations, such as the Recreation Centre District Station, include obtaining permits in a timely manner, planning in the form of design drawings, obtaining materials in a timely manner, identifying and hiring resources for fabrication and installation, and installation under acceptable system and weather conditions.

As FEI started focusing on this project in 2020, the required permits from the Oil and Gas Commission and road allowance from the Ministry of Transportation and Infrastructure have been obtained. FEI is considering whether an amendment to its BC Oil and Gas Commission permit is required to ensure the scope of work is accurately reflected based on updated engineering and development work on the project. However, it is not anticipated that a request for an amendment, if needed, will result in any concerns in terms of the project timeline.

A number of engineering disciplines are involved in designing the upgrades to the station. The mechanical drawings were completed in 2021 and the electrical and instrumentation drawings will be completed before the end of January 2022. With the progress made on these drawings, the long lead (delivery) items will be ordered in December 2021 and January 2022 which will allow fabrication to be completed well before the end of Q2 of 2022.

As a result of the work done to date, installation of the station upgrades is planned for Q3 of 2022 which will provide good system and weather conditions for successful installation and completion of the project.

In summary, FEI believes it is reasonable to expect that this project will be completed in 2022.

8.2 Please explain whether the upgrade to this station will result in a write-off of any existing assets that will no longer be used. If yes, please provide the amount of the write-off, the rate impact and the year in which the write-off will occur.

Response:

The upgrade to the Recreation Centre District Station will result in a number of components at the existing station being removed and retired from service. The net book value of these assets at December 31, 2021 is approximately $41.7 thousand. FEI expects these assets will be retired in late 2022.

At the time of the retirement and in accordance with the accepted regulatory treatment of asset retirements, the gross book value of the asset will be credited to Gas Plant in Service with an equal debit entry to Accumulated Depreciation, resulting in the remaining net book value residing in accumulated depreciation. The retirement will have no impact on the proposed 2022 delivery rates for FEFN[5] but will result in a small delivery rate decrease in 2023 by approximately $4 thousand or 0.16 percent when compared to the proposed 2022 delivery rates for FEFN

[5] No impact in 2022 as the retirement is expected to occur mid-year in 2022. As depreciation expense is calculated based on the opening balance of plant-in-service, the savings in depreciation expense will begin in 2023 when the reduction of gross plant value due to the retirement will be included in the opening balance of FEFN's 2023 plant-in-service.

customers. The decrease is primarily due to the reduction of depreciation expense from the retirement of gross plant.

8.3 What is the impact on the 2022 test year revenue requirement and rates if the capital expenditures for the project are not recorded as capital additions in 2022?

Response:

Please refer to the below table for the 2022 revenue requirement and rates if the capital expenditures for the FEFN Recreation Centre District Station project are not recorded as capital additions in 2022. The 2022 FEFN delivery rate impact would reduce from 3.41 percent to 3.25 percent if the capital expenditures of the project are not recorded as capital additions in 2022. The assets associated with the FEFN Recreation Centre District Station project enter FEFN's rate base mid-year in 2022; therefore, the cost of service impact in 2022 only includes the earned return of the mid-year rate base additions of the assets[6], offset by the income tax benefit from capital cost allowance (CCA). However, as discussed in the response to BCUC IR1 8.1, the project is already underway and FEI does not foresee any significant risks to the timeline of completion in 2022.

Line	Particular	Reference	2022
1	Revenue Deficiency (Surplus) ($000s)	Schedule 1, Line 32	83
2	Less: FEFN Rec Centre District Station Cost of Service ($000s)		(4)
3	Revenue Deficiency (Surplus) w/o FEFN Rec Centre	Sum of Line 1 to Line 2	79
4			
5	2022 Delivery Margin at Existing Rates	Schedule 1, Line 34	2,434
6			
7	**2022 Revenue Requirement w/o FEFN Rec Centre**	**Line 3 + Line 5**	**2,513**
8	**2022 Delivery Rate Change w/o FEFN Rec Centre**	**Line 3 / Line 5**	**3.25%**

[6] There is no depreciation expense related to the FEFN Recreation Centre District Station project as the assets enter FEFN's rate base mid-year. Depreciation expense is calculated based on the opening balance of FEFN's plant-in-service, thus depreciation of the assets will begin in 2023.

E. DEFERRAL ACCOUNTS

9.0 Reference: DEFERRAL ACCOUNTS

Exhibit B-1, Section 8.6.4, p. 111, 114; Section 7.1.4.3, p. 81.

FEFN Common Rates and 2022 RRA Costs Deferral Account

On page 111 of the Application, "FEI requests approval of a new rate base deferral account – the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account" for FEFN "to capture the costs of this Application and associated regulatory process."

On page 114 of the Application, FEI states:

> FEI expects to incur costs related to this Application estimated at approximately $50 thousand in 2021 and $75 thousand in 2022 (on a pre-tax basis). Costs incurred will consist of external legal fees, intervener and participant funding costs, BCUC costs, stakeholder consultation costs (e.g. virtual town hall), required public notifications, and miscellaneous facilities, stationery and supplies costs.

On page 81 of the Application, FEI states:

> If the Proposed Common Rate Option is approved, the FEFN Common Rates Application Costs deferral account will be transferred to FEI as of January 1, 2023. FEI would propose an amortization period for this deferral account as part of the 2023 Annual Review. If the Proposed Common Rate Option is not approved, the deferral account would remain with FEFN, and FEI would apply for disposition of the deferral account in the next FEFN revenue requirement, which would be filed in 2022.

9.1 Please provide a breakdown of the forecast costs of $50,000 in 2021 and $75,000 in 2022 expected to be incurred in relation to this Application by cost category (e.g., external legal fees, BCUC costs etc.), and please provide the amount of actual costs incurred to date for each category.

Response:

Table 1 below provides a breakdown, by year and cost category, of the forecast Application costs which were estimated at the time of filing the Application.

Table 1: Breakdown of Forecast Application Costs for 2021 and 2022 (in $ thousands)

Description	Application Costs Forecast	2021 Forecast	2022 Forecast
BCUC	31	6	25
Interveners	35	0	35
Legal	40	25	15
Notice Publication & Open House	18	18	0
Admin	1	1	0
Total	**125**	**50**	**75**

Table 2 below provides the breakdown of the actual Application costs incurred to date by cost category, with a revised forecast split of the Application costs between 2021 and 2022, adjusted to reflect the current stage of the regulatory review process. The total forecast of $125 thousand remains the same as the forecast included in the Application.

Table 2: Breakdown of Year to Date (YTD) Actual Application Costs Incurred and Revised Forecasts for 2021 and 2022 (in $ thousands)

Description	2021 YTD Actual	Revised 2021 Forecast	Revised 2022 Forecast	Total
BCUC	0	2	29	31
Interveners	0	0	35	35
Legal	14	20	20	40
Notice Publication & Open House	17	18	0	18
Admin	0	0	1	1
Total	**31**	**40**	**85**	**125**

9.2 Please clarify if the determination of the recovery of the costs captured in this account from which class(es) or group(s) of customers is dependent on the BCUC decision regarding common rates and please explain why or why not.

Response:

The recovery of the costs in the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account is not necessarily dependent on the BCUC's decision regarding common rates, as the BCUC could approve common rates but make a different determination on the Application Costs deferral account than what has been proposed by FEI in this Application. For instance, the BCUC could approve common rates as proposed in the Application but direct that the Application Costs deferral account be recovered from FEFN customers only as part of 2022 permanent rates for FEFN. This is possible because FEI has proposed that common rates take effect January 1, 2023 and has applied to set delivery rates for FEFN as a standalone utility for 2022. However, FEI does not recommend this approach as the delivery rate impact for FEFN customers in 2022 if the Application Costs deferral account is recovered over this one year would be significant, and it would not be possible to fully recover the actual costs in the deferral account prior to moving to common rates in 2023.

As FEI is proposing to recover the Application Costs deferral account through amortization expense, which is recovered from all non-bypass customers, there is no impact to which rate classes the costs are recovered from whether common rates are approved or not (i.e., if common rates are approved the Application Costs deferral account will be recovered from all non-bypass customers, which would include FEI and FEFN customers; whereas, if common rates are not approved, the Application Costs deferral account would be recovered from all FEFN customers/rate classes).

9.3 Please confirm, or explain otherwise, that the costs to be captured in the new deferral account would be recovered from (i) all FEI customers only if common rates are approved for FEFN; (ii) from FEFN customers only if common rates are not approved for FEFN; or (iii) all FEI and FEFN customers if common rates are approved for FEFN.

9.3.1 If confirmed, please explain FEI's rationale for the different treatments proposed.

<u>Response:</u>

FEI is proposing either scenario (ii) or (iii).

For clarity, as discussed in Section 7.1.4.3 and as referenced in the preamble above, FEI's proposal is:

1) If common rates are approved for FEFN, the Application costs captured in the deferral account will be recovered through FEI's delivery rates from <u>both</u> FEI and FEFN customers (i.e., there will be no distinction in recovery of the Application costs between FEI and FEFN customers as they are under common rates); or
2) If common rates are not approved for FEFN, the Application costs captured in the deferral account will be recovered through FEFN's delivery rates from FEFN customers only.

FEI is not proposing to recover the Application costs from FEI customers only if common rates are approved (i.e., scenario (i) in this IR), as this approach would undermine the purpose of having common rates between FEI and FEFN. Further, FEI does not believe it is reasonable to isolate the Application costs and recover them from FEI's customers only when all other components of

FEI's revenue requirement will be recovered from all FEI and FEFN customers under a common rates structure. Since there will be no distinction between FEI and FEFN for the purposes of setting delivery rates, it would not be appropriate or administratively efficient to separate out one deferral account's amortization expense for recovery from only a portion of the customer base. This would also require a separate rate rider to be created in order to recover the amortization expense from a specific group of customers.

If the BCUC accepts that common rates should be implemented, there is no reason to distinguish customers that had previously been FEFN customers and the concept of common rates should be applied to the recovery of the deferral account. That is, the costs should be recovered equally from all customers.

9.4 Regardless of the BCUC decision regarding common rates, please discuss the pros and cons of recovering these costs from (i) all FEI customers or (ii) all FEI and FEFN customers, in comparison to (iii) FEFN customers only.

Response:

If common rates are approved, the estimated impact to FEI's delivery rates would be approximately 0.013 percent[7] or $0.001 per GJ (rounded to 3 decimal places) when compared to FEI's proposed delivery rates for 2022[8]. For the average FEI residential customer with 90 GJ of annual consumption, this is equivalent to approximately 9 cents annually. In contrast, if common rates are not approved for FEFN, the estimated impact to FEFN's delivery rates would be approximately 4.97 percent or $0.265 per GJ when compared to the proposed FEFN delivery rates for 2022. For the average FEFN residential customer with 125 GJ of annual consumption, this is equivalent to approximately $33.13 annually.

Please refer to the table below which summarizes the pros and cons of the different scenarios of recovering the Application costs:

[7] For the forecast Application costs of $125 thousand and assuming an amortization period of one year.
[8] FEI's Annual Review for 2022 Delivery Rates as filed on July 30, 2021.

Common Rates Decision	Scenario	Pros	Cons
If Common Rates are Approved	Recovery from FEI customers only	• FEFN customers will save approximately $0.001 per GJ when compared to the currently proposed 2022 delivery rates, as recovery will be from FEI's customers only	• Undermines the purpose of having common rates between FEI and FEFN • Administratively inefficient with separate riders required to recover different Application costs between FEI and FEFN customers, particularly when considering the magnitude of the rider (i.e., $0.001/GJ for FEI customers over a 1 year period)
	Recovery from all FEI and FEFN customers	• Fair and consistent treatment between FEI and FEFN customers • Impact to both FEI and FEFN customers is minimal at approximately $0.001 per GJ when compared to the currently proposed 2022 delivery rates	• None
	Recovery from FEFN customers only	• FEI customers would not have experienced the approximately $0.001 per GJ of impact due to FEFN's Application costs when compared to the currently proposed 2022 delivery rates	• Undermines the purpose of having common rates between FEI and FEFN (i.e., FEFN is still paying their full costs even under a common rates regime) • FEFN will have large rate impact (i.e., 4.97 percent or $0.265 per GJ when compared to currently proposed 2022 delivery rates)

Common Rates Decision	Scenario	Pros	Cons
If Common Rates are <u>not</u> Approved	Recovery from all FEI customers	• FEFN customers will benefit by not experiencing the large impact of the Application costs in their delivery rates (i.e., 4.97 percent or $0.265 per GJ when compared to currently proposed 2022 delivery rates)	• FEI will be paying for costs that are incurred for customers not under their service area (i.e., customers in a service area not covered by the common rates) • FEFN is not paying costs that are incurred for their service area
	Recovery from all FEI and FEFN customers	• FEFN customers will benefit by not experiencing the large impact of the Application costs in their delivery rates (i.e., 4.97 percent or $0.265 per GJ when compared to currently proposed 2022 delivery rates)	• FEI will be paying for costs that are incurred for customers not under their service area (i.e., customers in a service area not covered by the common rates) • FEFN will only be paying a portion of their share of costs instead of the full costs
	Recovery from FEFN customers only	• FEFN customers will be paying the costs incurred for their service area • FEI customers are shielded from FEFN's costs (though the impact to FEI customers, as previously discussed, is minimal)	• FEFN customers will experience a large delivery rate impact (i.e., 4.97 percent or $0.265 per GJ when compared to currently proposed 2022 delivery rates)

9.5 Please explain whether it would be possible for FEI to separately track the costs associated with the common rates aspect and the 2022 revenue requirements application (RRA) aspect of the Application in separate deferral accounts. Please discuss the pros and cons for doing so.

<u>Response:</u>

While it would be possible for FEI to separately track the costs associated with the common rates component and the 2022 RRA component of the Application in separate deferral accounts, it would also require that the BCUC and interveners separately track and invoice FEI their own time and costs for each component.

Please refer to the table below which provides a forecast breakdown between the common rates component and the 2022 RRA component of the Application. FEI estimated the 2022 RRA component based on the average of the last three FEFN RRAs, adjusted for the number of interveners in the 2022 RRA versus the previous RRAs, and the number of years for the RRA (i.e., 1 year in the 2022 RRA versus 2 years in the previous RRAs). The common rates component is the difference between the total Application costs estimate and the 2022 RRA component. FEI notes the breakdown of the total Application costs between 2021 and 2022 was revised in the response to BCUC IR1 9.1 to be $40 thousand and $85 thousand, respectively (revised from $50 thousand for 2021 and $75 thousand for 2022).

	Common Rates Forecast			RRA Forecast		
Description	**2021**	**2022**	**Total**	**2021**	**2022**	**Total**
BCUC	$ 0	$ 24	$ 24	$ 2	$ 5	$ 7
Interveners	0	25	25	0	10	10
Legal	10	15	25	10	5	15
Notice Publication & Open House	9	0	9	9	0	9
Admin	0	1	1	0	0	0
Total ($000s):	**$ 19**	**$ 65**	**$ 84**	**$ 21**	**$ 20**	**$ 41**

FEI does not believe there is a material advantage to tracking the Application costs separately between the common rates component and the 2022 RRA component of the Application. Although tracking the Application costs separately between the two components of the Application will provide additional transparency and also could allow the forecast 2022 RRA component of the Application costs to be recovered from FEFN's customers in 2022[9], this approach would be less administratively efficient as there would be two deferral accounts to track and account for instead of one. Given the small difference between the two components, the higher delivery rate increase for FEFN in 2022 and the reduced administrative efficiency, FEI does not recommend this approach. For example, if the forecast 2022 RRA component of the Application costs (i.e., $41 thousand) is included in FEFN's 2022 delivery rates, it would increase the delivery rates from the proposed 3.41 percent to 5.05 percent.

9.6 Please discuss the pros and cons of addressing the amortization of the proposed new deferral account in the current proceeding rather than in a future application.

<u>Response:</u>

FEI sees no disadvantage to addressing the amortization period in the current Application if common rates are approved. However, if common rates are not approved, there would be an advantage to waiting until a future FEFN revenue requirements proceeding to set the amortization period so that the determination of the amortization period can consider the resulting delivery rate impacts to FEFN customers (i.e., the Application costs as well as other components of FEFN's

[9] Only the forecast 2022 RRA Application costs can be included in FEFN's 2022 delivery rates as FEI expects the decision for the 2022 RRA portion of the Application to occur in 2022; as a result, the actual 2022 RRA Application costs will not be available to be included in the 2022 delivery rates.

revenue requirements), and the delivery rate changes expected over the coming years at that time.

Based on FEI's proposals in this Application, the disposition and amortization of the deferral account will depend on the BCUC's decision on common rates. As discussed in the response to BCUC IR1 9.3, FEI's proposal is:

1. If common rates for FEFN are approved, the amortization of the deferral account will be included in FEI's delivery rates and recovered from all FEI and FEFN customers; or
2. If common rates for FEFN are not approved, the amortization of the deferral account will remain with FEFN and recovered from FEFN customers only.

If common rates for FEFN are approved, FEI would propose to amortize the Application Costs deferral account over a period of 1 year in FEI's delivery rates for recovery from all FEI and FEFN customers. As shown in the response to BCUC IR1 9.4, the impact to FEI's delivery rates due to the amortization of the estimated $125 thousand of Application costs is small at 0.013 percent or $0.001 per GJ. Therefore, it would not be reasonable to extend the amortization period for more than one year.

If common rates are not approved, FEI will likely proposed to amortize the Application Costs deferral account over a period of two years in FEFN's delivery rates for recovery from FEFN customers. FEI considers a two-year amortization period is appropriate as it is consistent with similar application cost deferral accounts that FEFN has had in the past. FEI does not believe it would be appropriate to amortize the Application Costs deferral account over a shorter period, e.g. one year, considering the large delivery rate impact to FEFN's customers given the small customer base of FEFN.

However, as noted above, if common rates are not approved, there would be an advantage to waiting until a future FEFN revenue requirements proceeding to set the amortization period to take into account the delivery rate impacts to FEFN customers (i.e., the Application costs as well as other components of FEFN's revenue requirements) at that time, and the delivery rate changes expected over the coming years at that time which might warrant a longer amortization period than two years.

9.7 Please discuss the amortization period(s) being considered by FEI for the proposed new deferral account, with rationale and please provide the pros and cons of each alternative.

Response:

Please refer to the response to BCUC IR1 9.6.

9.8 Please discuss whether FEI expects to begin amortization of the proposed new deferral account in 2023, regardless of the BCUC decision regarding common rates.

Response:

As discussed in the response to BCUC IR1 9.6, FEI expects a decision on the Application (both the 2022 RRA and common rates) in 2022; therefore, FEI expects to begin amortization of the proposed deferral account in 2023.

10.0 Reference: DEFERRAL ACCOUNTS

Exhibit B-1, Section 8.2, p. 86, Section 8.6.4.2, pp. 114, 115

FEFN 2021 Revenue Surplus Deferral Account

On page 86 of the Application, FEI states that it "is forecasting a total revenue deficiency of $83 thousand for FEFN in 2022 … This results in an effective delivery rate increase of 3.41 percent in 2022 when compared to the approved 2021 delivery rates."

On page 114 of the Application, FEI states that the "2022 ending after tax balance in the deferral account is a credit of $94 thousand."

On page 115 of the Application, FEI states:

> FEI proposes to utilize the FEFN 2021 Revenue Surplus deferral account in the implementation of the Proposed Common Rate Option in 2023 to mitigate the rate impact for residential FEFN customers of moving to common rates. If common rates are not approved, FEI would apply for disposition of the FEFN 2021 Revenue Surplus deferral account as part of FEFN's next revenue requirement application.

10.1 Please explain whether FEI considered using this account to mitigate the forecast delivery rate increase of 3.41% in 2022. If not, please discuss why not.

10.1.1 Please discuss the pros and cons of this approach compared to FEI's proposal.

Response:

FEI did not consider using the 2021 FEFN revenue surplus to mitigate the forecast delivery rate increase of 3.41 percent in 2022 for the following reasons:

1. If common rates for FEFN are approved, FEFN's residential customers are expected to experience an increase in their bills, while FEFN's commercial customers will see a savings in their bills. The forecast bill impact to FEFN's residential customers in 2023 if common rates are approved will be higher than the forecast bill impact in 2022 (i.e., $22 for an average residential customer in 2022 as shown in Table 5-3 of the Application versus $157 in 2023 as shown in Table 5-14 of the Application). Therefore, FEI believes it is more appropriate to use the 2021 revenue surplus to mitigate the expected larger impact of the move to common rates (if approved) in 2023 rather than to mitigate the smaller impact of the forecast 2022 delivery rate increase.
2. If common rates for FEFN are not approved, as discussed in Section 5.3.1 of the Application, FEI is forecasting a higher delivery rate increase of 9.68 percent for FEFN in 2023 based on the current forecast of 2023 demand and capital additions. The forecast 2022 delivery rate increase of 3.41 percent for FEFN is relatively small compared to recent years, as shown in Figure 5-2 of the Application[10]. Given this, and the higher delivery rate

[10] Except for 2021 where the delivery rates were held at the 2020 level with deferral treatment of the 2021 revenue surplus approved by Order G-78-21.

increase forecast for 2023, even if common rates are not approved, FEI believes it is more appropriate to use the 2021 revenue surplus to mitigate the expected larger impact in FEFN's 2023 delivery rates rather than to mitigate the relatively small impact of the 2022 delivery rate increase. Additionally, FEI is proposing to commence amortization of the Application Costs deferral account in 2023. If common rates are not approved, and the Application Costs deferral account is determined to be recoverable from FEFN customers only, the 2021 revenue surplus will help to mitigate the impact of the amortization of the Application Costs deferral account.