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December 9, 2021

Fort Nelson & District Chamber of Commerce
5500 Alaska Highway
PO Box 196
Fort Nelson, BC V0C 1R0

Attention: Ms. Bev Vandersteen

Northern Rockies Regional Municipality
5500 Alaska Highway
Bag Service 399
Fort Nelson, BC V0C 1R0

Attention: Mr. Mike Gilbert

Dear Ms. Vandersteen and Mr. Gilbert:

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 Fort Nelson & District Chamber of Commerce (FNDCC) and Northern Rockies Regional Municipality (NRRM) Information Request (IR) No. 1 on 2022 Delivery Rates

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

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

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1.0 RS1 UPC

Reference: Exhibit B-1, Application, pp. 92-93

FEI provides its forecast for its RS1 UPC of 125.8 GJ for 2022.

1.1 Please explain why FEI believes its RS1 UPC forecast based on ten years of data is appropriate. In providing your response, please discuss:

(a) the inclining UPC trend between 2018 and 2020;

(b) FEI's UPC underforecast for 2021; and

(c) the effect of COVID-19 on 2021 UPC.

Response:

FEI's demand forecast methods are consistent with the recommendations in the FEI 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 adopted the Exponential Smoothing (ETS) method for the purpose of forecasting residential and commercial use rates, as ETS proved to be the most accurate method for this purpose.

With regard to the inclining UPC between 2018 and 2020, FEI cannot definitively explain any change in residential UPC in a given year as it is a result of many factors that may be both compounding and offsetting. For example, additional conservation might reduce the load but this may have been offset by an increase in the number of appliances used in a home. FEI notes that the ETS method places more emphasis on the long-term trend if one is present and more emphasis on recent observations where a trend is not present.

The UPC results for 2021 will not be available until early 2022 so it is too early to speculate on whether or not the actual 2021 UPC will be less than forecast.

FEI does not have sufficient data or evidence with which to make a specific adjustment to the forecast to reflect any effect from the COVID-19 pandemic. The residential demand variance shown in Table A2-3 for 2020 was 2.6 percent. FEI notes that variances in three of the prior nine years were higher while six were lower. This implies that the impact from the COVID-19 pandemic, as reflected in the 2020 demand data for FEFN, was minimal.

Please also refer to the responses to BCUC IR1 4.1 and 4.1.1 for further details supporting the RS 1 UPC forecast.

1.2 Please provide the effect on delivery rates if the 2022 RS1 UPC forecast were:

(a) increased by 1%; and

(b) increased by 2%.

Response:

Please refer to the table below, which provides the impact to the proposed 2022 delivery rates if the 2022 RS 1 UPC forecast was increased by 1 percent and 2 percent. Increasing the RS 1 UPC forecast by 1 percent and 2 percent will decrease the 2022 delivery rate impact from 3.41 percent to 2.90 percent and 2.39 percent, respectively.

	2022 Forecast (As-Filed)	**+1%**	**+2%**
Rate Schedule 1 UPC (GJ)	125.8	127.1	128.3
Rate Schedule 1 Demand (TJ)	234	236	238
Rate Schedule 2 Demand (TJ) - No Change	150	150	150
Rate Schedule 3 Demand (TJ) - No Change	87	87	87
Total Volumes TJs	**471.2**	**473.5**	**475.9**
Delivery Margin @ Existing Rate ($000s)	2,434	2,446	2,458
Delivery Margin Required ($000s)	2,517	2,517	2,517
Deficiency/(Surplus) ($000s)	83	71	59
Delivery Rate Increase (%)	**3.41%**	**2.90%**	**2.39%**

FEI does not have any evidence to support the alternative residential 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. FEI also notes that any variance in UPC between actual and forecast is captured in the Revenue Stabilization Adjustment Mechanism (RSAM) deferral account, which will be recovered from or returned to customers over a two-year period starting the following year.

2.0 Transmission Plant Cost Overrun

Reference: Exhibit B-1, Application, p. 107

FEI indicates:

> FEI notes the 2021 Projected capital additions have increased from 2021 Approved by approximately $142 thousand. The increase is primarily due to additional consulting costs for engineering and design as well as a change in scope of work to include additional hydrovax services for safe excavation and additional fencing for the site work. The additional consulting costs and scope of work were not anticipated when the 2021 Approved amount was developed.

2.1 Please explain:

(a) what additional consulting costs for engineering and design were required; and

(b) why the change in scope of work to include hydrovax services and additional fencing was required.

Response:

The additional consulting costs for engineering and design and change in scope of work are due to an issue identified during detailed design, as described below, and a requirement to utilize third party contractors/consultants due to unavailability of FEI's internal engineering.

During detailed design of the replacement piping, it was determined that a short section of pipe on the upstream/inlet side of the station had not been tested sufficiently for the planned future operating conditions. As a result, the project plan now includes removal of fencing to make room for excavation of the piping using hydrovax services, which will allow FEI to perform cut-out and pressure testing of the short upstream section of pipe, reinstallation of the section of pipe, and reinstallation of the fencing.

2.2 Please explain why these costs and scope of work were not anticipated when the 2021 Approved amount was developed.

Response:

When the 2021 Approved amount was developed in mid-2020, it was based on a preliminary level of design accuracy for the purposes of planning, budgeting and application. The issue as described in the response to FNDCC-NRRM IR1 2.1 was not identified until the project was advanced to the level of detailed engineering and design for the purposes of execution, which occurred after the 2021 Approved amount was developed. Since the change of scope and the resulting increase in project costs were identified after the 2021 Approved amount was developed, FEI included the updated project costs in the current Application.

2.3 Please explain what costs could have been avoided or reduced had the additional scope described been identified prior to developing the 2021 Approved amount.

Response:

No costs would have been avoided or reduced had the change of scope as described in the response to FNDCC-NRRM IR1 2.1 been identified prior to developing the 2021 Approved amount. If FEI identified the change of scope prior to the development of the 2021 Approved amount, then the additional costs would have been included as part of the estimate for the 2021 Approved amount.

3.0 Recreation Centre District Station

Reference: Exhibit B-1, Application, pp. 108-109

Decision and Order G-78-21, p. 9

With respect to the Recreation Centre District Station, FEI indicates:

> As the City of Fort Nelson has advised that it is willing to create a formal land agreement for the existing site, this will allow FEFN to upgrade the existing station rather than installing a new station elsewhere. 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.

In Decision and Order G-78-21, the Commission noted that this project "is planned to be completed by the end of 2023" (p. 9).

3.1 Please confirm that the reference to the City of Fort Nelson in the reference above is to the Northern Rockies Regional Municipality. If not confirmed, please explain your response.

Response:

Confirmed. The preamble mistakenly referred to the Northern Rockies Regional Municipality as the City of Fort Nelson.

3.2 Please confirm that FEI does not yet have a formal land agreement for the existing site. If not confirmed, please fully explain your response.

Response:

FEI clarifies that the formal land agreement referenced in the preamble is referring to the new Statutory Right of Way (SRW) required for the upgrade to the existing station. The new SRW is approximately 20 percent of FEI's fenced area for the station. FEI currently has not yet attained the SRW. At a meeting in October 2020, a representative of the Northern Rockies Regional Municipality verbally agreed to issue the new SRW for the existing site. FEI completed a legal survey in November 2021 and submitted the reference plan as well as ROW terms to the Northern Rockies Regional Municipality for review on December 1, 2021. FEI expects that an agreement could be completed in the first quarter of 2022. As FEI currently plans for construction to begin in the early summer of 2022, FEI does not expect the timing of the formal land agreement will affect the timeline for this project's completion.

3.3 Please confirm that the timing of entering into any formal land agreement will affect the timeline for this project's completion.

Response:

Please refer to the response to FNDCC-NRRM IR1 3.2.

3.4 Please explain why FEI's completion forecast has changed from the 2023 date identified in Decision and Order G-78-21 and the 2022 date in the Application.

Response:

FEI clarifies that there has been no change to the completion date of 2023. FEI notes the complete sentence on page 9 of the Decision and Order G-78-21 as referenced in the preamble above is:

> "The project is planned to be completed by the end of 2023, with construction and installation planned for 2022."

As stated in the current Application, FEI expects the construction of the project to be complete in 2022, with some minor expenditures related to site clean-up occurring in 2023; thus, the project is still expected to complete in 2023. Construction completion does not necessarily equate to project completion, as there is still work required for clean-up and project closing.

4.0 Depreciation and Net Salvage Rates

Reference: Exhibit B-1, Application, p. 32, and p. 110, s. 8.6.2.3 FortisBC MRP 2020-2024 Decision, pp. 134, 136

FEI suggests:

> Consistent with past FEFN RRAs, FEFN adopts FEI's changes to depreciation and net salvage rates. FEI's most recent deprecation study was completed in 2017 and was approved as part of the MRP Decision and Order G-165-20. FEI is seeking approval in this Application to adopt the depreciation and net salvage rates from FEI's most recent depreciation study. 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.

In the MRP proceeding, FEI suggested that "the updated depreciation rates should be approved as they properly reflect the useful lives of its assets and result in a fair allocation and recovery of depreciation expense between current and future ratepayers" (p. 134).

In the MRP proceeding, the Commission Panel noted that (p. 136):

> …the largest impact from the depreciation studies is an increase in Net Salvage for both FEI and FBC. The Panel acknowledges that these estimates rely on a considerable amount of professional judgment by both Concentric and FortisBC. Significant variances between estimated and actual Net Salvage could result in rates that either over or under collect future removal costs prior to actual costs being incurred and there is some risk of intergenerational inequity. However, in the Panel's view this risk can be mitigated through regular updates to the depreciation studies.

The Commission directed "FortisBC to update the depreciation studies for FEI and FBC prior to or along with its next RRA following the Proposed MRPs" (p. 136).

FNDCC and NRRM seek to better understand the applicability of FEI's most recent depreciation study to the assets in FEFN's service area.

4.1 Please explain whether the depreciation rates proposed in the Application reflect the useful life of the assets in the FEFN service area. In providing your response, please explain what impact FEI's recent capital build in the FEFN service area (as set out at p. 32 of the Application) has on the assumption that the proposed depreciation rates reflect the useful lives of these assets.

<u>Response:</u>

The depreciation rates proposed in the Application are based on FEI's approved depreciation rates and provide a reasonable representation of the useful life of the assets in the FEFN service area, as the nature and the useful life of FEFN's assets are similar to the useful life of FEI's assets, with FEFN's operating assets subject to the same operating and maintenance standards as FEI's. FEFN's assets were included with FEI's assets in the data used to prepare the depreciation study and, as such, the recommended depreciation and net salvage rates are applicable to FEFN.

The recent capital build in the FEFN service area (as set out on page 32 of the Application) has not materially impacted the proposed depreciation rates of the affected assets (i.e., Transmission Pipeline) or the assumption that the proposed depreciation rates reflect the useful lives of these assets. As outlined on page 32, the Fort Nelson Lateral - Muskwa River Crossing CPCN was the most significant sustainment capital project in recent years, which added approximately $4 million of Transmission assets to FEFN's gross plant in service in 2015. The annual depreciation rate proposed for FEFN Transmission Mains (BCUC Account 465-00) based on the recently approved FEI Depreciation Study is 1.46 percent,[1] consistent with an estimated average service of 65 years as outlined in the 2017 FEI Depreciation Study[2]. This average life of approximately 65 years is also consistent with that observed in the industry. Concentric, in its recent review of the Transmission Asset account for FEI, noted that "Concentric reviewed a selection of peer Canadian natural gas transmission companies. Average service life estimates among these peers ranged from 60 years through 65 years".[3] There is no reason to believe that the useful lives of Fort Nelson's Transmission assets would be any different than FEI or the natural gas transmission industry.

Further, Transmission assets comprise a substantial portion of the total gross plant and therefore influence the overall depreciation rate and expense for FEFN. Of the total estimated 2022 FEFN Gross Plant for Depreciation of $18 million outlined on Schedule 5 in Appendix E-1, a substantial portion is for Transmission Plant at approximately $7 million. Of the remainder of the 2022 FEFN Gross Plant for Depreciation, $10 million is for Distribution Plant and $1 million is for General Plant and Equipment and Intangible Plant.

Adopting FEI's depreciation rates for FEFN simplifies the administration of the depreciation rates by eliminating the need to perform a separate study specifically for FEFN with associated incremental costs to develop a separate study, which would then be subject to review and approval by the BCUC. A new depreciation study is typically completed once every 3 to 5 years and a separate study for FEFN would result in incremental costs, including the costs to prepare the study and the costs of the regulatory process to review the study. All of these costs would be allocated entirely to the customers in Fort Nelson each time a depreciation study is undertaken.

For the above reasons, and even when considering the recent FEFN capital build, FEI's approved depreciation rates continue to be appropriate to use for FEFN's depreciation rates.

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[1] Appendix E-1 of the Application, Schedule 5, Line 10.
[2] Page 5-2, 465-00 Transmission Pipeline Iowa 65-R4 indicates that the average service life assigned to Transmission Mains is 65 years.
[3] Pages 3-6 and 3-7, FEI 2014 Depreciation Study.

4.2 Please explain whether the net salvage rates proposed in the Application reflect FEI's experiences for its assets in the FEFN service area. In providing your response, please explain what impact FEI's recent capital build in the FEFN service area (as set out at p. 32 of the Application) has on any assumptions regarding the proposed net salvage rates.

Response:

The FEFN net salvage rates proposed in the Application, based on FEI's approved net salvage rates, provide a reasonable representation of net salvage (removal costs less salvage proceeds) on FEFN's assets as a cost of providing service, to be recovered from customers over the useful life of the assets. FEFN's assets were included with FEI's assets in the data used to prepare the depreciation study and, as such, the recommended depreciation and net salvage rates are applicable to FEFN.

Please refer to the response to FNDCC-NRRM IR1 4.1 as the explanation and rationale provided for FEFN's proposed depreciation rates also applies to FEFN's proposed net salvage rates. As discussed in the response to FNDCC-NRRM IR1 4.1, the recent FEFN capital build was primarily related to the Fort Nelson Lateral - Muskwa River Crossing CPCN. Since this is a relatively new asset with no retirement history, there is insufficient information to suggest that the estimated net salvage costs would be any different than that observed for FEI's Transmission pipeline assets.

4.3 Please provide any updates to FEI's 2017 depreciation study that are available in draft or final form.

Response:

There have been no updates to FEI's 2017 Depreciation Study, which was approved by BCUC Order G-165-20 as part of FEI's 2020-2024 MRP Application.

For clarity, FEI's MRP is currently effective from 2020 through 2024; therefore, the BCUC directive to update the depreciation studies referenced in the preamble to this information request is referring to the RRA following the end of the current MRP term, which is anticipated to occur in 2025.

5.0 DSM Forecast

Reference: Exhibit B-1, Application, p. 111

In Table 8-14, FEI provides its Deferral Balances included in Rate Base. FEI over-forecast its Demand-Side Management (DSM) account in both 2020 and 2021. FEI nonetheless forecasts a roughly 30% increase for 2022 over its projected 2021 amount of $319,000.

5.1 Please explain how this DSM forecast was developed.

<u>Response:</u>

The 2022 mid-year forecast balance of the FEFN DSM deferral account shown in Table 8-14 was developed based on an allocation of FEI's total DSM expenditures, which includes the current year (i.e., 2022) rate base additions of $30 million, and a transfer of the prior year (i.e., 2021) ending balance of the non-rate base DSM deferral account of $98 thousand. The allocation factor was based on the percentage of FEFN customers compared to the total FEFN and FEI customers, which is 0.216 percent for 2022 as shown in Table 8-7 of the Application. FEI notes the rate base DSM deferral account for FEFN was first established in 2012 with FEFN adopting FEI's rate base and non-rate base treatment of the DSM deferral account in 2019 as approved by BCUC Order G-48-19.

The increase in the mid-year forecast 2022 balance of the FEFN DSM rate base deferral account from 2021 Projected is primarily due to the approved year-to-year increase in FEI's DSM expenditures under FEI's current 2019-2022 DSM Plan as approved by BCUC Order G-10-19.

Regarding the variance in 2020 and that projected for 2021, since the forecasts are developed using the methodology set out above, the actual DSM expenditures for Fort Nelson customers will vary from that forecast depending on the uptake of the various programs. Only actual amounts will be recovered from Fort Nelson customers once those amounts are known.

5.2 Please discuss the ratepayer impact of any over-forecasting for this account. As part of your response, please discuss any impact on FEFN's ratepayers if this account is over- forecast in 2022 and FEI were to implement its common rates proposal in 2023.

<u>Response:</u>

Consistent with all other components of FEFN's rate base that are subject to forecast risk , there could be a small impact to FEFN's ratepayers due to any under- or over-forecast in 2022, related to the earned return component of the revenue requirement only. Given the fact that past delivery rates cannot be retroactively reset based on actuals, customers will pay for the forecast earned return included in the current delivery rates. However, the deferral balances of FEFN are subject to re-basing with actuals in each revenue requirement; therefore, any impact (positive or negative) from the forecast variances in earned return is expected to be small and only temporary in nature. The amortization of the rate base DSM deferral account includes a true-up of prior years' under- or over-forecast of DSM expenditures. As such, customers only pay for actual DSM expenditures through the amortization of the deferral account into delivery rates over time.

FEI notes that since delivery rates are being set for FEFN on a standalone basis for 2022, this negligible and temporary impact would occur regardless of whether common rates are approved or not (since common rates are proposed to be implemented in 2023).

6.0 FEFN 2021 Revenue Surplus Deferral Account

Reference: Exhibit B-1, Application, p. 114, s. 8.6.4.2 Exhibit B-1, Application, p. 59, Table 5-17 Decision and Order G-78-21, p. 8

FEI proposes to refund the FEFN 2021 Revenue Surplus Deferral Account to mitigate rate impacts from the proposed move to common rates: "As explained in Section 7.1.4.4, 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."

Table 5-17 illustrates that FEI intends to refund these amounts over a ten year period following its proposed move to common rates.

In its 2021 Deferral Account Application, FEI suggested that its deferral treatment for this account was preferable because it "[b]enefits FEFN customers in the near future resulting in low intergenerational inequity".

6.1 Please explain why FEFN's ratepayers should not be refunded this revenue surplus as soon as possible (in the near future) rather than over ten years as FEI proposes. In particular, please explain why the refund of this revenue surplus be delayed until a determination is made on FEI's common rates application.

<u>Response:</u>

Please refer to the response to BCUC IR1 10.1 which explains the advantages of delaying the return of the 2021 revenue surplus to 2023 instead of returning the surplus as soon as possible (i.e., in 2022) under the scenario where common rates are not approved as well as under the scenario where common rates are approved.

In the response to BCUC IR1 10.1, FEI also explains that if common rates are approved, FEI's proposal is to include the 2021 revenue surplus as part of the FEFN residential 10-year phase-in credit rider to reduce the initial bill impact to FEFN's residential customers. If the 2021 revenue surplus were returned to FEFN's customers immediately in 2023 instead of over a 10-year period, then FEFN's residential customers would see a larger credit (i.e., a larger reduction to the initial bill impact of moving to common rates) in 2023; however, FEFN's residential customers would experience a larger increase in the following year when the credit associated with the 2021 revenue surplus is eliminated. By phasing in the 2021 revenue surplus over a 10-year period as part of the phase-in credit rider, the bill impact experienced by FEFN's residential customers will be more gradual.

However, FEI is not opposed to returning the entire revenue surplus to FEFN's customers in 2023 instead of over a 10-year period as part of the move to common rates if such an approach were directed by the BCUC.

6.2 Please explain why FEI's proposed treatment of this deferral account is inter-generationally equitable. In providing your response, please explain the impact of FEI's forecast of a declining customer base in the FEFN service area on any inequity that may occur.

Response:

If common rates for FEFN are not approved, FEI will seek approval for disposition of the balance of the 2021 Revenue Surplus deferral account in the 2023 RRA (to be filed in 2022) with credit amortization into FEFN's delivery rates starting in 2023. Given there is only a one year difference between 2022 and 2023, FEI does not believe this creates an issue of intergenerational inequity. Also, as discussed in the response to BCUC IR1 10.1, FEI is expecting a higher delivery rate impact in 2023 than in 2022 if common rates are not approved, therefore, it would be more beneficial to utilize the 2021 revenue surplus to mitigate the expected higher delivery rate increase in 2023.

If common rates for FEFN are approved, as described in Section 5.5 of the Application, FEI proposes to apply the 2021 revenue surplus to the 10-year phase-in credit rider for FEFN's residential customers in order to further reduce the annual bill impact that FEFN's residential customers will experienced due to common rates. While this might create some intergenerational inequity, FEI must balance the benefits of a longer amortization period with the potential for some intergenerational inequity. Further, returning the revenue surplus over a 10-year period as part of the common rate phase-in credit rate rider will cause only minimal intergenerational inequity, even if FEFN's customer base continues to decline. Using the forecasting methods as described in Section 8.3.2 of the Application, FEI forecasts the FEFN residential customer count in 2032 would only decline to approximately 95 percent of the 2022 level. In other words, the majority of FEFN's residential customers today will still benefit from the 2021 revenue surplus through the proposed 10-year phase-in credit rate rider. Furthermore, as discussed in the response to BCUC IR1 10.1, it would be more beneficial to use the 2021 revenue surplus to mitigate the expected higher bill impact for FEFN's residential customers due to the move to common rates (if approved) in 2023 rather than to mitigate the relatively smaller impact of the forecast 2022 delivery rate increase.

6.3 Please explain why FEI's proposed treatment of this deferral account is equitable as between rate classes.

Response:

If common rates for FEFN are approved, only FEFN's residential customers will see an increase in their bills in 2023 while commercial customers will see a savings. Given the savings already available for the commercial customers due to common rates (i.e., for the average RS 2 small and RS 3 large commercial customer, the forecast savings in 2023 would be $350 and $3,327 per year, respectively), FEI believes it is equitable to prioritize minimizing the impact to FEFN's residential customers by using the 2021 revenue surplus on FEFN's residential customers rather than allocating the 2021 revenue surplus to all rate classes. Applying the revenue surplus to all customer classes would result in even greater savings for FEFN's commercial customers due to common rates but would result in a higher negative impact to FEFN's residential customers.

However, FEI is not opposed to applying the revenue surplus to all customer classes as part of the move to common rates if such an approach is directed by the BCUC.