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December 23, 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 Common Rates

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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 on Common Rates.

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. EXECUTIVE SUMMARY

1.0 Reference: EXECUTIVE SUMMARY

Exhibit B-1 (Application), Sections 1, 4.2.3, pp. 1, 18

Common Rate Benefits

On page 1 of the FortisBC Energy Inc (FEI) Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application), FEI states, “Implementing common delivery and cost of gas rates will provide long-term benefits to Fort Nelson customers, reduce regulatory costs and burden, and achieve greater fairness and consistency of rate treatment across FEI’s service areas.”

On page 18 of the Application, FEI notes that the British Columbia Utilities Commission (BCUC) directed FEI to include the following, among other things, in a discussion of the potential for postage stamping rates in the Fort Nelson service area (FEFN):

- FEI’s assessment of the pros and cons of moving to postage stamp rates in the near future

1.1 Please define what FEI considers to be “long-term.”

Response:

FEI considers that all the benefits of moving to common rates will be realized “in the near future”.

In the sentence from the Executive Summary of the Application referenced in the preamble, “long-term benefits” was referring to providing “long-term rate stability for FEFN customers,” which is one of the four key objectives for common rates as described in Section 5.2.2 of the Application. FEI characterized this benefit as “long-term rate stability” in recognition that by its nature rate stability is something that is realized over years and also to denote that common rates will provide a long-term solution to the rate volatility in FEFN due to its small customer base. In Section 4.3.4 of the Application, the delivery rate volatility of each of FEFN and FEI was assessed over a 10-year timeframe to show that FEI's delivery rates have been much less volatile. With common rates, FEFN customers experience the more stable rates experienced by all of FEI's other customers, and will in this way benefit "in the near future" and over the long term.

1.2 Please clarify and explain whether FEI considers that there are any "short-term" benefits and/or disadvantages to implementing common delivery and cost of gas rates and define what FEI considers to be "short-term."

Response:

As noted in response to BCUC IR1 1.1, FEI considers that all the benefits of moving to common rates will be realized "in the near future". While the concepts of "short-term" and "long-term" are subjective and are dependent on the context in which these terms are used, in this context, FEI generally considers "short-term" to be one to two years.

There are benefits to both FEFN and FEI customers of moving to common rates that will be realized in the short-term. As detailed in Section 5.3 of the Application, moving to common delivery and cost of gas rates will result in immediate and significant bill savings to FEFN's commercial customers (see Table 5-14 for the estimated average 2023 bill impacts, which include an immediate bill savings of $350 for small commercial customers and $3,327 for large commercial customers), as well as the avoidance of the ongoing incremental regulatory costs that are currently borne entirely by Fort Nelson customers. For FEI, the benefits of moving to common rates that will be realized in the short term (and an ongoing basis) are the reduction in regulatory filings, as commencing in 2023 it would no longer be required to prepare and file a separate revenue requirement application, quarterly gas cost reports or an annual report for FEFN, as well as improved fair apportionment of costs for FEI customers.

The only short-term disadvantage of moving to common delivery rates is that FEFN residential customers will experience a larger increase to their delivery rates due to the fact that FEFN residential customer delivery rates are currently lower than FEI residential customer delivery rates. FEI is proposing to mitigate this negative impact through phasing in the move to common delivery rates for FEFN residential customers over ten years and utilizing the 2021 FEFN revenue surplus to partially offset the increase. FEI considers that this short-term disadvantage is outweighed by the benefits of common rates, including the long term rate stability provided to all FEFN customers by common rates.

With regard to common cost of gas rates specifically, FEI does not consider there to be any disadvantages (short-term or long-term) to FEFN customers of its proposal, as FEI has sought to achieve as much alignment with FEI’s gas cost rates as possible without negatively impacting FEFN customers. This is explained in detail in Section 5.3.5 of the Application. The immediate (i.e., “short-term”) benefit to FEI of moving to common cost of gas rates and amalgamating FEI’s and FEFN’s gas cost portfolios is that commencing in 2023 FEI will no longer need to file separate quarterly gas cost reports for FEFN.

B. HISTORY OF FEI AND FEFN AND THE EVOLUTION OF COMMON RATES

2.0 Reference: HISTORY OF FEI AND FEFN AND THE EVOLUTION OF COMMON RATES

Exhibit B-1, Section 3.3.2.3, p. 12; FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy Inc. Fort Nelson Service Area, FortisBC Energy (Whistler) Inc. and FortisBC Energy (Vancouver Island) Inc.) Common Rates, Amalgamation and Rate Design Application Decision and Order G-26-13 dated February 25, 2013, pp. 22, 33

Order G-26-13

On pages 12 and 13 of the Application, FEI explained, in April 2012, FEI and its affiliates filed an application with the BCUC to amalgamate FortisBC Energy (Vancouver Island) Inc., FortisBC Energy (Whistler) Inc. and FEI into a single entity and to implement postage stamp rates across the amalgamated entity (including Fort Nelson). FEI states, by Order G-26-13, that the application for common rates was denied and the BCUC declined to consider the issue of amalgamation. Subsequently, FEI filed an application for reconsideration of Order G-26-13 (excluding Fort Nelson), which the BCUC approved in February 2014 with certain conditions.

On page 22 of the decision issued concurrently with Order G-26-13, the BCUC stated:

> The Panel notes that the existing rates in each region, as approved by the Commission, are, by necessary implication, fair, just and reasonable, and non-discriminatory. The Panel finds that the significant rate reductions proposed for FEVI and FEW at the expense of rate increases for FEI and FEFN highlight the significant degree of cross subsidization which is being proposed through the use of postage stamp rates.

Further, on page 33, the BCUC stated, "In the Panel's view, although the mitigation strategies identified will forestall the rate increases which will be faced by the majority of the FEU's [FortisBC Energy Utilities] customers as a result of postage stamp rates, these strategies do not affect the issue of whether the resulting rate increases are fair in the first instance. In the Panel's view, they are not."

2.1 Given the reasons provided in the decision issued concurrently with Order G-26-13, please comment on whether the BCUC's findings in that decision are still applicable for the current Application. If not, please explain why not.

<u>Response:</u>

The BCUC's findings in the decision issued concurrently with Order G-26-13 are not applicable to this Application.

First, as referenced in the above preamble and described on page 13 of the Application, in Order G-21-14 (Reconsideration Decision) the BCUC approved FEI's application for reconsideration and variance of Decision and Order G-26-13, and approved the amalgamation of FEI, FEVI and FEW and the implementation of common rates. The application for reconsideration was filed by FEI on the basis that the BCUC had erred in law by failing to consider postage stamp rates within the context of an amalgamated utility, amongst other grounds. This is of particular relevance to the current Application, where FEFN is already amalgamated with FEI and the considerations around the adoption of common rates need to take this into account. Of significance, once the BCUC did consider the amalgamation of the three utilities first, and then considered the adoption of postage stamp (or common rates), the BCUC stated the following in the Reconsideration Decision:[1]

> The Panel finds that in the circumstances of this case, **where there is considerable interdependency among the Utilities comprising the FEU**, there is significant judgment required for cost allocation, and there are additional applications made necessary by the existence of three separate utilities, **regulatory efficiency will be improved though both amalgamation and postage stamp rates**. [Emphasis added.]

Further, on page 18 of the Reconsideration Decision, the BCUC stated the following:

> Using the lens of a broader public interest perspective and in light of its conclusion that amalgamation of the FEU is in the public interest, **the Commission Panel is persuaded that postage stamp rates are consistent with regulatory efficiency**. **The Commission Panel also finds that postage stamp rates will promote rate stability over the longer term**, as the issues related to potential future rate shock on Vancouver Island will be eliminated. The Panel further finds that **the ability to allocate all costs over the larger ratepayer base will improve rate stability for ratepayers as whole**, and therefore finds that postage stamp rates are appropriate in this instance. [Emphasis added.]

Second, the BCUC's statements on page 22 of Decision and Order G-26-13, as also referenced in the above preamble, are not relevant due to two factors: (1) the change in circumstances regarding the rate disparities between Fort Nelson and FEI customers; and (2) the current composition of Fort Nelson's revenue requirement as compared to FEVI's revenue requirement at the time of the proposed amalgamation in 2013.

As was shown in Tables 5 through 8 on pages 16 and 17 of the Decision and Order G-26-13, the delivery rate reductions (assuming no phase in period) for FEVI and FEW were as high as 60.8 percent and 73.9 percent, respectively, and the delivery rate increases (assuming no phase in period) for FEI and FEFN were as high as 14.5 percent and 88.1 percent, respectively. In this Application, FEI is proposing to move FEFN to common delivery and cost of gas rates while

[1] In the matter of FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.) Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application Decision and Order G-21-14 dated February 26, 2014, page 16.

maintaining FEFN's midstream rates at a level consistent with what FEFN is currently being charged (Option 4 in the Application). As demonstrated in the responses to BCUC IR1 11.1 and 11.3, unlike in 2013, FEI's proposal will have minimal impact on FEI customers, while FEFN commercial customers will experience a rate decrease and FEFN residential customers will experience a much smaller bill impact compared to 2013 (i.e., 54 percent in 2013 versus 14.9 percent in 2023 without phase-in rider). Further, as shown in Table 4 of the response to BCUC IR1 11.3, with FEI's proposed phase-in rider for FEFN's residential customers, which also includes the use of the deferred 2021 revenue surplus, the immediate impact to FEFN's residential customers when common rates are effective in 2023 can be mostly mitigated and is almost equivalent to the forecast delivery rate impact for FEFN's residential customers under status quo (e.g. average residential bill impact would be $63 under status quo versus $58 under FEI's proposed Option 4 with phase-in rider included).

Third, as FEI has explained in the Application, moving FEFN to common rates would reduce cross-subsidization rather than increasing it. This is in part due to the differences in FEFN's revenue requirement compared to FEVI. FEVI was a separate legal entity from FEI and operated more independently from FEI compared to FEFN. Further, unlike FEFN's O&M, which, as shown in Table 4-1 of the Application is now comprised primarily of the shared service fee received from FEI (62 percent of O&M was attributable to the shared services fee in 2020), FEVI's O&M was primarily comprised of its own (i.e., direct) labour and non-labour costs, with some shared and corporate services allocated to FEVI from FEI and from FortisBC Holdings Inc.[2]

Fourth, FEI does not consider that that the BCUC's statements on page 33 of Decision and Order G-26-13 regarding fairness apply to the current Application. In the paragraph subsequent to the paragraph referenced in the preamble, the BCUC stated the following:

> The Commission Panel finds that the postage stamp rate proposal for the utilities making up the FEU is unfair. The Panel finds that the imposition of postage stamp rates will result in significant cross subsidization of the customers of the newer, maturing utilities (FEVI and FEW) by the customers of FEI and FEFN. Such cross subsidization results in a movement away from the current rates underlying the status quo, which rates have been previously determined to be just and reasonable and not unduly discriminatory, and are based on cost causality.

As this paragraph indicates, the BCUC was referring to the lack of fairness due to cross subsidization of customers of <u>FEVI and FEW</u> by FEI and FEFN, pointing, in part, to the fact that FEVI and FEW were newer, maturing utilities. Conversely, in this Application, as explained above, moving to common delivery and cost of gas rates (i.e., Option 4) will reduce cross-subsidization as opposed to increasing it. Additionally, as noted by the BCUC in Decision and Order G-26-13, FEFN, similar to FEI, is a mature utility, and many of the characteristics identified and discussed by the BCUC in Decision and Order G-26-13, while applicable to FEVI and FEW, are not as applicable to FEFN. The greater degree of alignment between FEI and FEFN was in

[2] E.g., FEVI 2014 RRA, pp. 38-58.

part of what enabled FEI to align FEFN's rate structure with FEI's Mainland and Vancouver Island service area, as approved in the 2016 RDA.[3]

[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).

C. REGULATORY, FINANCIAL AND OPERATIONAL CONTEXT OF FEFN, AND GOVERNMENT POLICY SUPPORTING COMMON RATES

3.0 Reference: FINANCIAL AND OPERATIONAL CONTEXT OF FEFN

Exhibit B1, Section 4.3.2.1, pp. 25, 28, 30; Appendix A2, pp. 3-4; FEI Application for Approval of 2015 and 2016 Revenue Requirements and Rates for the Fort Nelson Service Area (2015-2016 FEFN RRA) proceeding, Exhibit B-4, Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) 6.2, Exhibit B-9, CEC IR 15.1.1

Declines in FEFN's Demand and Forecast Energy Consumption

On page 25 of the Application, FEI states:

> Figure 4-1 below shows the actual demand over the last ten years from 2011 to 2020, and a three-year demand forecast from 2021 to 2023. As shown in Figure 4-1, actual demand has been on a declining trend since 2014 from approximately 645 TJs [terajoules] to 518 TJs by 2020. This is equivalent to a decline of approximately 20 percent at an average rate of approximately 21.2 TJs per year. The demand forecast is expected to continue to decline from 2021 to 2023 at an average rate of 20.3 TJs per year.

3.1 Please clarify whether the above-noted load forecast includes the effects of future carbon tax rates.

3.1.1 If so, please explain the effect carbon taxes may have on future demand from FEFN customers and FEFN's load profile.

3.1.2 If not, please explain why carbon taxes are not factored into FEFN's load forecast.

Response:

The historical data used to develop the forecast intrinsically contains both the level and the trend for the carbon tax and all other load drivers. The ETS forecast (or any time series method) implicitly assumes that the carbon tax and all other drivers will continue on the trajectory they are on now.

Impacts from incremental changes to the carbon tax that are inconsistent with past trends (i.e., changing more quickly) are not included in the forecast. This approach is consistent with FEI's accepted approach to shorter term forecasting of load for the purposes of revenue requirements, and is therefore appropriate for the purposes of FEI's forecast for 2022 and 2023, as referenced in the preamble.

As was discussed in IR responses in FEI's Revelstoke Propane Portfolio Cost Commodity application, in general, third party price elasticity studies have shown that gas consumers, particularly residential customers, have low price elasticity of demand, meaning that the demand for natural gas does not significantly change with the changes in price level. A level of price inelasticity is consistent with utility service where customer needs cannot be easily substituted. Studies to date have not studied the impact of carbon taxes specifically, which may have a different impact due to the environmental message carbon taxes provide.

3.2 Please comment on whether FEI will be able to better serve FEFN customers through common rates, as opposed to the status quo, in a decarbonized environment.

Response:

FEFN customers will be better served under common rates, as opposed to the status quo, in a decarbonized environment. As between FEI and FEFN, FEI is more capable of: (i) absorbing the impact due to declining demand; (ii) attracting offsetting revenues from alternative markets; and (iii) introducing and implementing clean growth initiatives that will enable the utility to remain viable in a decarbonized environment. FEI further explains each below.

First, with a customer base of over one million versus FEFN's customer base of approximately 2,300, FEI is more capable of absorbing the impact of declining traditional customer demand (i.e., residential, commercial and industrial buildings) under a decarbonized environment. As discussed in Section 4.3.2.3 of the Application, FEFN's energy demand has been on a continuous decline since 2014, and between 2014 and 2020 the actual energy demand in FEFN was reduced by approximately 127 TJ or approximately 20 percent. In contrast, FEI's demand has been increasing annually.

Second, FEI is expecting continued growth in LNG demand both within BC and internationally for replacing other higher carbon fuels. Therefore, FEI is expecting that the revenues from FEI's existing LNG service offering under Rate Schedule (RS) 46 will continue to grow, which will help to offset the impact of a decline in demand from traditional natural gas customers. For illustrative purposes only, FEI's 2020 actual margin recovered under RS 46 LNG service is approximately \$8.7 million, which is approximately \$6.2 million higher than FEFN's 2022 proposed total delivery margin of \$2.517 million. Without common rates, FEFN would not have access to offsetting revenues such as LNG service under RS 46 that would help to mitigate the future delivery rate impact due to the decline of traditional customer demand under a decarbonized environment.

Finally, FEI is actively developing clean growth initiatives, such as renewable natural gas and hydrogen, which are required for a gas utility to reduce GHG emissions and meet government policies under a decarbonized environment. The requirements to reduce GHG emissions apply equally to FEFN as to the rest of FEI. Without common rates, FEFN's small customer base of approximately 2,300 would have to fund an allocation of FEI's total GHG reductions or fund projects in FEFN to reduce emissions to meet the requirements of a future decarbonized environment, which would be expected to cause large rate impacts to FEFN. On the other hand, with common rates, the costs of these clean growth initiatives will be shared by a much larger customer base, including FEFN's customers.

Due to FEI's size and the steps it is taking as part of its 30by30 plan, FEI is in a much better position than FEFN as a standalone service area to transition to a decarbonized environment and to provide customers with a range of options to meet their needs in the future. FEI recently filed its Comprehensive Review and Application for a Revised Renewable Gas Program application. Currently, these proposed Renewable Gas Program tariffs would not be available to the Fort Nelson service area, but adoption of common rates would allow Fort Nelson customers to benefit from these offerings as well.

3.3 Please provide a 10-year FEFN demand forecast and customer count forecast, commencing in 2021 and categorized by Rate Schedule 1, 2 and 3 customers.

3.3.1 Please explain how the above noted forecasts support a move by FEFN customers to common rates.

<u>Response:</u>

The following table shows the FEFN forecast extended to 2030. As the table below shows, FEFN demand and number of customers are forecast to continue to decline annually over the 10-year period to 2030. This continued decline supports a move by FEFN customers to common rates. If rates for FEFN continue to be set separately from the larger FEI service area, the costs to operate and maintain the FEFN system, which are likely to increase as opposed to decrease as the system continues to age, will need to be recovered from a declining customer base. This will result in an increased cost per customer and larger delivery rate increases for the remaining customers on the FEFN system.

Fort Nelson										
Customers	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
RS 1	1,866	1,853	1,841	1,829	1,819	1,809	1,799	1,790	1,781	1,773
RS 2	449	445	442	439	435	432	429	425	422	419
RS 3	15	13	12	11	9	8	7	5	4	3
Customer Total	**2,329**	**2,311**	**2,295**	**2,279**	**2,263**	**2,249**	**2,235**	**2,221**	**2,207**	**2,194**
Demand (TJ)										
RS 1	238	234	230	226	222	218	214	211	207	204
RS 2	157	150	143	136	129	122	115	108	101	95
RS 3	96	87	78	70	61	53	44	36	27	19
Demand Total	**491**	**471**	**451**	**431**	**412**	**392**	**373**	**354**	**336**	**317**

On page 28 of the Application, FEI states:

> As shown in the figure below, the Fort Nelson aggregate customer count peaked in 2015 at 2,446 customers. However, since 2015, FEFN has been experiencing a continuous declining trend in customer count at an average rate of approximately 20 customers per year to 2,348 in 2020. This decline is expected to continue at an average rate of approximately 17 customers per year.

3.4 Please explain, to the best of FEI's knowledge, the reasons for the decline in FEFN's aggregate customer count since 2015.

Response:

FEI believes that the continuing economic decline in sectors such as wood products and gas production, which in some cases started before 2015, has led to both reduced population and customer counts. For example, Fort Nelson's population was 3,561 in the 2011 Census but declined to 3,366 in the 2016 Census.[4]

On page 4 of Appendix A2 to the Application, in Table A2-3 FEI provides the percent error in FEFN demand variances for the years 2011 through 2020 for each of its rate classes.

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[4] https://www12-2021.statcan.gc.ca/census-recensement/2016/dp-pd/prof/details/page.cfm?Lang=E&Geo1=POPC&Code1=0293&Geo2=PR&Code2=59&SearchText=Fort%20Nelson&SearchType=Begins&SearchPR=01&B1=All&TABID=1&type=0

The Percent Error for Rate Schedule 2.2/3 – Small Commercial ranges from -119.4% to +25.4% with values of 13.3% in 2019 and +25.4% in 2020.

On page 3 of Appendix A2, FEI states, "Percent error is the difference between the actual demand and the forecast demand, divided by the actual demand in a given year…"

3.5 Please explain the reasons for the large fluctuations in forecast versus actual demand for Rate Schedule 2.2/3 - Small Commercial for the years 2011 through 2020 in terms that do not reference how the percent error is calculated (i.e., was there a large influx of businesses during those years or a decrease in businesses).

Response:

There was a typographical error in the columns for 2011 to 2018 in the final two rows for Rate Schedule (RS) 3 in Table A2-5: FEFN Customer Variances. The corrections are shaded yellow in the following table:

Rate Schedule 3- Small Commercial	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast Rate Schedule 2.2	28	28	28	32	33	34	7	7		
Forecast Rate Schedule 3									19	19
Actual Rate Schedule 2.2	31	31	31	31	7	7	6	4		
Actual Rate Schedule 3									14	17
Error = (ACT-FCST)	3	3	3	(1)	(26)	(27)	(1)	(3)	(5)	(2)
Percent Error = (Error/ACT)	9.7%	9.7%	9.7%	-3.2%	-371.4%	-385.7%	-16.7%	-75.0%	-35.7%	-11.8%

For convenience, the RS 2.2/3 Demand Variances section from Table A2-3 is reproduced below.

Rate Schedule 2.2/3 - Small Commercial	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Forecast Rate Schedule 2.2	94,774	101,063	104,320	109,660	115,656	120,843	56,570	56,722		
Forecast Rate Schedule 3									61,061	53,232
Actual Rate Schedule 2.2	96,842	100,065	109,821	106,168	64,924	55,081	48,357	41,919		
Actual Rate Schedule 3									70,419	71,320
Error = (ACT-FCST)	2,068	(998)	5,502	(3,492)	(50,732)	(65,762)	(8,213)	(14,804)	9,358	18,088
Percent Error = (Error/ACT)	2.1%	-1.0%	5.0%	-3.3%	-78.1%	-119.4%	-17.0%	-35.3%	13.3%	25.4%

Fluctuations in RS 2.2/3 demand from 2011 through 2014 are all five percent or less, which is reasonable for a small rate class of commercial customers.

In 2015, 24 of the 31 RS 2.2 customers switched mid-year to RS 2.1. The forecast for 2015 and 2016 was developed in 2014 using 2013 actuals. The movement of 24 customers to RS 2.1 resulted in a lower actual volume for RS 2.2 in 2015 and 2016 and the high variances shown in Table A2-3.

In 2017, the UPC variance was very low, but the actual customer count was one less than forecast (6 vs 7) and, as a result, the demand forecast variance was -17.0 percent.

In 2018, the customer count was forecast to remain constant at seven customers, but the actual customer count dropped by three customers, leading to the variance.

The forecasts for 2019 and 2020 were created after the implementation of the FEI 2016 Rate Design Application (RDA) Decision[5] which aligned FEFN RS 2.1 and 2.2 with FEI RS 2 and 3. To prepare the 2019-2020 forecast, FEI mapped each commercial premise to RS 2 or RS 3 based on their historical demand. (Please refer to the response to BCUC IR1 3.1 in the RRA portion of this proceeding for further information). Additional rate switching was later required to move some customers to RS 2 because annual volumes were not sufficient to remain in RS 3. The movement resulted in demand variances in 2019 and 2020.

Given all of these factors, there is no discernable trend to explain. FEI believes that rate switching activity will subside and also notes that it is now using the ETS method to forecast use rates, which has been shown to improve the forecasting accuracy for use rates. All else equal, these two factors are expected to result in lower future variances and a return to the stability and performance observed in 2011 through 2014.

3.6 Please explain whether the percent error for 2019 and 2020 represents a trend that is expected to continue for future years.

Response:

Please refer to the response to BCUC IR1 3.5.

3.7 Please explain the forecast percent error Rate Schedule 2.2/3 - Small Commercial for 2021 and whether the percent error is expected to continue to increase in future years.

Response:

FEI is unable to speculate on the 2021 demand variance for Rate Schedule 2.2/3 because demand variances for 2021 will not be available until early in 2022.

[5] 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).

On page 30 of the Application, FEI states:

> The decline in FEFN's energy demand over the recent years has contributed to the increase in delivery rates. As shown in Figure 4-1 in Section 4.3.2.1, the total energy demand in FEFN peaked at approximately 645 TJs in 2014 but has been on a continuous decline since then. Between 2014 and 2020, the actual energy demand in FEFN was reduced by 127 TJs which is approximately 20 percent or 21 TJs per year, and this decline is forecast to continue.

3.8 Please explain whether there are any circumstances under which energy demand for FEFN may increase. For example, is FEFN's energy demand decline related to forecasts of prices in the energy sector?

Response:

Energy demand is a product of customers and use per customer (UPC). Energy demand in FEFN will only increase if both of these components increase, or if one increases without an offsetting decline in the other.

At this time it does not appear that customer totals will increase significantly due to the general economic decline in the region. Additionally, use rates are expected to continue to decline as a result of the use of more energy efficient equipment, and the fact there are no industrial customers in Fort Nelson.

To the extent that energy prices reflect overall economic activity in the region, there can be a correlation with FEFN's energy demand.

In response to Commercial Energy Consumers Association of British Columbia (CEC) IR 6.2 in the 2015-2016 FEFN RRA proceeding, FEI stated:

> FEI is aware that there is potential for development in the Horn River Basin over the next five years and FEI believes it is a reasonable assumption that long term growth in Fort Nelson may be partially tied to this development.
>
> It is FEI's understanding, however, that there is still some uncertainty around the degree and timing of this growth, particularly within the short term. The Conference Board of Canada (CBOC), for example, published an article in The Province newspaper on April 24, 2014, and stated that they, "expect Canadian gas production to begin rising again by the end of this decade".

> FEI has not applied any incremental adjustments to its customer additions forecast to reflect the potential development in the Horn River Basin for 2015 and 2016. Consistent with past practice and other FEI service territories, residential customer growth in FEFN is forecast based on the provincial housing starts forecast from the CBOC. As a result, the FEFN forecast of residential additions considers development in the Horn River Basin to the same extent that the CBOC forecast considers development in the Horn River Basin. FEI is unable to determine what assumptions around development in the Horn River Basin, if any, are embedded in the CBOC forecast and thus embedded in the forecast of residential customer additions.

In response to CEC IR 15.1.1 in the 2015-2016 FEFN RRA proceeding, FEI stated:

> When the development of the Horn River Basin becomes more certain, FEI expects that the CBOC [Conference Board of Canada] will incorporate the impact into their forecast, which will then be used in FEI's forecast of customer additions.

3.9 Please provide an update on the development of the Horn River Basin, including FEI's short- and long-term (i.e., 5 years and 10-15 years) expectations in relation to the Horn River Basin development at this time.

3.9.1 Please explain whether the CBOC has now incorporated the impact of the development of the Horn River Basin into its forecast and is therefore incorporated into the FEFN forecast of customer additions.

Response:

Nothing substantial has occurred in the Horn River Basin development in terms of further supply development since 2015. Horn River gas is "dry" and uneconomic to develop given the low commodity prices experienced before 2015 and since. The current run-up in commodity prices will need to be longer lived and viewed as sustainable before producers commit capital to develop anything further. Based on the current outlook, FEI does not expect the Horn River Basin development to impact energy demand in FEFN in the next 15 years.

FEFN faces the risk that the Fort Nelson gas plant may shut down because the plant is fed by dry gas, and volumes processed at the plant have fallen off significantly, which has made operating the plant less economical. FEI is working with stakeholders to ensure sufficient supply to the town of Fort Nelson in the event the Fort Nelson gas plant shuts down in the future.

FEI remains unable to determine what assumptions around development in the Horn River Basin, if any, are embedded in the Conference Board of Canada (CBOC) forecast and thus embedded in the forecast of residential customer additions. Based on current conditions it is unlikely that the limited development prospects in the Horn River would have a significant impact on the CBOC forecast or the FEFN customer count.

3.10 Please discuss whether FEI expects the Horn River development to impact FEFN's energy demand in the next 5 to 10 years.

3.10.1 If yes, please discuss the extent to which this could potentially reverse the declining trend in FEFN's energy demand.

Response:

Please refer to the response to BCUC IR1 3.9.

4.0 Reference: FINANCIAL AND OPERATIONAL CONTEXT OF FEFN

Exhibit B-1, Section 4.3.3, pp. 31-33, Tables 4-4 and 4-5

Historical Significant Capital Projects

On page 32 of the Application, FEI provides Tables 4-4 and 4-5 (reproduced below) as follows:

Table 4-4: Historical Capital Additions ($000s)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Intangibles	-	-	63	75	70	-	74	27	26	45
Transmission	84	8	20	84	4,475	239	54	193	23	-
Distribution	314	77	230	308	241	581	302	350	505	161
General Plant/Other	3	41	75	54	40	182	50	23	24	27
Total	401	126	388	521	4,826	1,002	480	593	578	233

Table 4-5: Historical Significant Capital Projects ($000s)

	2015	2016	2017	2018	2019	2020
Transmission System						
Fort Nelson Lateral - Muskwa River Crossing CPCN	$ 4,187	$ 10				
Fort Nelson Lateral - Creek Crossing Protection	30	45	7			
Fort Nelson Lateral - New Raven Crescent Road Crossing		161				
Fort Nelson Lateral and Loop - Crossover Valves Upgrade	250	23				
Fort Nelson Loop - Valve Replacement FN28				193	14	
Subtotal	$ 4,468	$ 239	$ 7	$ 193	$ 14	$ -
Distribution System						
Fort Nelson Gate Station - Pressure Control Upgrade	$ 41	$ 74				
Fort Nelson Gate Station - Electrical and Telemetry Upgrade		165				
Muskwa Gate Station - Line Heater, Telemetry, and Electric Upgrade					241	9
Main Replacements/Renewal Program			171	272	196	56
Subtotal	$ 41	$ 240	$ 171	$ 272	$ 436	$ 64
Total	$ 4,509	$ 479	$ 178	$ 465	$ 450	$ 64

Further, on page 32, FEI states that the most significant sustainment capital project was the Muskwa River Crossing Certificate of Public Convenience and Necessity (CPCN), which was approved by Order C-2-14.

4.1 Please clarify whether the amounts show on Table 4-5 are the historical capital additions or the historical capital expenditures for significant sustainment capital projects undertaken in FEFN in each year since 2015.

Response:

The amounts shown in Table 4-5 are historical capital additions for projects undertaken in FEFN since 2015.

4.2 Given the amounts shown in Tables 4-4 and 4-5, please discuss the extent to which the Muskwa River Crossing CPCN and the associated costs may be considered an "outlier" which is not representative of future expected significant capital projects in FEFN.

Response:

FEI does not consider the Muskwa River Crossing CPCN and its associated costs to be an "outlier", as a project of similar cost of the Muskwa River Crossing CPCN could occur in FEFN in the future.

The list of historical projects and expenditures included in Tables 4-4 and 4-5 shows the range of projects that have occurred within the FEFN service area and are representative of the projects that FEFN could face in the future. While FEI currently does not have plans in the next 10 years for a capital project within the FEFN service area that would be of similar cost as the Muskwa River Crossing CPCN, FEI is not able to foresee the need for all projects over a 10-year period and it is reasonable to expect that a project of similar cost as the Muskwa River Crossing CPCN could be necessary in the future, especially when considering the advancing age of the system and the increased frequency of extreme weather events as experienced recently in BC. For example, the Muskwa River Crossing CPCN was necessary due to erosion caused by high water flows which put the pipeline at risk of damage from debris. For similar reasons related to integrity and safety, and to ensure continuous and reliable service to FEFN's customers, projects the size of the Muskwa River Crossing CPCN could occur in the future.

As shown in the response to BCUC IR1 4.3, even with the capital additions associated with the Muskwa River Crossing CPCN excluded, the cumulative capital additions between 2011 and 2020 were approximately $4.95 million, which resulted in a cumulative delivery rate impact to FEFN from capital additions alone of 22.8 percent or an average of 2.3 percent per year.

On page 33 of the Application, FEI states that Figure 4.8 shows the delivery rate impact in percentage terms due to all capital additions in FEFN between 2011 and 2020. The cumulative capital additions since 2011 are approximately $9.15 million which resulted in a cumulative delivery rate impact of approximately 43 percent, or an average of approximately 4.3 percent per year.

4.3 Please provide a revised Figure 4.8 and the following information excluding the Muskwa River Crossing CPCN:

(i) Cumulative capital additions since 2011

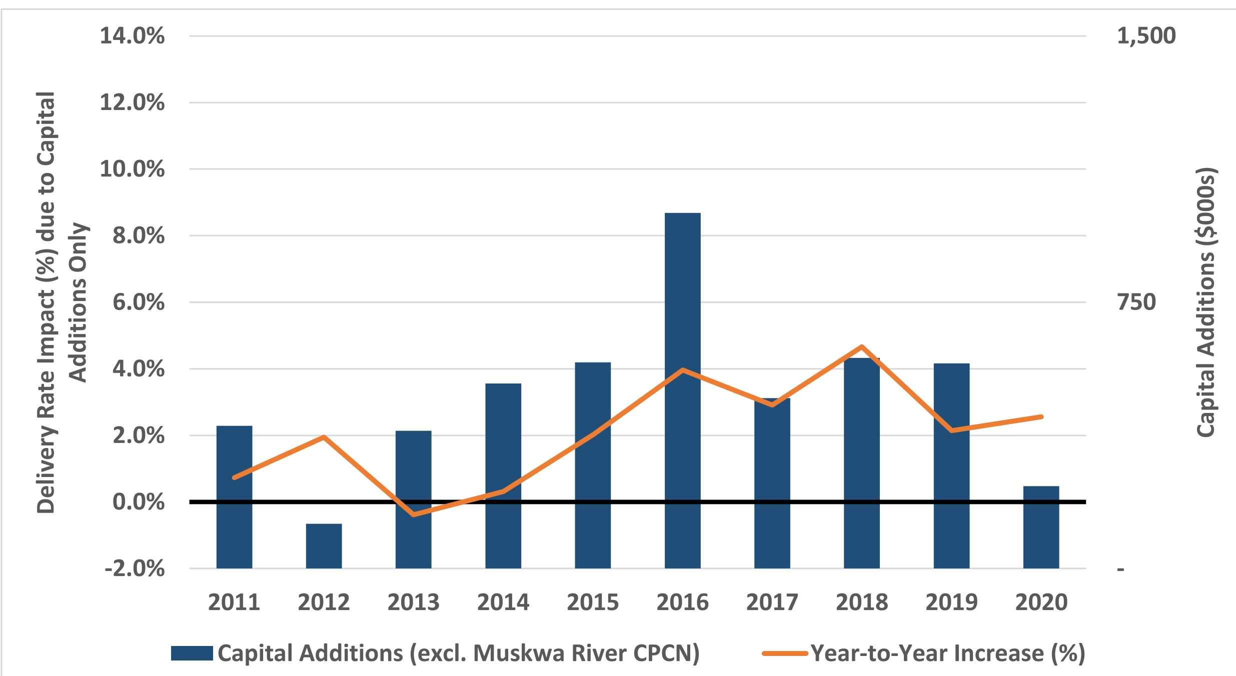
(ii) Cumulative delivery rate impact of capital additions since 2011; and

(iii) Average delivery rate impact of capital additions since 2011.

Response:

For the reasons discussed in response to BCUC IR1 4.2, it is not appropriate to exclude the costs of the Muskwa River Crossing CPCN when considering the potential capital costs that FEFN could face in the future. Nevertheless, FEI has prepared the requested information and provides it below.

Please refer to the revised Figure 4-8 below which shows the delivery rate impact in percentage due to capital additions in FEFN between 2011 and 2020, excluding the Muskwa River Crossing CPCN. The cumulative capital additions since 2011, excluding the Muskwa River Crossing CPCN, are approximately $4.95 million, which resulted in a cumulative delivery rate impact of approximately 22.8 percent, or an average of approximately 2.3 percent per year between 2011 and 2020. For comparison purposes, capital additions of $4.95 million to FEI's rate base have an equivalent delivery rate impact for FEI of approximately 0.045 percent over a single year instead of the 2.3 percent per year over a 10-year period (22.8 percent cumulative) for FEFN.



5.0 Reference: FINANCIAL AND OPERATIONAL CONTEXT OF FEFN

Exhibit B-1, Section 4.3.3.2, pp. 34–35

Forecast Capital Additions

On page 34 of the Application, FEI states, "It is likely that the need for future projects will arise in the upcoming years beyond 2023 as well as additional projects to those identified in Table 4-6 above" and includes a list of examples of such work on pages 34 to 35.

FEI further states, on page 35, "In summary, FEI expects similar levels of capital additions will continue in the FEFN service areas and these additions will increase delivery rates for FEFN customers."

5.1 With respect to the statement on page 35 of the Application that "similar" levels of capital additions are expected, and with consideration of the historic capital additions presented in Tables 4-4 and 4-6, please provide the estimated range of annual forecast capital additions for the FEFN service area beyond 2023. Please include the basis of the estimate, specifically whether it is based on historic trends presented in Tables 4-4 and 4-6.

Response:

FEI provides the following information regarding its high level estimates of capital spending over the ten years following 2023; however, these estimates are based on a number of assumptions and expectations which are likely to change and evolve over time. It is difficult to accurately predict the level of capital additions required beyond the next few years as the capital requirements are dependent on the continuous observation of the conditions of the assets, as well as third party activities such as local developments and the potential of line damages.

For the Intangible Plant and the General Plant assets, which are mostly related to the allocation of costs from FEI's computer system software as well as other hardware and software costs, FEI expects the capital additions over the 10 years following 2023 would be similar to recent years, which are approximately $40 thousand per year for Intangible Plant and $50 thousand per year for General Plant assets.

For the transmission and distribution assets, based on FEI's historical work within the FEFN service area, FEI's understanding of the condition of FEFN's assets, and similarities between the FEI and FEFN systems, FEI expects that capital additions for six of the ten years after 2023 will be in the range of $100 thousand per year and that four of the ten years will experience higher costs in the range of $350 thousand. FEI expects that the higher costs in 4 of the years would be driven by larger projects in the range of $250 thousand due to factors such as unplanned failures, substandard operation of equipment, or third party activities that could result in unplanned and unscheduled repairs or replacement.

The above high level estimate for distribution assets does not include growth-related capital additions for new customer connections or the Advanced Metering Infrastructure (AMI) project that is part of FEI's AMI CPCN Application currently under review with the BCUC. For growth-related distribution capital additions, FEI expects capital additions to be similar to recent years (i.e., approximately $14 thousand per year). With respect to the AMI project, as per the AMI CPCN Application, FEI forecasts approximately $1.2 million of incremental capital additions to occur during the deployment stage between 2022 and 2026.

Please refer to the table below which summarizes the range of capital additions and the associated incremental delivery rate impact (when compared to the forecast 2022 delivery margin) that could occur for FEFN over a 10-year period after 2023. Based on FEI's historical work within the FEFN service area and recent level of capital additions, excluding the AMI Project, the lower end of the total capital additions would be approximately $204 thousand per year and the upper end would be approximately $454 thousand per year. If the AMI Project is included, the capital additions would be approximately $1.654 million in the year in which the majority of the AMI assets enter FEFN's rate base.

($000s)	Lower End (Years with typical transmission and distribution capital additions, excl. AMI)	Upper End (Years with significant projects for transmission and distribution, excl. AMI)	Upper End Years with AMI
Intangible Plant	$ 40	$ 40	$ 40
Transmission and Distribution Plant	100	350	350
Distribution Plant - Growth-Related	14	14	14
General Plant	50	50	50
AMI	-	-	1,200
Total ($000s)	**$ 204**	**$ 454**	**$ 1,654**
Incremental Delivery Rate Impact (%) - Compared to 2022	1.1%	1.8%	6.9%

5.2 To the extent possible, please provide a high-level cost estimate and delivery rate impact for FEFN for the list of projects included on pages 34 to 35.

Response:

The projects listed on pages 34 and 35 of the Application are only examples of the more significant work that FEI expects to occur over the next ten years. The actual work that will occur is not limited to this list and will largely depend on the actual condition of the assets each year as well as any third party activities/development within the FEFN service area.

Please refer to the table below for the high level cost estimates for the list of potential work included on pages 34 and 35 of the Application and the associated delivery rate impact when compared to the proposed 2022 forecast delivery rates. The cost estimates are high level and are based on FEI's historical experience with similar work. For the AMI Project for FEFN, the cost estimates are those that were included as part of FEI's AMI CPCN Application.

The cost estimates in the table below are part of the high level forecast capital additions in the response to BCUC IR1 5.1. However, the example of work and the high level costs listed in the table below are provided on a per project basis, whereas the costs provided in the table in BCUC IR1 5.1 are provided on an annual basis. With regard to the projects in the table below, FEI would divide the work into multiple projects over multiple years based on resource availability and conditions of the assets. Therefore, the incremental delivery rate impact shown in the table below might occur over a single year or multiple years.

FEI also notes that, although it is not a capital project or capital addition at this time, the final costs incurred for the FN Right-of-Way Agreement currently being captured in a deferral account as discussed in BCUC IR1 28.1, will be added to rate base once the agreement is finalized. If FEFN remains as a separate service area from FEI, FEFN will bear all the costs in this deferral account instead of sharing the costs with FEI customers if common rates is approved. Currently, the FN Right-of-Way Agreement deferral account has a forecast balance of $164 thousand[6] at the end of 2022; however, as negotiations with the Fort Nelson First Nation (FNFN) are ongoing, the final costs are unknown at this time. As discussed in previous RRAs[7], the final total cost is forecast to be approximately $400 thousand.

Example of Work	Assumptions	High Level Total Cost Estimates ($000s)	Estimated Incremental Delivery Rate Impact (%) - Compared to 2022
Replacement of transmission pipeline valves	Approx. 8 valves to be replaced. Assume $150k to replace 2 valves per project (i.e. total of 4 projects to replace all 8 valves)	600	1.8%
Replacement of telemetry components	$35k per telemetry upgrade, 2 sites over next 10 years	70	0.2%
New road crossings of transmission pipeline	$150k per new road due to third party request, assume 1 over next 10 years	150	0.4%
AMI Project	FEI's AMI CPCN Application	1,200	5.0%

6 Appendix F-1, Schedule 9, Line 8, Column 9.
7 E.g. FEFN 2019-2020 RRA, Section 8.4.2.1, page 53.

6.0 Reference: FINANCIAL AND OPERATIONAL CONTEXT OF FEFN

Exhibit B-1, Section 8.3, p. 88

Sensitivity Analysis for FEFN Load

On page 88 of the Application, FEI states that it is forecasting a total normalized demand of 471.2 TJs for 2022.

6.1 Please provide a sensitivity analysis to demonstrate the impact of each of a +/- 10 percent and a +/- 25 percent variance in actual versus forecast demand on FEFN's 2022 revenue requirements, revenue surplus/deficiency and delivery rates, assuming all else is equal. Please explain all inputs and assumptions made.

Response:

Variances in demand between actual and forecast due to changes in use rates of FEFN's customers (RS 1, 2, and 3) are captured in the RSAM deferral account and returned to/recovered from FEFN customers through the RSAM rate rider with amortization over a two-year period. Therefore, variances in the 2022 demand between actual and forecast due to changes in use rates will not impact the 2022 revenue requirement and the forecast 2022 delivery rates. Accordingly, FEI interprets this information request as seeking a sensitivity analysis of the impact on the forecast 2022 revenue requirement, revenue deficiency/surplus and delivery rates of varying the existing 2022 FEFN demand forecast by +/- 10 percent and +/- 25 percent.

The table below shows the 2022 delivery margin at existing 2021 delivery rates, the 2022 delivery margin required, the surplus/deficiency and the 2022 delivery rate increases in percentage for the requested demand scenario of +/- 10 percent and +/- 25 percent of the 2022 demand forecast included in the Application.

FEI does not have any evidence to support the demand scenarios suggested by this information request. As shown in Appendix A2 of the Application, the highest year-to-year variation in FEFN's actual demand from 2011 to 2020 was -6.5 percent with the absolute average being approximately 2.8 percent. The largest variance between actual and forecast was -12.5 percent in 2016, but as discussed in the response to BCUC IR1 5.2 in the FEFN 2022 RRA portion of the Application, the large variance in 2016 (as well as 2015) was due to a significant number of customers switching between RS 2.1 and 2.2. Excluding the variances in 2015 and 2016, the variances between actual and forecast demand between 2011 and 2020 ranged from -0.4 percent to 6.9 percent, with the absolute average over the 10-year period being 3.3 percent (excluding 2015 and 2016). Based on historical demand and trends from FEFN, the demand scenarios suggested by this information request are not reasonable.

Demand Scenarios	-25%	-10%	0% (As Filed)	+10%	+25%
2022 Demand Forecast (TJ)	353	424	471	518	589
2022 Margin @ Existing Rate ($000s)	1,942	2,237	2,434	2,630	2,925
2022 Margin Required ($000s)	2,517	2,517	2,517	2,517	2,517
Deficiency/(Surplus)	575	280	83	(113)	(408)
2022 Delivery Rate Increase (%)	29.62%	12.52%	3.41%	-4.31%	-13.96%

6.2 Please provide a sensitivity analysis of the 2023 bill impact resulting from a +/- 10 percent and +/- 25 percent change in FEFN's load forecast for each customer class for common rates Options 1 to 4.

6.2.1 For Option 4, please provide an additional sensitivity analysis based on the above parameters, including consideration of the proposed residential phase-in rate rider.

Response:

Table 1 below shows the 2023 delivery margin at existing 2021 delivery rates, the 2023 delivery margin required, the surplus/deficiency, and the 2023 delivery rate increases in percentage (from both 2021 and 2022) for the requested demand scenarios of +/- 10 percent and +/- 25 percent of the 2023 demand forecast as included in the Application.

Table 2 below shows the average 2023 bill impact and the average incremental 2023 bill impact due to common rates only under Options 1 to 4 (and with the proposed FEFN Residential 10-year Phase-in Credit Rider under Option 4) for each customer class based on the estimated 2023 delivery rate increases per Table 1 under the different demand scenarios requested. As discussed in the response to BCUC IR1 6.1, based on historical demand and trends from FEFN, there is no evidence to suggest that the demand scenarios suggested by this information request are reasonable.

As shown in Table 2 below, under all demand scenarios, the 2023 bill impacts to FEFN's residential customers under Option 4 with the proposed FEFN Residential 10-year Phase-in Credit Rider are almost identical to the Status Quo. For example, under the demand scenario as filed in the Application (i.e., 0 percent in Table 2), the 2023 bill impact for FEFN's residential customers under the status quo is estimated to be $63 for the average FEFN residential customer (with average demand of 125 GJ per year), compared to $58 under common rates with Option 4 with the 10-year phase-in credit rider included.

Table 1: Summary of 2023 Delivery Rate Increases under Different Demand Scenarios

Demand Scenarios	-25%	-10%	0% (As Filed)	+10%	+25%
2023 Demand Forecast (TJ)	338	406	451	496	564
2023 Margin @ Existing 2021 Rate ($000s)	1,875	2,157	2,345	2,534	2,817
2023 Margin Required ($000s)	2,652	2,652	2,652	2,652	2,652
Deficiency/(Surplus)	777	495	307	118	(165)
2022 Delivery Rate Increase (BCUC IR1 6.1)	29.62%	12.52%	3.41%	-4.31%	-13.96%
2023 Delivery Rate Increase (%) - Compared to 2021	41.46%	22.93%	13.09%	4.65%	-5.85%
2023 Delivery Rate Increase (%)	11.84%	10.41%	9.68%	8.96%	8.11%

1 **Table 2: Average 2023 Bill Impact to Common Rates under Different Demand Scenarios**

Demand Scenarios	-25%	-10%	0% (As Filed)	+10%	+25%
2023 Bill Impact - Average Customer ($)					
Residential (RS 1)					
Option 1 - Status Quo	84	70	63	57	50
Option 2 - Common Delivery Only	58	177	237	286	344
Option 3 - Full Common Rates	213	333	392	441	500
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	41	161	220	269	328
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	51	56	58	60	62
Small Commercial (RS 2)					
Option 1 - Status Quo	252	210	191	172	151
Option 2 - Common Delivery Only	(636)	(289)	(115)	26	197
Option 3 - Full Common Rates	(212)	135	309	450	620
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(680)	(333)	(159)	(18)	152
Large Commercial (RS 3)					
Option 1 - Status Quo	3,283	2,741	2,486	2,244	1,970
Option 2 - Common Delivery Only	(8,459)	(2,824)	26	2,295	5,056
Option 3 - Full Common Rates	(1,867)	3,768	6,618	8,887	11,648
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(9,326)	(3,691)	(841)	1,428	4,189
Incremental 2023 Bill Impact due to Common Rates Only ($)					
Residential (RS 1)					
Option 1 - Status Quo	-	-	-	-	-
Option 2 - Common Delivery Only	(26)	107	174	228	294
Option 3 - Full Common Rates	129	263	329	384	449
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(43)	91	157	212	277
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	(32)	(14)	(5)	3	12
Small Commercial (RS 2)					
Option 1 - Status Quo	-	-	-	-	-
Option 2 - Common Delivery Only	(888)	(499)	(305)	(146)	45
Option 3 - Full Common Rates	(464)	(75)	118	278	469
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(932)	(544)	(350)	(190)	1
Large Commercial (RS 3)					
Option 1 - Status Quo	-	-	-	-	-
Option 2 - Common Delivery Only	(11,742)	(5,565)	(2,460)	51	3,086
Option 3 - Full Common Rates	(5,151)	1,027	4,131	6,643	9,678
2 Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(12,609)	(6,432)	(3,327)	(816)	2,219

3

D. REVIEW OF COMMON RATE OPTIONS

7.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 1, 5.2, pp. 1, 39

Common Rates Objectives

On page 39 of the Application, FEI states that it developed the following four key objectives for evaluating its common rates options (Objectives):

- Eliminate the regulatory cost and burden associated with separate regulatory filings for FEFN, including the costs and time related to public hearing processes;
- Provide long-term rate stability for FEFN customers;
- Achieve fairness across all FEI service areas by aligning FEFN rates with the rest of FEI's service areas; and
- Mitigating significant rate increases for FEFN customers that may result from the adoption of common rates.

On page 1 of the Application, FEI states that the Application for common delivery and cost of gas rates is filed pursuant to section 59 to 61 of the *Utilities Commission Act* (UCA).

7.1 Please clarify whether FEI's evaluation of the common rates options for each Objective was from the perspective of FEFN customers or both FEI and FEFN customers.

Response:

When developing the Objectives, FEI considered the impact of each common rate option on FEFN and FEI and sought to achieve the best solution for both service areas, recognizing that none of the options, including the status quo, perfectly meet the Objectives or benefit all FEFN and FEI customers equally.

Eliminating the regulatory cost and burden associated with separate regulatory filings for FEFN primarily benefits FEFN customers; however, there is an indirect benefit to FEI customers as well. The direct benefit from FEFN's perspective of achieving this objective is that the costs of regulatory filings which, as was shown in Table 5-1 of the Application can be significant, would no longer be borne solely by the small FEFN customer base. Please also refer to the response to BCUC IR1 8.6 for additional discussion of the benefit of this Objective to FEFN customers. The indirect benefit to FEI customers from achieving this Objective is that efficiencies could be gained within the Company by FEI staff no longer expending time and effort on the various FEFN-specific regulatory filings. As explained in the Application, elimination of the FEFN-specific regulatory filings would streamline certain processes internally and allow staff more time to spend on their core functions, particularly in areas such as regulatory, finance and accounting. Therefore, FEI considers this Objective to be relevant to both FEI and FEFN customers.

The Objective of providing long-term rate stability for FEFN customers is, as the wording indicates, an objective focused on FEFN customers and is a key driver of the Proposed Common Rate Option. However, achieving this Objective through the Proposed Common Rate Option has a neutral impact on FEI customers, as the inclusion of the small FEFN customer base in FEI (i.e., approximately 2,300 FEFN customers compared to over 1,000,000 FEI customers) has zero impact to the stability of FEI customers' delivery commodity rates.

The Objective of achieving fairness across all FEI service areas is equally applicable to FEI and FEFN customers, as fairness is a core rate design principle and should be considered when setting rates for all customers. As explained in the Application, within an amalgamated entity (i.e., FEI), common rates are more equitable for all customers. Please refer to the response to BCUC IR1 2.1 for further details regarding the issue of fairness.

The Objective of mitigating the rate impacts resulting from moving to common rates applies to both FEI and FEFN customers; however, due to the relative size of FEI compared to FEFN, any move to common rates will necessarily be much more impactful to FEFN customers than to FEI customers. Had the impact to FEI customers from any of the common rates options been material, this would have factored more heavily into the evaluation of the common rates options. In the current situation, however, the only customers whose rates are impacted by moving to common rates are FEFN customers. Therefore, when evaluating each of the common rate options, the focus was on the rate impact to FEFN customers.

7.2 Please discuss whether FEI considered any other objectives, such as mitigating the rate impact on FEI customers or alignment with cost-causation principles, for evaluating the common rates options. If no, please explain why not.

7.2.1 If yes, please discuss the other objectives and provide FEI's assessment of the common rates options against these objectives.

Response:

As explained in the response to BCUC IR1 7.1, FEI considered the objective of mitigating the rate impact on both FEFN and FEI customers; however, due to the relative sizes of the service areas, the rate impact to FEI customers of moving FEFN to common rates under any of the common rates options (i.e., Options 2, 3 or 4) is negligible.

With regard to other objectives, including the objective of cost causation, FEI considered the eight rate design principles identified by Dr. Bonbright. These principles are identified and described in Section 5.6 of the Application. Of the eight Bonbright principles, some are not applicable when considering common rates options, including Principles 1 (recovering the cost of service), 3 (price signals that encourage efficient use and discourage inefficient use) and 7 (revenue stability). With respect to Principle 1, FEI will continue to recover the cost of service regardless of whether FEFN moves to common rates. Principles 3 and 7 are generally considered in the context of how rates are designed within a given rate class, which is not relevant to the common rates options, as the rate structures of FEFN's rate classes will not change under any common rate option.

Principle 2 (fair apportionment of costs) reflects the principle of cost causation. FEI assessed each of the common rate options against this principle through its objective to achieve fairness across all FEI service areas, as summarized in Table 5-16. The option which best met this objective was Option 3 – Full Common Rates. However, the Proposed Common Rate Option better achieved the objective of mitigating the rate impact to FEFN customers of moving to common rates, while meeting the fairness principle/objective more closely than Options 1 and 2.

The principle of ease of understandability, administration and rate continuity (i.e., Principle 4), refers to rates that are both easily understood by customers and easily administered by the Company. FEI considers that Option 4 best aligns with this principle. From the perspective of FEFN customers, the move to common delivery rates (i.e., Option 2) will likely have a neutral impact on customer understanding, as FEFN's rate structures have been aligned with FEI's rate structures since the 2016 RDA Decision changes were implemented in 2019. Further, FEFN customer acceptance of a move to common delivery rates will be enhanced by the proposed residential phase-in rate rider, as the rate impact to FEFN residential customers will be mitigated and smoothed over ten years. FEI does not anticipate that FEFN commercial customer acceptance will be an issue given that commercial customers will experience an immediate rate decrease due to the move to common delivery rates. With regard to common rate Option 3 versus common rate Option 4, from FEFN customers' perspective, Option 3 might be more easily understood since it is simpler (i.e., a full move to common rates); however, customer acceptance of Option 3 would likely be low due to the large bill increase experienced by all customers. Hence, FEI considers that Option 4 better aligns with Bonbright Principle 4. From the perspective of FEI customers, there would likely be no change to understandability as FEI customers would not experience any changes to their bills or rate structure. FEI customer acceptance might increase by a move to common rates as the concept of postage stamp rates is widely accepted, and, if so, Option 3 would likely be most accepted by FEI customers. However, given that FEI customers will not experience any change to their bills from moving FEFN to common rates, it is unlikely that FEI customer acceptance would be increased or decreased under any common rate option.

With regard to Principle 5 (practical and cost-effective to implement), as explained in Section 7 of the Application, while the move to common rates will require a number of changes to FEI's financial schedules and tariffs, the effort and cost of this implementation is relatively minor, particularly when compared to the ongoing effort to maintain two separate rate bases and rate schedules. Further, the level of effort and cost would be comparable amongst all common rates options, as the majority of the effort would be related to the move to common delivery rates.

FEI considered rate stability (Principle 6) as part of its evaluation of common rates options, both as part of Objective 2 and Objective 4. Objective 2 is primarily intending to address long-term delivery rate stability for FEFN customers which is why all of the common rate options (other than the status quo) include a move to common delivery rates. The goal of mitigating the short-term rate impact to FEFN customers of moving to common rates was a consideration in selecting the Proposed Common Rate Option (i.e., Option 4) over Option 3, and informed FEI's proposal to utilize the FEFN 2021 revenue surplus as part of a phase-in rate rider for residential FEFN customers.

With regard to Principle 8 (avoidance of undue discrimination), none of the potential common rate options create undue discrimination to either FEFN or FEI customers.

7.3 Please discuss the extent to which FEI's common rate Objectives represent the criteria upon which the BCUC Panel should evaluate the common rates options and why. If applicable, please discuss what other criteria (e.g. section 59 to 61 of the UCA) FEI submits that the BCUC should consider and provide FEI's assessment of those criteria.

Response:

FEI considers that the four Objectives are the key considerations when evaluating the common rate options as they represent the most relevant rate design principles and most significant impacts of moving to common rates. However, FEI also considered all of Bonbright's eight principles of rate design and, as described in Sections 3 and 4 of the Application, the operational and regulatory history of FEI and FEFN and the evolution of common rates over FEI's services territories, as well as government policy supporting "postage stamp" or common rates. FEI considers that the BCUC Panel can consider all of these factors, including the Objectives, when evaluating the reasonableness of implementing the Proposed Common Rate Option in accordance with sections 59 to 61 of the UCA.

FEI considers that the evidence in the Application as outlined above, and the evidence gathered through the information request process, demonstrates that the Proposed Common Rates Option is just and reasonable and neither unduly discriminatory nor unduly preferential and should be approved pursuant to sections 59 to 61 of the UCA.

8.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 5.2.1, 5.3, pp. 39–41, 48, 50, 55, 101

Elimination of Regulatory Burden and Costs

On pages 39 to 40 of the Application, FEI explains that FEFN-specific regulatory filings are completed by FEI employees across a variety of departments (e.g. regulatory, finance and accounting, gas supply) and are incremental to the workload managed by the employees to support regulatory filings for FEI as a whole. FEI states:

> Although a small amount of costs for the work of these employees is allocated to FEFN through the shared services fee, in recent years it <u>has not been representative</u> of the effort required. Moving to common rates would eliminate some or all of the FEFN-specific regulatory filings… [Emphasis added]

On page 101 of the Application, FEI outlines that the shared services fee calculation was approved by the BCUC in 2008 and is based on FEFN's customers as a percentage of FEI's customers, multiplied by FEI's forecast gross Operations and Maintenance (O&M).

8.1 Please provide the drivers of FEFN-specific regulatory filing costs.

<u>Response:</u>

Drivers contributing to FEFN-specific regulatory filing costs include the number of applications that need to be filed, the nature and complexity of the applications, the regulatory review process established by the BCUC for each application, the number of interveners participating, and the number of information requests requiring responses. All of these factors contribute not only to the external regulatory application costs,[8] but also to the amount of internal time required by FEI employees to prepare and file the necessary applications and to complete the requirements of the related regulatory review processes.

8.2 Please explain whether FEI has considered options (other than common rates) to revise the shared services cost allocation to improve the alignment of costs allocated to FEFN.

8.2.1 If so, please provide the options (other than common rates) considered by FEI to improve the alignment of costs allocated to FEFN with the effort required by employees to continue preparing FEFN-specific regulatory

[8] Which typically include BCUC costs, notice publication costs, intervener PACA, external consultant or expert costs (when required), and external legal counsel costs.

filings. As part of the response, please explain why each option was rejected by FEI.

8.2.2 If not, please explain why not.

Response:

To date, FEI has not considered revising the shared services cost allocation. The statements on pages 39 to 40 of the Application which are referenced in the above preamble are specifically referring to the time and cost of FEI employees' work on FEFN-specific regulatory filings. Generally, when considering work performed by FEI employees across the organization to support FEFN, the cost driver approach based on number of customers is reasonable to use for allocating shared services costs from FEI to FEFN. FEI does not believe that it would be beneficial to FEFN customers to undergo a shared services study to review cost allocation as the costs to undertake such a review/study would be borne by FEFN customers. Although, from FEI's perspective, the current approach is efficient and easy to administer and track, based on the analysis undertaken in response to BCUC IR1 8.3, FEI will consider if some adjustments for specific departments would be more reflective of the actual effort required to support FEFN. Please also refer to the response to BCUC IR1 10.2.

8.3 To the extent possible, please provide a table comparing the shared services fee allocated to FEFN related to regulatory filings based on the BCUC-approved methodology and the cost of FEFN-specific regulatory filings based on the effort required by employees for 2018 Actual to 2022 Forecast. As part of the response, please also provide the impact on FEFN delivery rates of including the incremental costs associated with the cost of FEFN-specific regulatory filings based on the effort required by employees for those years.

Response:

FEI does not separately track the costs of internal work spent on FEFN-specific regulatory filings as the currently approved allocation factor is based on customer counts between FEFN and FEI. However, to respond to this question, FEI has conducted a high level review of the time spent by the Regulatory department, Finance department, and Gas Supply department in each of 2018 through 2022 on FEFN regulatory filings.

FEI estimates that, based on a high level estimate of time spent on FEFN's regulatory filings, the total regulatory costs between 2018 and 2022 would range from a low of approximately $65 thousand in 2019 (there was no RRA filed in 2019 so this year would have been on the lower end) and a high of $181 thousand in 2021 (this year would be on the high end due to the common rates application).

In estimating the range of $65 thousand to $181 thousand, FEI has included the preparation and filing of four quarterly gas costs reports per year and one annual report per year between 2018 and 2022. FEI has also included the time spent on the 2019-2020 RRA in 2018, the 2021 Deferral Application in 2020, the Common Rate Application and the 2022 RRA in 2021, the anticipated FEFN 2023 Cost of Service Allocation (COSA) update in 2022,[9] as well as the assumption that FEI would be filing a two-year RRA for FEFN in 2022 for 2023-2024 (i.e., assuming common rates are not approved for 2023).

The incremental gross O&M expense (i.e., the difference between the currently allocated regulatory costs as part of the Shared Services fee and the costs based on the high level estimate of time described above) would range from $32 thousand to $146 thousand (before capitalized overhead), with an equivalent delivery rate impact to FEFN in the range of 1.14 percent to 4.84 percent. These amounts are provided in the table below.

	2018 Actual	2019 Actual	2020 Actual	2021 Projection	2022 Forecast
FEI Regulatory dept O&M costs, excl. BCUC Levies ($000s)	$ 2,015	$ 2,165	$ 2,393	$ 2,739	$ 2,830
FEI Finance dept O&M Costs ($000s)	8,995	9,105	8,854	9,277	9,585
FEI Gas Supply dept O&M Costs ($000s)	2,986	3,248	3,199	3,971	4,103
Total Regulatory Filing Costs subject to Allocation ($000s)	$ 13,996	$ 14,518	$ 14,446	$ 15,987	$ 16,518
Shared Services allocation factor % (Customer Count)	0.2351%	0.2299%	0.2248%	0.2200%	0.2160%
FEI Regulatory costs allocated to FEFN as part of Shared Services fee ($000s)	**$ 33**	**$ 33**	**$ 32**	**$ 35**	**$ 36**
Total Estimated Regulatory Costs for FEFN Regulatory Filings based on Estimated Time ($000s)	**$ 142**	**$ 65**	**$ 142**	**$ 181**	**$ 177**
Incremental Gross O&M Expense to FEFN ($000s)	$ 110	$ 32	$ 110	$ 146	$ 142
Less; Capitalized Overhead	(13)	(4)	(18)	(23)	(23)
Incremental Net O&M Expense to FEFN ($000s)	**$ 96**	**$ 28**	**$ 92**	**$ 122**	**$ 119**
FEFN Non-bypass Delivery Margin ($000s)	2,431	2,468	2,492	2,533	2,517
Delivery Rate Impact to FEFN (%)	3.96%	1.14%	3.71%	4.84%	4.73%

Further on pages 40 to 41 of the Application, FEI provides the following table (Table 5-1) showing the total external regulatory proceeding costs and associated rate impact for the last four revenue requirement applications (RRAs) and Muskwa River Crossing Project CPCN for Fort Nelson:

[9] As Directed in Order G-4-18, FEI is to file a COSA study five years after the release of the RDA decisions, as such, the next COSA study will be filed in 2023. FEFN's COSA was undertaken separately from FEI, but is part of the COSA update that is required to be filed in 2023. FEI included the estimated time as well as costs to be incurred in 2022 for FEFN's COSA.

Table 5-1: Historical External Regulatory Proceeding Costs

Application	External Regulatory Costs ($)	Equivalent Delivery Rate Impact (%)*
2021 Deferral Account and RSAM Rider	19,397	0.79%
2019-2020 RRA	49,839	2.02%
2017-2018 RRA	37,567	1.52%
2015-2016 RRA	75,256	3.05%
2013 Muskwa River Crossing Project CPCN	37,328	1.51%
Average Delivery Rate Impact to FEFN (%)		**1.78%**

* Compared to FEFN's approved 2021 delivery margin of $2.533 million.

As an example, on Table 5-7 on page 59 of the Application, FEI submits that Option 2 (Common Delivery Rates Only) will eliminate the need to file RRAs. The regulatory filing and cost savings are based on the average RRA cost of $45.5 thousand from 2015 to 2021, as shown in Table 5-1.

8.4 Please explain the difference in external regulatory proceeding costs for FEFN's last four RRAs given that, except for the 2021 Deferral Account and RSAM Rider application, they were each two-year RRAs.

Response:

The table below breaks down each of the two-year RRA proceeding costs and provides the number of active interveners, IR rounds and total IRs. As can be seen in the table, in all categories other than the cost of publishing notice, the 2015-2016 RRA costs were higher as a result of the number of active participants, rounds of IRs, and total number of IRs.

Comparison of Regulatory Proceeding Costs for Two-Year RRAs

Category	2015-16 RRA	2017-18 RRA	2019-20 RRA	% Difference 2015-16 vs. 2017-18	% Difference 2015-16 vs. 2019-20
BCUC	$ 9,980	$ 3,330	$ 4,646	300%	215%
Intervener PACA	19,204	5,299	12,019	362%	160%
Legal	45,127	27,737	32,221	163%	140%
Notice Publication	945	1,201	953	79%	99%
Total:	**$ 75,256**	**$ 37,567**	**$ 49,839**	200%	151%
# Active Interveners	4	1	1	400%	400%
# IR Rounds	2	1	1	200%	200%
# Total IRs (rounded)	260	80	160	325%	163%

8.4.1 Please explain why FEI considers it is appropriate to use the average RRA cost from 2015 to 2021 to estimate the regulatory filing and cost savings from each of the common rate options given the differences in external regulatory proceeding costs for those years. Would it be appropriate to exclude the costs of the 2015-2016 RRA because it appears to be a cost "outlier"?

Response:

The 2015-2016 RRA costs are not an outlier and FEI does not consider it appropriate to exclude these costs from the calculation of the average RRA costs. The content and approvals sought in the 2015-2016 RRA were consistent with a typical RRA filed for Fort Nelson, and, other than the size of the delivery rate increases in the 2015-2016 RRA resulting from the inclusion of the Muskwa River Crossing CPCN in FEFN's rate base, there were no unique or atypical issues presented in the 2015-2016 RRA. It is important to note that a CPCN was granted for the Muskwa River Crossing project in a separate proceeding and therefore the only aspect of this project being reviewed in the RRA was the impact on the delivery rates of the project's inclusion in rate base.

As discussed in the response to BCUC IR1 8.1, there are a number of factors that contribute to the amount of regulatory proceeding costs incurred. As can be seen in the table provided in the response to BCUC IR1 8.4, the 2015-2016 RRA costs were higher than the 2017-2018 and 2019-2020 RRAs because the regulatory review process was more significant. The 2015-2016 RRA had three times the number of active interveners, two rounds of information requests, and, as a result of the number of interveners and rounds of IRs, more IRs. FEI has no control over the number of interveners that participate in a proceeding and little control over the scope of the regulatory process. Given that the 2015-2016 RRA was typical in terms of the approvals sought and issues encompassed, it is reasonable to expect that the number of interveners and the number of information requests that FEI experienced in the 2015-2016 RRA could occur again.

It would not be reasonable to assume that all future regulatory proceedings in the FEFN service area would be limited to just one intervener and only one round of information requests. For example, in the current Application, there are two interveners[10], which include the Fort Nelson and District Chamber of Commerce (FNDCC) and Northern Rockies Regional Municipality (NRRM), and the Residential Consumer Intervener Association (RCIA). In past RRAs, the Commercial Energy Consumers Association of BC (CEC) and/or the British Columbia Old Age Pensioners Organization *et al.* (BCOAPO) have intervened. Any or all of these interveners (or new intervener groups that may organize in the future) could intervene in future FEFN RRAs.

Based on the above, the use of the average RRA costs from 2015 to 2021 is reasonable and appropriate. There is no basis to expect that all future RRAs will be similar to the 2017-2018 or

[10] FEI notes that FNDCC and NRRM have registered separately for intervener status; however, it appears based on the submissions and IRs received thus far in the proceeding that the two groups are acting as one intervener.

2019-2020 RRAs in terms of the number of interveners that participate or the number of rounds of IRs. In fact, even when considering the 2017-2018 and 2019-2020 RRAs, there is a large variation in the total number of IRs and, as a result, a variation in the total proceeding costs (albeit a smaller variation than from the 2015-2016 RRA). As such, an average of the costs in all the years between 2015 and 2021 is an appropriate representation of future RRAs for FEFN.

8.4.1.1 Please provide the average RRA cost from 2015 to 2021 and a revised Table 5-1, excluding the 2015-2016 RRA costs.

Response:

As discussed in the response to BCUC IR1 8.4.1, the 2015-2016 RRA costs are not an outlier and it is therefore not appropriate to exclude these costs from the calculation of the average RRA costs. The exclusion of the 2015-2016 RRA costs would also be “cherry picking” given that FEI also included the costs of the 2021 Deferral Account and RSAM Rider Application in Table 5-1, and the costs of that proceeding were much lower as it was the only proceeding that did not include interveners and therefore could equally be considered to be an outlier.

However, to be responsive to the question, FEI has provided a revised Table 5-1 excluding the 2015-2016 RRA costs. Based on the revised calculation provided in the table below, the average delivery rate impact to FEFN due to external regulatory proceeding costs is reduced from 1.78 percent to 1.46 percent when the 2015-2016 RRA costs are excluded. If the 2021 Deferral Account and RSAM Rider Application costs were also excluded, the average delivery rate impact to FEFN due to external regulatory proceeding costs would be 1.68 percent.

Application	External Regulatory Costs ($)	Equivalent Delivery Rate Impact (%)*
2021 Deferral Account and RSAM Rider	19,397	0.79%
2019-2020 RRA	49,839	2.02%
2017-2018 RRA	37,567	1.52%
2013 Muskwa River Crossing Project CPCN	37,328	1.51%
Average Delivery Rate Impact to FEFN (%)		**1.46%**

8.5 Please confirm, or explain otherwise, that there are no external regulatory proceeding costs for FEFN gas cost reports (i.e. four reports per year) and therefore, no expected cost savings from common cost of gas rate under the common rate options.

Response:

Confirmed, there are no external regulatory proceeding costs for FEFN gas cost reports as they are prepared and filed with the BCUC in accordance with the BCUC's guidelines for gas cost reporting and typically no public regulatory review process is necessary.

In Section 5.3 of the Application, FEI provides a table (Tables 5-6, 5-9 and 5-14) showing the estimated FEFN incremental bill impact in 2023 due to common rates for Options 2 through 4 compared to the FEFN status quo bill impact in 2023 for the average residential, small commercial and large commercial customer.

8.6 Please clarify whether the elimination of regulatory burden and cost is a benefit to FEFN customers, given that all customers will see a bill increase as a result of moving to common rates under Option 3 (Table 5-9) and residential customers will see a bill increase as a result of moving to common rates under Options 2 (Table 5-6) and 4 (Table 5-14). If yes, please clarify how customers who will see a bill increase will realize this benefit.

Response:

The elimination of the regulatory cost and burden and the bill impact to FEFN customers of moving to common rates are two different considerations and it is not accurate to draw a correlation between eliminating the regulatory burden and costs and the bill increase experienced by residential customers from moving to common rates under Options 2 or 4, as the drivers of the bill increase are the current differences in rates between FEI and FEFN and the different mix of customers between FEI and FEFN which have contributed to the differences in rates between the two service areas.

Regulatory costs are only one component of FEFN's revenue requirement, and it is the combination of all components (i.e., demand, O&M, depreciation, amortization, property tax, etc.) that has led to the difference in rates between FEI and FEFN. However, if the regulatory burden and costs of FEFN were viewed in isolation of all other components of the revenue requirement, then the elimination of these costs due to a move to common rates benefits FEFN customers as the impact of regulatory costs on FEFN's delivery rates is comparatively higher than the impact of regulatory costs on FEI's delivery rates.

Accordingly, eliminating the regulatory burden and cost by moving to common rates is a benefit to FEFN customers, even if some customer classes experience a bill increase from moving to common rates. The external regulatory costs incurred for FEFN-specific filings have a notable and in some years, significant, impact on FEFN customers. These costs will be eliminated completely on a go-forward basis if common rates are approved.

9.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 4.3.1.1, 5.2.2, 5.6 and 7.1.3, pp. 20, 41, 61, 77

Long-term Rate Stability

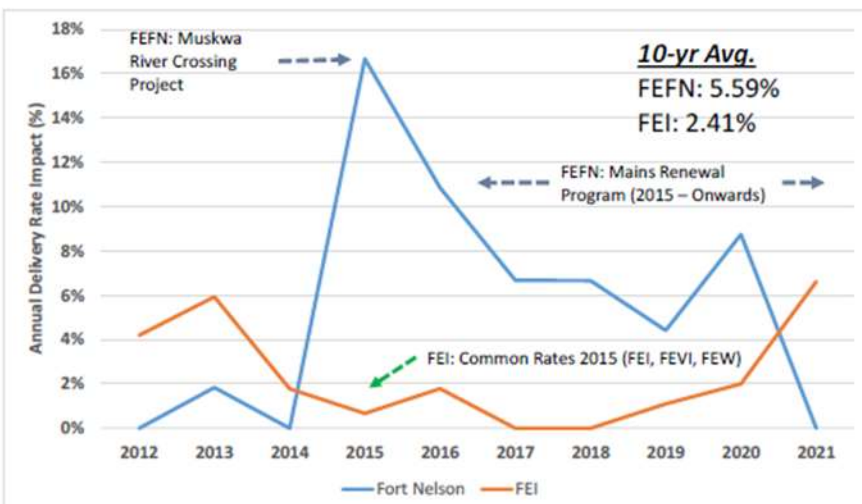
On pages 20 and 61 of the Application, respectively, FEI states that “a large portion” or “the majority” of FEFN’s annual O&M expenses are comprised of a shared services fee allocated from FEI’s O&M expense.

On page 41 of the Application, FEI states:

> As shown in Figure 4-9 of Section 4.3.4, Fort Nelson customers have experienced high delivery rate volatility historically… As Figure 4-9 in Section 4.3.4 shows, FEI’s delivery rates have been more stable over the past 10 years than FEFN’s delivery rates.

Figure 4-9 is reproduced below:

Figure 4-9: 10 Year Delivery Rate Change (FEFN vs. FEI)



9.1 Please provide a table to support Figure 4-9 with the historical approved delivery rate changes, and include the corresponding forecast revenue requirement and demand for FEFN and FEI over the 10-year period.

9.1.1 Please explain the drivers of the lower 2019 approved FEFN delivery rate increase compared to the 2015 to 2018 approved and 2020 approved rate increases.

Response:

Please refer to the table below for the historical approved delivery rate changes, the corresponding approved forecast revenue requirement, and the approved demand forecast for FEFN and FEI from 2012 to 2021.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FEFN										
Approved Delivery Rate Change (%)	0.00%	1.84%	0.00%	16.67%	10.85%	6.68%	6.66%	4.41%	8.74%	0.00%
Approved Revenue Requirement ($000s)	4,774	4,881	4,106	4,799	5,050	3,064	3,162	3,147	3,213	3,392
Approved Demand Forecast (TJ)	633	642	654	648	653	570	560	506	482	492
BCUC Order	G-44-12	G-44-12	G-17-14	G-97-15	G-97-15	G-162-16	G-162-16	G-48-19	G-48-19	G-78-21
FEI										
Approved Delivery Rate Change (%)	4.19%	5.93%	1.78%	0.67%	1.79%	0.00%	0.00%	1.10%	2.00%	6.62%
Approved Revenue Requirement ($000s)	1,240,231	1,275,346	1,120,079	1,393,222	1,237,537	1,070,118	1,246,308	1,213,439	1,315,448	1,445,435
Approved non-bypass Demand Forecast (TJ)	160,760	161,111	175,622	176,035	177,595	182,942	196,021	201,573	199,203	194,999
BCUC Order	G-44-12	G-44-12	G-138-14	G-86-15, G-106-15	G-193-15	G-182-16	G-196-17	G-237-18 & G-10-19	G-319-20	G-319-20

FEI provides the following key drivers of the delivery rate increases in 2015 to 2018 and 2020 which contributed to the rate increases being higher in these years than 2019:

- The delivery rate increases for 2015 and 2016 were higher primarily because of the Muskwa River Crossing CPCN entering rate base in these years;
- For 2017, the higher delivery rate increase was primarily due to the large decrease in the demand forecast, particularly for the commercial rate class, which contributed approximately $278 thousand to the revenue deficiency in 2017;
- For 2018, the delivery rate increase was higher due to the inclusion in 2018 rates of $146 thousand of the deferred 2017 deficiency. Since the deferred 2017 revenue deficiency was fully amortized in 2018, the elimination of this deficiency partially offset the 2019 deficiency by approximately $146 thousand[11], thereby reducing the rate increase in 2019; and
- For 2020, the delivery rate increase was higher primarily because of the decrease in the demand forecast compared to 2019.

9.2 Please explain in which of the past 10 years:

(i) FEFN delivery rates have been "smoothed" using rate smoothing mechanisms, such as a revenue deficiency or surplus deferral account, and provide the delivery rate impact;

(ii) FEI delivery rates have been approved under a performance-based rate setting mechanism;

[11] FEFN 2019-2020 RRA, Section 3.2, pages 15 and 16.

(iii) FEI delivery rates have been "smoothed" using rate smoothing mechanisms, such as a revenue deficiency or surplus deferral account, and provide the delivery rate impact.

Response:

For (i) and (iii), there is no additional delivery rate impact due to rate smoothing. FEI interprets the information request to be asking for the delivery rate impacts had the rates not been smoothed.

Please see below for the information requested. Please also refer to the response to BCUC IR1 9.3 for a figure that shows the delivery rate changes from 2012 to 2021 under a scenario where there had been no approved rate smoothing:

i) The following years between 2012 and 2021 included deferred deficiencies/surpluses for FEFN for the purpose of rate smoothing:

- **2012 and 2013** – The approved delivery rates for 2012 and 2013 were zero percent and 1.84 percent, respectively, which were smoothed by deferring the forecast 2012 revenue surplus of $86 thousand to avoid a delivery rate decrease in 2012 followed by a large increase in 2013. If the delivery rates were not smoothed, the delivery rates would have decreased by 4.6 percent in 2012 followed by an increase of 11.0 percent in 2013;
- **2014** – The approved delivery rates for 2014 were zero percent, which were smoothed by deferring a forecast 2014 revenue surplus of approximately $17 thousand. If the delivery rates were not smoothed, the 2014 delivery rates would have decreased by 0.9 percent;
- **2017 and 2018** – The approved delivery rate increases for 2017 and 2018 were 6.68 percent and 6.66 percent, respectively, which were smoothed by deferring $146 thousand of the 2017 revenue deficiency to 2018. If the delivery rates were not smoothed, the delivery rates would have increased by 13.2 percent in 2017 followed by a decrease of 6.5 percent; and
- **2021** – The approved delivery rates for 2021 were approved to be maintained at the 2020 level by deferring a forecast 2021 revenue surplus of $132 thousand. If the 2021 forecast revenue surplus was not deferred, the 2021 delivery rates would have decreased by 5.2 percent.

ii) FEI delivery rates have been approved under a performance-based rate-making (PBR) plan or a multi-year rate plan (MRP) for all of the past 10 years except for 2012 and 2013, as follows:

- PBR Plan: 2014-2019; and
- MRP: 2020 and 2021 (the MRP is in place from 2020 through 2024)

iii) The following years between 2012 and 2021 included deferred deficiencies/surpluses for FEI for the purpose of rate smoothing:

- **2017** – FEI was approved to maintain the 2017 delivery rates at the existing 2016 levels and to capture the revenue surplus of $32.012 million in a deferral account. If the delivery rates were not smoothed, the 2017 delivery rates would have decreased by 4.28 percent;

- **2018** – FEI was approved to continue to maintain the 2018 delivery rates at the 2016 levels and capture an additional surplus of approximately $5.4 million in the deferral account (renamed to the 2017 & 2018 Revenue Surplus deferral account). If the delivery rates were not smoothed since 2017, the 2018 delivery rates would have increased by 2.95 percent;

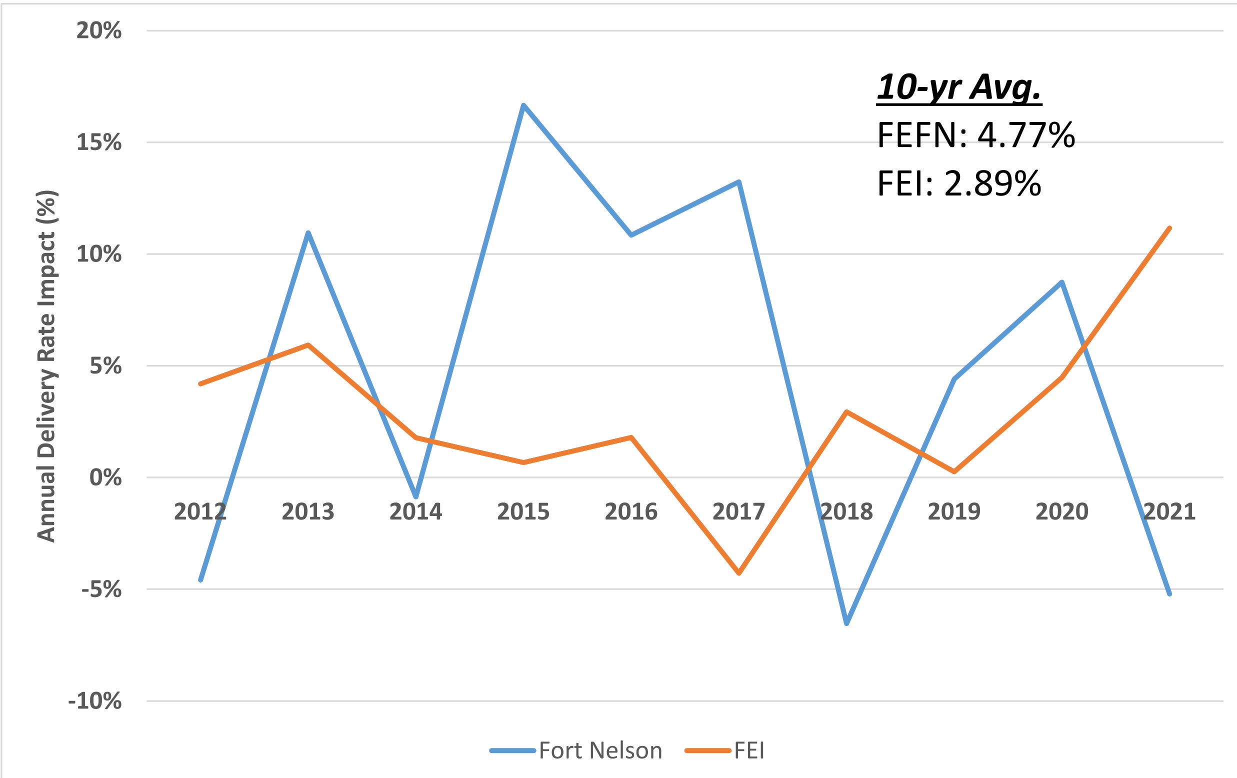
- **2019** – FEI proposed and was approved to amortize a small portion of the 2017 & 2018 Revenue Surplus deferral account to keep the permanent 2019 delivery rate increase at the existing approved 2019 interim increase of 1.1 percent. If the delivery rates were not smoothed since 2017, the 2019 delivery rates would have been increased by 0.26 percent;

- **2020 and 2021** – FEI proposed and was approved to fully utilize the accumulated revenue surplus. Part of the surplus was used to maintain the 2020 permanent delivery rate increase at the approved 2020 interim rate increase of 2 percent. Then in 2021, the remaining balance of the accumulated revenue surplus, which totaled to $35.287 million, was used to mitigate a portion of the 2021 rate increase, resulting in a 2021 delivery rate increase of 6.62 percent. If the delivery rates were not smoothed since 2017, the 2020 delivery rates would have increased by 4.48 percent, followed by a further increase of 11.17 percent in 2021.

9.3 To the extent that there has been historical smoothing of FEFN or FEI delivery rates, please provide Figure 4-9, including the 10-year average rate change for FEFN and FEI, in the absence of such rate smoothing mechanisms.

<u>Response:</u>

Please refer to the updated Figure 4-9 below that shows the delivery rate changes for FEI and FEFN from 2012 to 2021 if there was no rate smoothing in any of the years. Please refer to the response to BCUC IR1 9.2 for the years that had rate smoothing approved for both FEI and FEFN. As the updated Figure 4-9 shows, even if there was no rate smoothing in all years from 2012 to 2021, FEI's delivery rates would have still been relatively less volatile than FEFN, and the 10-year average rate increase for FEI would have been lower than for FEFN (i.e., 2.89 percent vs. 4.77 percent).



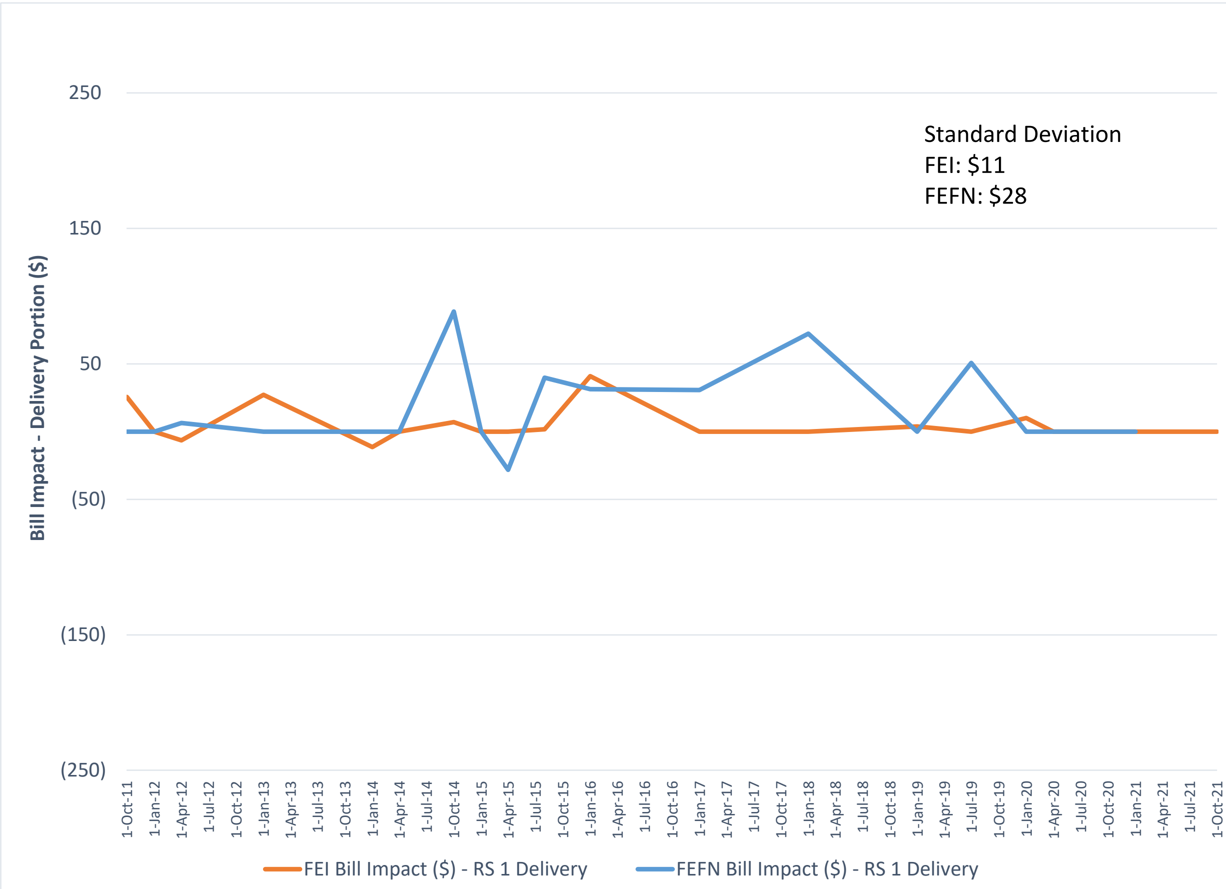
9.4 Please provide a similar figure to Figure 4-9 with the historical approved bill impacts of delivery rate and cost of gas changes for FEFN and FEI over the 10-year period (2012 to 2021), including a supporting table of amounts.

Response:

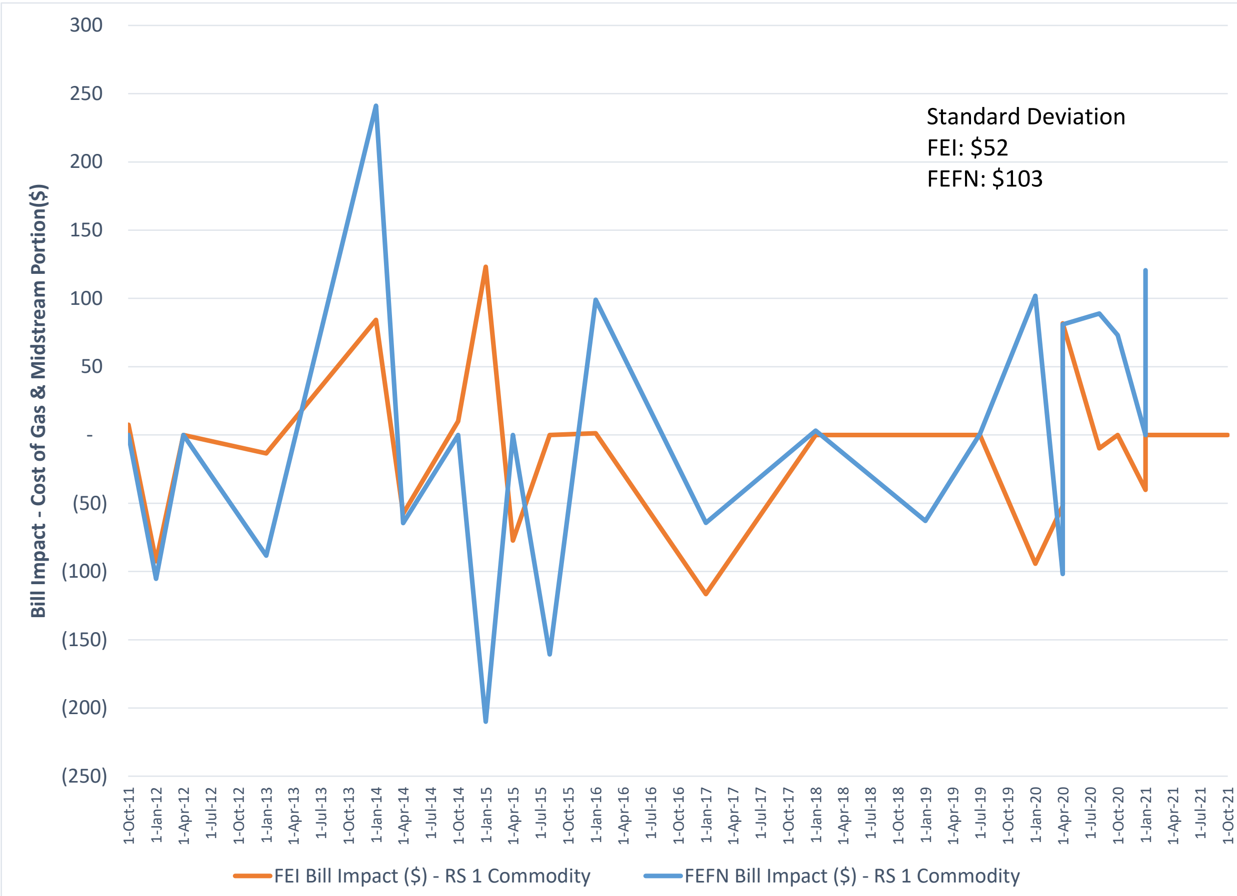
Please refer to Figures 1 to 6 below for the approved bill impacts for each of the delivery rate changes and cost of gas changes for FEFN and FEI over the 10-year period from 2012 to 2021. Please also refer to Attachment 9.4 for the supporting data. Please note for the years that are pre-amalgamation of FEI with FEVI and FEW (i.e., pre-2015), the bill impacts are based on the delivery and cost of gas rates for the Lower Mainland service area.

It can be seen from the figures below that commodity costs are generally much more volatile than the delivery portion of both FEI's and FEFN's bills. However, FEI has historically lower volatility than FEFN for both delivery and cost of gas as can be seen by comparing the standard deviation between FEI and FEFN. With common rates between FEI and FEFN, FEFN's customers will benefit from lower volatility for both delivery and commodity rates.

Figure 1: Residential (RS 1) Historical Approved Bill Impacts due to Delivery Rate Changes for FEFN and FEI from 2012 to 2021



1 **Figure 2: Residential (RS 1) Historical Approved Bill Impacts due to Cost of Gas and Midstream**
2 **Changes for FEFN and FEI from 2012 to 2021**



3

Figure 3: Small Commercial (RS 2/2.1) Historical Approved Bill Impacts due to Delivery Rate Changes for FEFN and FEI from 2012 to 2021

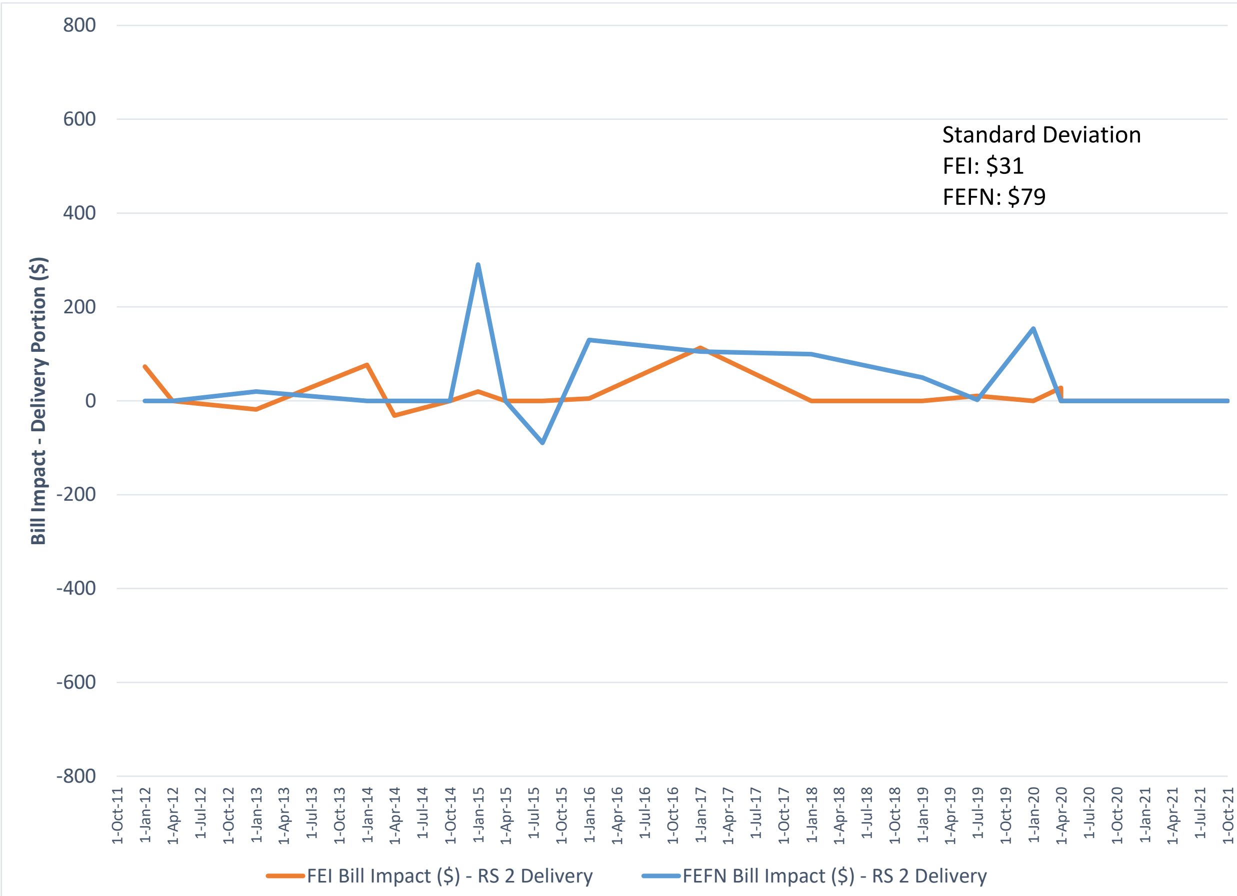


Figure 4: Small Commercial (RS 2/2.1) Historical Approved Bill Impacts due to Cost of Gas and Midstream Changes for FEFN and FEI from 2012 to 2021

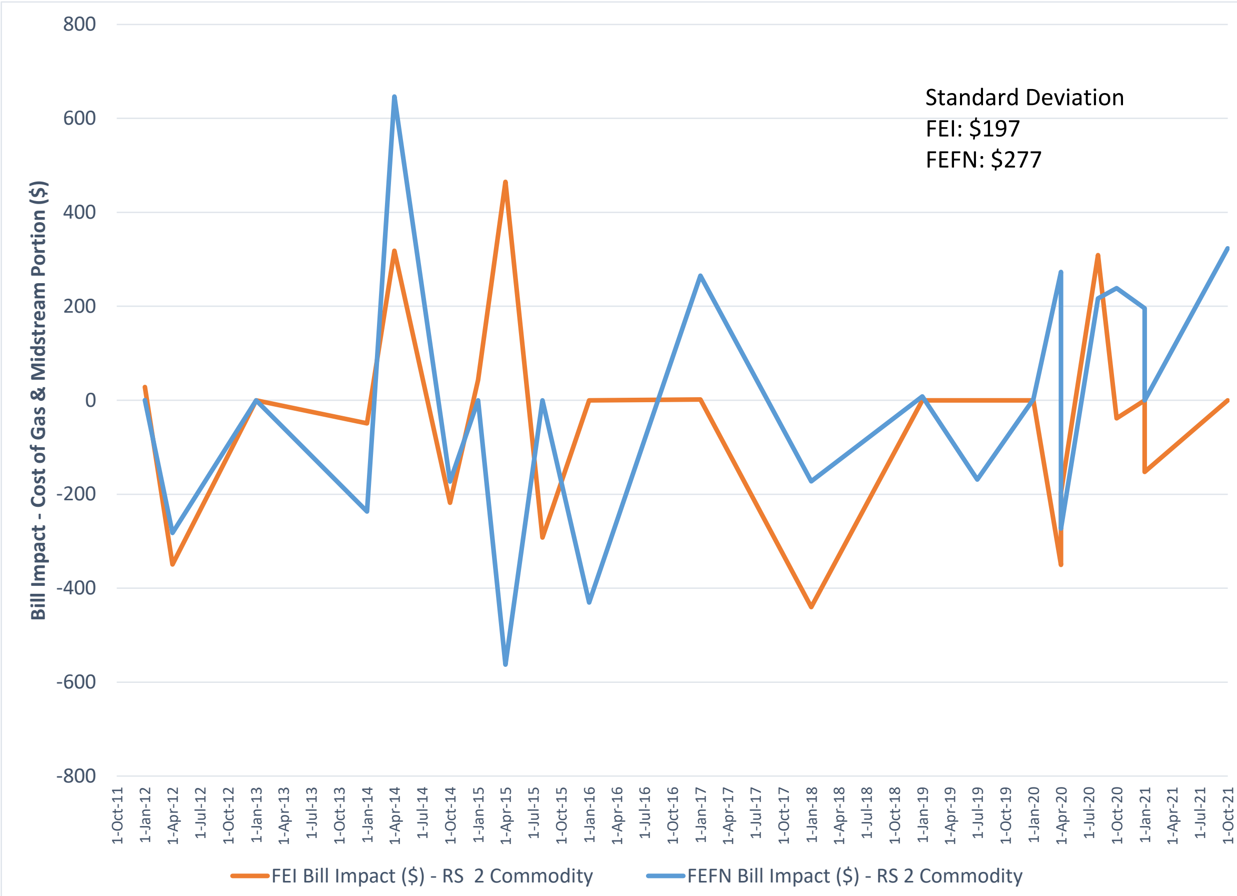


Figure 5: Large Commercial (RS 3/2.2) Historical Approved Bill Impacts due to Delivery Rate Changes for FEFN and FEI from 2012 to 2021

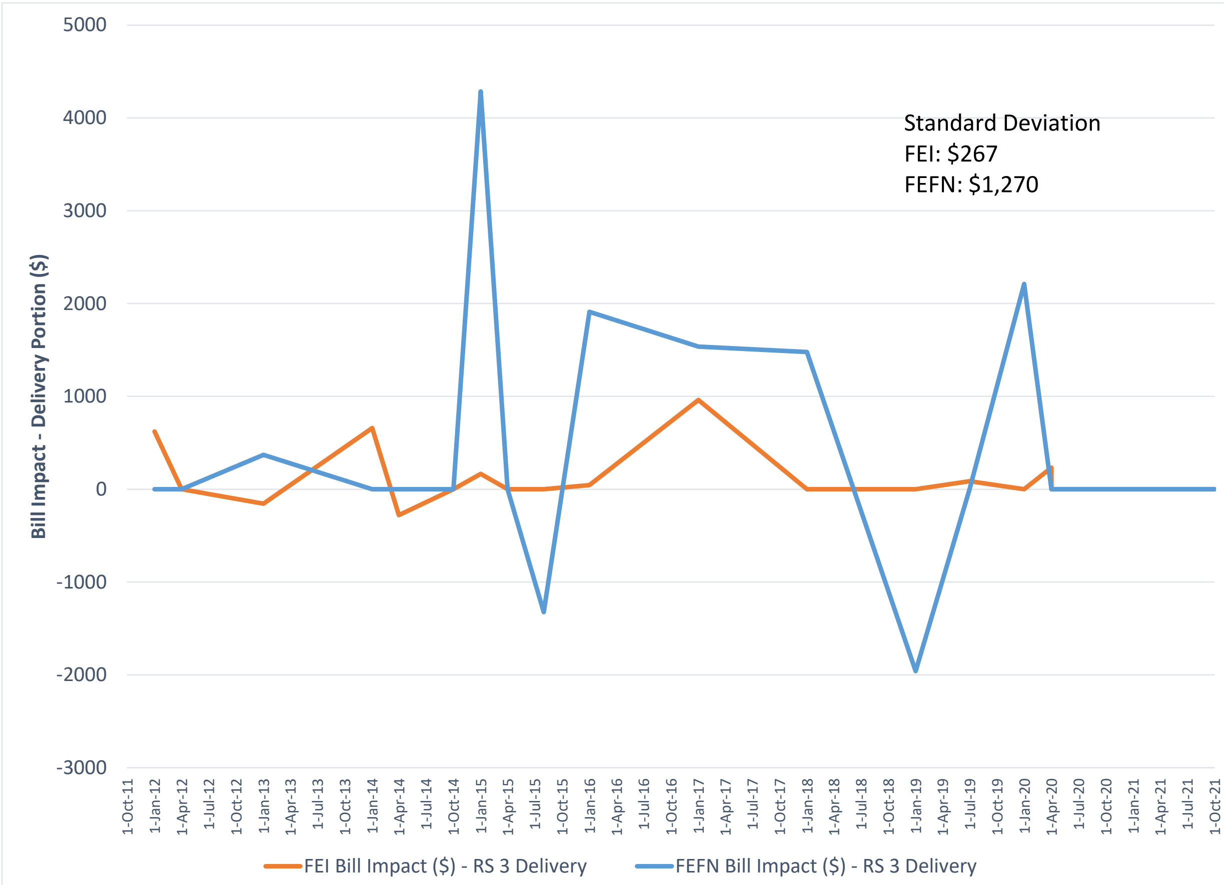
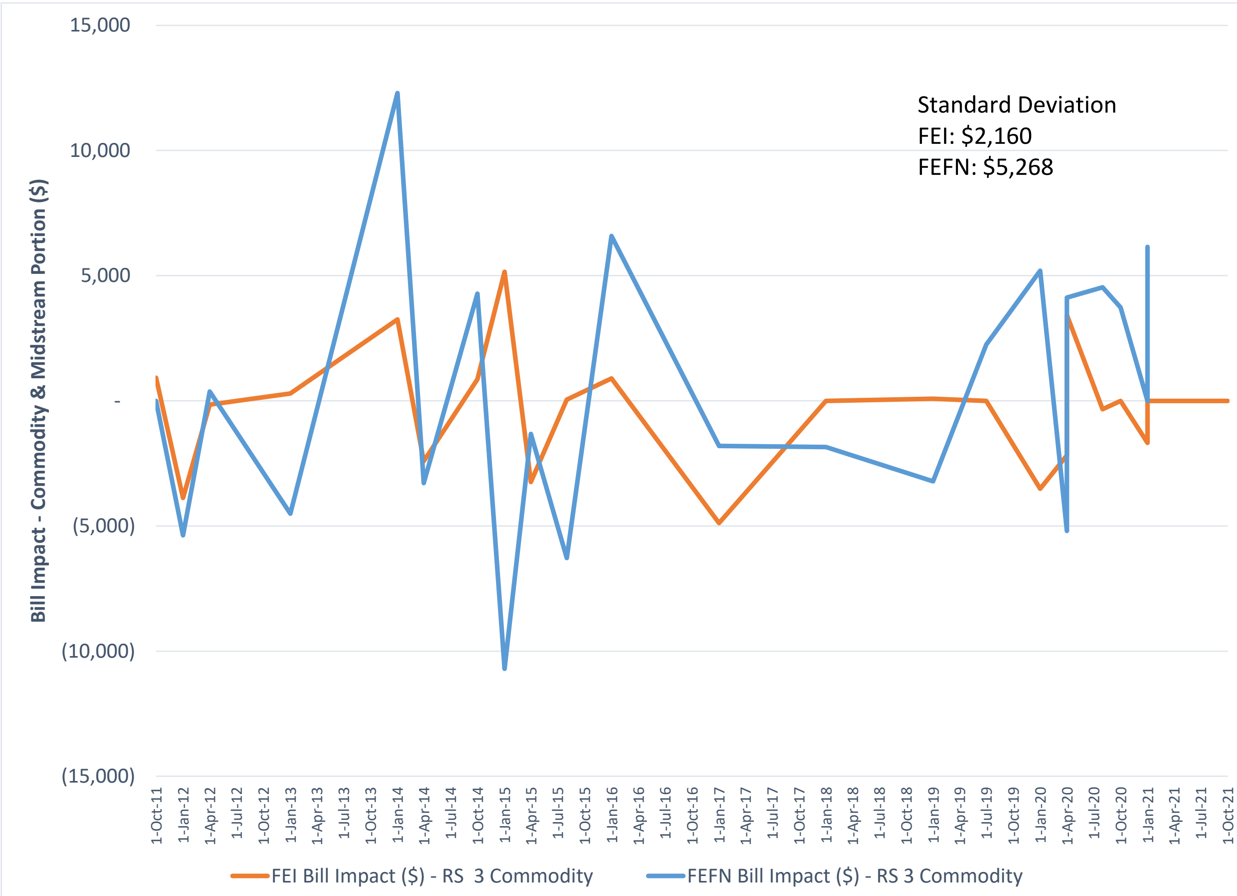


Figure 6: Large Commercial (RS 3/2.2) Historical Approved Bill Impacts due to Cost of Gas and Midstream Changes for FEFN and FEI from 2012 to 2021



On page 77 of the Application, it is noted that FEI's delivery rates are currently set in accordance with the 2020-2024 Multi-year Rate Plan (MRP) Decision approved by Order G-165-20.

9.5 Given that the MRP term is set to end in 2024, please explain FEI's rationale for applying to move FEFN to common rates, effective January 1, 2023, rather than after the MRP term. Please also explain the impact, if any, of deferring the move to common rates until after the conclusion of the MRP term.

Response:

FEI does not see any advantage to delaying a move to common rates until after the 2020-2024 MRP term (which would be January 1, 2025). Moving FEFN to common delivery rates with FEI would require generally the same processes and implementation measures regardless of whether FEI is under the current MRP, implementing a new MRP, or setting rates under cost of service. In any of these scenarios, adjustments would need to be made to FEI's O&M and rate base, among other items, to incorporate FEFN. The only difference would be how the adjustments would be made in some cases (e.g., adjusting FEI's formula O&M versus adjusting FEI's forecast O&M to incorporate FEFN's O&M). Due to FEFN's small size, there would be no additional considerations that would have been made under the current MRP or additional considerations that would be made under a future MRP if FEFN were included in FEI's delivery rates. In other words, the inclusion of FEFN under common delivery rates with FEI would have no impact on the proposed design of FEI's MRP.

With regard to common commodity rates, the MRP is a rate-setting mechanism for delivery rates only and has no impact on how FEI's commodity (cost of gas or midstream) rates are determined; therefore, moving to common cost of gas rates as proposed in the Application should not be considered in the context of the delivery rate-setting regime that FEI is operating under.

FEI cannot predict what impact deferring the move to common rates until after the conclusion of the MRP term would have on FEFN customers, as the impact would be dependent on FEI and FEFN's rate changes in the upcoming years and the differential between FEFN and FEI residential and commercial rate classes at that time. A clear impact of deferring a move to common rates is that the Company will continue to expend time and resources in the preparation of regulatory filings, including at least one revenue requirement application, three annual reports, and three years of quarterly gas cost reports. The external costs of the revenue requirement application would be borne entirely by FEFN customers, and the costs to the Company of preparing all of the aforementioned filings, to the extent they are not adequately covered by the shared service fee from FEI to FEFN, would be borne partially by FEI customers. There is an incremental (and significant in the context of Fort Nelson rates) cost to these proceedings that would not exist with a common rates scenario, that would be entirely borne by FEFN customers.

10.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Section 5.2.3, p. 42

Achieving Fair and Consistent Rates across FEI Service Areas

On page 42 of the Application, FEI states that it understands the main criticism of common rates is that maintaining regional rates may more accurately reflect regional differences in costs. However, FEI states that this view does not consider the fact that "a large portion" of FEFN's O&M expenses and revenue requirement, an average of 54 percent and 24 percent between 2011 and 2020, respectively, are made up of allocated costs from FEI. Therefore, current regional rates for FEFN are not a representation of the regional difference in costs between FEFN and FEI.

Further, FEI states, "… the current differences in rates between FEFN and FEI are the result of corporate history rather than a careful consideration of equities amongst all of FEI's customers combined."

As part of the Application FEI describes the relevance of the following Bonbright Principle: Fair apportionment of costs among customers, and states:

> Fair apportionment implies the recovery of costs based on cost causation. Under common rates, all customers within the same rate class receive the same level of service regardless of their location within the service area, which includes FEFN. Therefore, it would be fair apportionment for all customers receiving the same service, which includes FEFN, to pay the same rates.

10.1 With reference to the average of 46 percent of FEFN's O&M expenses and 76 percent of FEFN's revenue requirement which is not made up of allocated costs from FEI, please clarify the statement that "current regional rates for FEFN are not a representation of the regional difference in costs between FEFN and FEI because a "large portion" of FEFN's O&M expense and revenue requirement are allocated costs from FEI.

<u>Response:</u>

The statement that the rates for FEFN are not a representation of the regional difference in costs between FEFN and FEI is accurate.

The majority of FEFN's O&M costs are attributable to allocated costs from FEI through the shared services fee. While the 10-year average of allocated O&M costs is 54 percent, the annual allocation has been 60 percent or higher in the most recent three years (i.e., 2019 through 2021). Further, as shown in Table 8-6 of the Application, the remaining "non-allocated" O&M costs are mostly attributable to the two direct full-time field employees who reside in Fort Nelson. Beyond these labour costs, virtually no costs are direct costs for FEFN.

Table 4-3 of the Application shows that the average percentage of FEFN's revenue requirement attributable to allocated costs from FEI is 24 percent. The primary purpose of this table was to present the directly allocated costs from FEI. However, this does not mean that the remaining 76 percent of FEFN's revenue requirement are costs directly incurred by FEFN. In fact, a large portion of the remaining 76 percent of FEFN's revenue requirement is essentially calculated costs based on studies and rates flowing from FEI. For instance, while the capital expenditures for FEFN are primarily directly attributable to FEFN, the annual depreciation expense, net salvage and financing costs on these assets are all calculated based on FEI's depreciation and net salvage rates as well as FEI's approved capital structure, return on equity (ROE) and interest rates. FEFN does not undertake its own depreciation study for the reasons explained in the responses to FNDCC-NRRM IR1 4.1 and 4.2 in the 2022 RRA portion of this proceeding. Furthermore, FEFN does not have its own capital structure and does not issue its own debt or equity, and the interest rates for its short-term and long-term debt are those of FEI as a single legal entity that includes FEFN. FEI also does not file separate income taxes for FEFN; thus FEFN's income tax expense would not be considered a direct cost either.

When factoring in these cost of service components, as shown in the table below, the majority of FEFN's annual revenue requirement (i.e., an average of 76 percent from 2011 to 2020 Actuals, 2021 Approved and 2022 Forecast) is determined through allocated costs or costs based on rates determined by FEI. Over the most recent years (i.e., 2019 to 2020 Actuals, 2021 Approved, and 2022 Forecast), the average of allocated and calculated costs is 82 percent while direct costs for FEFN are only 18 percent. Accordingly, this is very little regional difference between FEI and FEFN that supports the different rates between FEI and FEFN.

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Approved	2022 Forecast	Avg. (2011 - 2022)	Avg. (2011 - 2022) %	Avg. (2019 - 2022)	Avg. (2019 - 2022) %
Direct Costs from FEFN ($000s)																
Direct O&M Costs (Net of Capitalized Overhead)	433	363	600	415	398	382	212	358	261	298	306	336				
Amortization (Direct FEFN deferral accounts & CIAC)	(17)	(119)	(39)	(73)	3	102	156	(5)	(33)	7	(38)	(8)				
Property Tax	165	172	178	144	138	139	141	139	121	128	151	159				
Other Revenue	(26)	83	189	66	(26)	(19)	(21)	(22)	(17)	(8)	(14)	(19)				
Deferred Revenue Deficiency/Surplus	-	86	(59)	74	-	-	(146)	146	-	-	132	-				
Subtotal ($000s)	**555**	**585**	**870**	**626**	**513**	**604**	**342**	**616**	**332**	**425**	**537**	**468**	**539**	**24%**	**440**	**18%**
Calculated Costs from FEI ($000s)																
Depreciation	250	339	371	370	440	464	382	372	401	393	436	447				
Amortization (Net Salvage Provision)	-	-	-	54	51	54	90	94	100	99	102	133				
Income Tax	116	35	(84)	(9)	107	164	178	91	113	107	53	67				
Earned Return	551	530	371	513	815	782	902	777	908	861	764	790				
Subtotal ($000s)	**917**	**904**	**658**	**927**	**1,413**	**1,464**	**1,552**	**1,334**	**1,522**	**1,460**	**1,355**	**1,436**	**1,245**	**55%**	**1,443**	**58%**
Allocated Costs from FEI ($000s)																
Shared Service Fee (Net of Capitalized Overhead)	306	430	457	424	453	439	411	427	439	486	517	483				
Allocated Intangible & General Plant	-	-	-	-	(2)	(2)	82	74	89	93	87	83				
Amortization - Deferral Accounts with allocated costs	56	-	-	10	(38)	3	5	8	17	28	37	46				
Subtotal ($000s)	**362**	**430**	**457**	**434**	**414**	**440**	**497**	**509**	**545**	**608**	**641**	**612**	**496**	**22%**	**601**	**24%**
Total - FEFN Actual/Approved/Forecast Delivery Margin ($000s)	**1,834**	**1,919**	**1,985**	**1,987**	**2,340**	**2,508**	**2,392**	**2,459**	**2,399**	**2,492**	**2,533**	**2,517**	**2,280**	**100%**	**2,485**	**100%**

While preparing this response, FEI noted a few errors in Table 4-3 of the Application which, when corrected, slightly reduce the percentage of directly allocated costs from FEI by two percent, from 24 percent to 22 percent. These corrections have been incorporated into the above table and are described as follows:

- The shared services fees were shown in gross value (i.e., not net of capitalized overhead);

- The revenue requirement for the allocated intangible & general plant inadvertently included the DSM deferral account. The DSM deferral account is an allocation of FEI's deferral account; as such, this amount related to FEFN's deferral account is now removed from the line "Allocated Intangible & General Plant" and is instead included in the line item "Amortization – Deferral Accounts with allocated costs" in the above table; and
- FEI did not include the amortization of other deferral accounts that are also allocated from FEI (e.g., 2017 Rate Design Application and Cost of Capital Application deferral accounts). These deferral accounts are now included as allocated costs under "Amortization – Deferral Accounts with allocated costs" in the above table.

10.2 Please explain whether FEI has undertaken a cost allocation study or any other analysis as it relates to the "careful consideration of equities" amongst all of FEI's customers combined including FEFN. Please provide the results of the analysis if available. If not, please explain why not.

Response:

FEI interprets this question to be referring to a cost allocation study regarding shared services costs, and not a cost of service allocation (COSA) study as will be filed in 2023 for FEI and for FEFN separately, if common rates are not approved.

FEI has not recently undertaken a cost allocation study for shared services. FEI has been following the direction from the BCUC in Order G-27-08 to allocate the shared services costs received by FEFN from FEI based on the number of customers. As explained in the response to BCUC IR1 8.2, FEI does not believe that it would be beneficial to FEFN customers to undergo a shared services study for FEFN as the costs to undertake such a review/study would be borne by FEFN customers.

The use of the number of customers as the basis for allocating Shared Services costs from FEI to FEFN is consistent with the methodology that was recently approved by the BCUC for the MRP Application for allocating Shared Services costs between FEI and FBC. As explained in the MRP Application, a cost driver approach for allocating costs is simpler to understand, easier to administer and more efficient, and more stable over time than a timesheet based approach. In its decision on the MRP, the BCUC commented (at p. 140):

> Regarding FortisBC's proposal to change to a Cost Driver Approach for shared services between FEI and FBC, the Panel is persuaded that any potential reduction in accuracy resulting from a move away from a Timesheet Approach is more than offset by the savings associated with the increased efficiency of the Cost Driver Approach. Further, FortisBC has clearly demonstrated the impact of the change on ratepayers is minimal.

10.3 Please provide the percentage of FEFN's total forecast 2022 O&M and revenue requirement that represents costs allocated from FEI versus costs that are not allocated from FEI.

10.3.1 With reference to the information provided in response to the preceding IR, please elaborate on how common rates will reflect a fair apportionment based on cost causation as compared to the status quo.

Response:

Please refer to the response to BCUC IR1 10.1. As the response to BCUC IR1 10.1 explains, 76 percent of FEFN's annual revenue requirement (or 82 percent in recent years between 2019 Actual and 2022 Forecast) are either allocated costs or calculated costs based on studies and rates flowing from and dependent on FEI. Therefore, it is evident that FEFN is already well integrated with FEI with very little difference in terms of revenue requirement drivers between the two service areas. This supports moving to common rates and indicates that under common rates FEFN will continue to be charged rates that reflect a fair apportionment of costs based on cost causation.

11.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 5.2.4 and 5.3, pp. 39, 43, 43,48, 50, 55

Mitigation of Rate Impacts from Moving to Common Rates

On page 39 of the Application, FEI states, “The analysis supports FEI’s position that the Proposed Common Rate Option provides the greatest benefits to <u>all</u> of FEI’s customers, including those in Fort Nelson.” [*Emphasis added*]

On page 43 of the Application, FEI provides Table 5-2 “Comparison of Current 2021 Approved Rates for FEFN and FEI” showing the current approved 2021 rates for FEI and FEFN under rate schedules (RS) 1, 2 and 3. FEI states, “[it] is cognizant of the potential short-term rate impact of moving to common rates and has therefore, balanced the first three objectives described in Section 5.2 with the fourth objective of mitigating adverse rate impacts for FEFN customers. As FEI will explain in Section 5.3 below, a number of common rate options would result in rate decreases for commercial customers, though FEI acknowledges that under all common rate options residential customers would experience a rate increase of varying magnitudes.”

In Section 5.3 of the Application, FEI provides several tables (Tables 5-6, 5-9 and 5-14) showing the estimated FEFN incremental bill impact in 2023 due to common rates for Options 2 through 4 compared to the FEFN status quo bill impact in 2023.

11.1 Please provide in a similar format to Tables 5-6, 5-9 and 5-14, the following as it relates to common rate Options 2 through 4:

(i) FEI status quo bill impact in 2023 ($)

(ii) FEI bill impact in 2023 ($) due to common rates; and

(iii) FEI incremental bill impact in 2023 due to common rates (in dollars and percentage impact).

<u>Response:</u>

Please see the tables below which show the impact to FEI customers due to common rates under Options 2 through 4. The FEI impacts in 2023 as shown in the tables below are based on the same assumptions as discussed in Section 5.3.1 of the Application, including an FEI general delivery rate increase in 2023 of 8.07 percent.

As the tables below show, the impact to FEI’s customers as a result of common rates under any of the options is negligible (i.e., bill impact ranges from -0.04 percent to 0.01 percent between the three options and across the three FEI rate classes).

For Option 3 (full common rates), the bill impact to FEI’s customers will be negative (savings), primarily due to savings in the midstream rates. This is because under full common rates, FEFN’s customers will be paying the higher FEI midstream rate, thereby reducing the portion of midstream costs that will be paid by FEI's customers.

Table 1: Estimated FEI 2023 Average Bill Impact under Option 2 Compared to Status Quo

	Avg. UPC (GJ)	FEI Option 1 - Status Quo Bill Impact in 2023 ($)	FEI Option 2 - Common Delivery Rate Bill Impact in 2023 ($)	FEI Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEI Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	90	52	52	0.1	0.01%
Small Commerical RS 2	340	143	144	0.3	0.01%
Large Commerical RS 3	3,770	1,233	1,237	3.8	0.01%

Table 2: Estimated FEI 2023 Average Bill Impact under Option 3 Compared to Status Quo

	Avg. UPC (GJ)	FEI Option 1 - Status Quo Bill Impact in 2023 ($)	FEI Option 3 - Full Common Rate Bill Impact in 2023 ($)	FEI Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEI Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	90	52	52	(0.3)	-0.03%
Small Commerical RS 2	340	143	142	(1.4)	-0.04%
Large Commerical RS 3	3,770	1,233	1,229	(3.8)	-0.01%

Table 3: Estimated FEI 2023 Average Bill Impact under Option 4 Compared to Status Quo

	Avg. UPC (GJ)	FEI Option 1 - Status Quo Bill Impact in 2023 ($)	FEI Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($)	FEI Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEI Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	90	52	53	0.2	0.02%
Small Commerical RS 2	340	143	144	0.3	0.01%
Large Commerical RS 3	3,770	1,233	1,237	3.8	0.01%

11.2 Please discuss the benefits to <u>all</u> FEI customers from each common rates option, considering incremental bill impacts in 2023 and any other matters.

<u>Response:</u>

As shown in the response to BCUC IR1 11.1, the incremental bill impacts in 2023 to FEI's customers resulting from common rates with FEFN are immaterial for all rate classes. For example, the incremental bill impacts to FEI's residential customers range from a savings of approximately $0.30 per year or approximately 0.03 percent, to an increase of $0.20 per year or approximately 0.02 percent between the three options considered. In other words, there is no impact to FEI customers from any of the common rate options.

Furthermore, with common rates implemented, FEI's customers benefit from the implementation of fair and consistent rates across all FEI's service areas, including FEFN (this is partially achieved for Option 2, fully achieved for Option 3 and predominately achieved for Option 4). As discussed in Section 4.3.1.1 and further in Section 5.6 of the Application, FEFN currently has only two direct employees serving Fort Nelson while the majority of FEFN's operations are performed by FEI resources. In other words, FEFN is already integrated with FEI and has been benefiting from this integration by receiving the full support of FEI's resources at a relatively low cost through the shared service fee which is an allocation based on customer counts only rather than the true cost. Thus, it would be fair and appropriate for FEFN to move to common rates with the rest of FEI.

Please refer to the responses to BCUC IR1 7.1 and 7.2 for further discussion of the benefits to FEI and FEFN customers of common rates.

11.3 Please provide the FEFN incremental bill impact in 2023 due to common rates in percentage terms for common rate Options 2 through 4.

Response:

Please see the revised Tables 5-6, 5-9 and 5-14 below with the FEFN bill impacts due to common rates in percentage terms added. The bill impacts shown in the revised Table 5-14 below do not include the proposed FEFN residential 10-year phase-in credit rider. Please refer to Table 4 below which shows the 2023 bill impacts to FEFN's customers under Option 4, but with the proposed FEFN residential 10-year credit rider included. FEI clarifies that, as discussed in Section 5.5 of the Application, FEI's proposed phase-in rider includes the 2021 FEFN revenue surplus. As such, the bill impact in 2023 for FEFN's residential customers with the phase-in rider is estimated to be less than the bill impact under the status quo.

Revised Table 5-6: Estimated FEFN 2023 Average Bill Impact under Option 2 Compared to Status Quo

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 2 - Common Delivery Rate Bill Impact in 2023 ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	125	63	237	174	16.5%
Small Commerical RS 2	335	191	(115)	(305)	-10.1%
Large Commerical RS 3	6,375	2,486	26	(2,460)	-5.3%

Revised Table 5-9: Estimated FEFN 2023 Average Bill Impact under Option 3 Compared to Status Quo

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 3 - Full Common Rate Bill Impact in 2023 ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	125	63	392	329	31.2%
Small Commerical RS 2	335	191	309	118	3.9%
Large Commerical RS 3	6,375	2,486	6,618	4,131	9.0%

Revised Table 5-14: Estimated FEFN 2023 Average Bill Impact under Option 4 Compared to Status Quo

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	125	63	220	157	14.9%
Small Commerical RS 2	335	191	(159)	(350)	-11.6%
Large Commerical RS 3	6,375	2,486	(841)	(3,327)	-7.2%

Table 4: Estimated FEFN 2023 Average Bill Impact under Option 4 (with FEFN's Residential Phase-in Credit Rider) Compared to Status Quo

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%) - With RS 1 Phase-in
Residential RS 1	125	63	58	(5)	-0.5%
Small Commerical RS 2	335	191	(159)	(350)	-11.6%
Large Commerical RS 3	6,375	2,486	(841)	(3,327)	-7.2%

12.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 2.1, 4.3.4 and 5.3.5, pp. 5, 36, 44, 55; FEI Annual Review for 2022 Rates (FEI 2022 Annual Review) proceeding, Exhibit B-3, BCUC IR 1.2, Transcript Volume 1, p. 106

Assumptions Used to Evaluate the Common Rate Options

On page 44 of the Application, FEI states that the following assumptions have been used to evaluate the bill impacts due to the proposed implementation of common rates for FEFN customers in 2023:

- The starting point for determining the bill impacts for FEFN customers in 2023 is FEFN's 2022 rates. For 2022, the forecast FEFN delivery rate increase is 3.41 percent, as detailed in Section 8 of this Application. This forecast delivery rate increase applies to the standalone FEFN service area.
- For 2023, FEI forecasts an FEFN delivery rate increase of 9.68 percent from the forecast 2022 delivery rates, assuming FEFN continues to have separate delivery rates from FEI. The forecast for FEFN 2023 delivery rates is indicative only and is based on the demand forecast and capital additions forecast for FEFN discussed in Section 4.3.2 and Section 4.3.3, respectively, and a forecast of O&M expenses and other costs in 2023.
- In order to estimate the bill impact to FEFN's customers in 2023 due to the adoption of common delivery rates, it is necessary to estimate FEI's delivery rates in 2023. To do so, FEI used the applied for 2022 delivery rate increase of 8.07 percent from FEI's Annual Review for 2022 Delivery Rates as the starting point and has conservatively assumed the same delivery rate increase in 2023 (i.e., 8.07 percent).
- For the cost of gas rates and midstream rates, FEI has based 2022 gas costs for FEFN and FEI on the 2021 Second Quarter Gas Cost Report filed with the BCUC on June 2, 2021, and has assumed no change in gas costs for 2023.

On page 5 of the Application, FEI seeks approval to phase in common delivery rates for FEFN residential customers over 10 years through the creation of a Residential Customer Phase-in Rate Rider, effective January 1, 2023.

12.1 Please discuss whether FEI considered using other methodologies to determine its base assumptions used to evaluate the bill impacts for FEFN customers of adopting common rates. If not, please explain why not.

12.1.1 If yes, please provide the alternative methodologies considered by FEI, including the pros and cons of each, and explain why each alternative was rejected.

Response:

FEI did not consider other methodologies to determine the base assumptions used to evaluate the bill impacts for FEFN customers due to the adoption of common rates. FEI explains each assumption below:

- Since FEI is proposing to implement the Proposed Common Rate Option effective January 1, 2023, the most appropriate starting point for determining the bill impacts to FEFN customers is 2022. With regard to the forecast 2022 delivery rate increase of 3.41 percent, this is the rate increase being requested as part of the Application and has been approved on an interim and refundable basis; thus, FEI considers this delivery rate increase to be most appropriate and supported by the evidence provided in Section 8 of the Application;
- For the assumption on FEFN's 2023 delivery rate increase, FEI used 9.68 percent from the proposed 2022 delivery rates. This delivery rate increase in 2023 was developed based on forecasts of individual components of FEFN's revenue requirement, including capital additions, O&M, property tax, etc. The level of detail and rigor in developing the estimate for FEFN's 2023 delivery rate increase was similar to the 2022 delivery rate increase that is currently under review by the BCUC as part of this Application (i.e., Section 8). As using an alternative assumption for FEFN's 2023 delivery rate increase would not increase the accuracy of the analysis, FEI has not considered any alternatives to the estimate in the Application;
- For the assumption on FEI's 2023 delivery rate increase, FEI conservatively used 8.07 percent because this is the delivery rate increase FEI applied for (and has subsequently received approval of) in FEI's Annual Review for 2022 Delivery Rates. While FEI does not anticipate that the 2023 delivery rate increase will be as high as the applied for 2022 rate increase, FEI chose to provide a conservative number for this assumption since FEI did not have a better estimate at the time this Application was filed. Please refer to the response to BCUC IR1 12.4 for additional explanation and an alternative forecast delivery rate for 2023 for FEI of 4 percent; and
- For the assumptions on cost of gas and midstream rates, please refer to the response to BCUC IR1 12.7.

12.2 Please provide a breakdown of the forecast FEFN 2023 delivery rate increase of 9.68 percent: i) by forecast demand, capital additions, O&M expenses and other costs in a format similar to Schedule 1 of Appendix E-1 of the Application; and ii) in a table showing the percentage point impact (increase or decrease) attributable to each component.

Response:

Please refer to Table 1 below which shows the breakdown of the forecast FEFN 2023 delivery rate increase of 9.68 percent in the same format as Schedule 1 of Appendix E-1 of the Application.

Line 34 of Table 1 shows the non-bypass margin at the existing 2021 delivery rates. Therefore, the 2023 delivery rate increase from the proposed 2022 delivery rate increase is the difference between the 13.09 percent in 2023 when compared to 2021 and the 3.41 percent in 2022 when compared to 2021. FEI included the breakdown of the forecast FEFN 2022 delivery rate increase in Table 1 below to demonstrate the calculation of the 9.68 percent for 2023. Please also refer to Attachment 12.2 for the Excel version of Table 1.

Please also refer to Table 2 below which shows the breakdown of the forecast 2023 deficiency in percentage when compared to 2022.

Table 1: Breakdown of the Forecast FEFN 2022 and 2023 Deficiencies and Delivery Rate Increases

Line No.	Particulars	2022 Forecast		2023 Forecast		Cumulative	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**VOLUME/REVENUE RELATED**						
2	Customer Growth and Volume	$ 0.099		$ 0.089		$ 0.188	
3	Change in Other Revenue	(0.005)	0.094	(0.002)	0.087	(0.007)	0.181
4							
5	**O&M CHANGES**						
6	Gross O&M Change	0.041		0.012		0.053	
7	Capitalized Overhead Rate Change per FEI from 12% to 16%	(0.037)		(0.002)		(0.040)	
8	Capitalized Overhead Change	(0.007)	(0.003)	0.000	0.010	(0.006)	0.007
9							
10	**DEPRECIATION EXPENSE**						
11	Depreciation Rate Change (Depreciation Study)	(0.030)		0.000		(0.030)	
12	Plant Depreciation from Net Additions	0.030	0.000	0.006	0.006	0.036	0.006
13							
14	**AMORTIZATION EXPENSE**						
15	CIAC Rate Change (Depreciation Study)	0.001		0.000		0.001	
16	CIAC from Net Additions	0.001		0.000		0.001	
17	Net Salvage Depreciation Rate Change (Depreciation Study)	0.027		0.000		0.027	
18	Deferrals	0.041	0.070	0.025	0.025	0.066	0.095
19							
20	**FINANCING AND RETURN ON EQUITY**						
21	Financing Rate Changes	(0.010)		(0.001)		(0.011)	
22	Financing Ratio Changes	(0.002)		(0.001)		(0.003)	
23	Lead/Lag Days Change per FEI	(0.022)		0.000		(0.022)	
24	Rate Base Growth	0.065	0.031	0.034	0.032	0.099	0.063
25							
26	**TAX EXPENSE**						
27	Property and Other Taxes	0.008		0.017		0.025	
28	Other Income Taxes Changes	0.015	0.023	0.047	0.064	0.062	0.087
29							
30	**Deferred 2021 Revenue Surplus**		(0.132)		0.000		(0.132)
31							
32	**Revenue Deficiency (Surplus)**		$ 0.083		$ 0.224		$ 0.307
33							
34	Non-Bypass Margin @ Existing 2021 Rates		2.434				2.345
35	Rate Change		3.41%		9.68%		13.09%

Table 2: Breakdown of the FEFN 2023 Deficiency in Dollars and Percentage

Components	2022 ($ millions)	2022 (%)	2023 ($ millions)	2023 (%)
Demand Forecast	0.099	4.07%	0.089	3.85%
Other Revenue	(0.005)	-0.21%	(0.002)	-0.09%
Net O&M	(0.003)	-0.12%	0.010	0.43%
Depreciation Expense	-	0.00%	0.006	0.26%
Amortization Expense	0.070	2.88%	0.025	1.08%
Financing and Return on Equity	0.031	1.27%	0.032	1.38%
Tax Expense	0.023	0.94%	0.064	2.77%
Deferred 2021 Revenue Surplus	(0.132)	-5.42%	-	0.00%
Total Deficiency	0.083	3.41%	0.224	9.68%
Non-bypass Margin at Existing Rates (See Note 1)	2.434		2.314	

Note 1: 2022 @ 2021 Approved; 2023 @ 2022 Forecast

12.3 Please provide a sensitivity analysis of the bill impacts under each common rate option and the proposed phase-in rate rider if: i) the assumed FEFN and FEI delivery rate increases in 2023 were +/- 1 percent higher or lower; ii) the assumed cost of gas and midstream rates in 2022 and 2023 were +/- 1 percent higher or lower; and iii) there is a +/- 10 percent change in the FEI assumed load.

<u>Response:</u>

Please refer to Tables 1 to 3 below for the sensitivity analysis of the bill impacts under each of the common rate options and the proposed phase-in rate rider for each of the scenarios requested.

With respect to scenario (iii), FEI does not have any evidence to support the demand scenarios suggested by this information request, which is a scenario where FEI's demand would vary by 10 percent. The highest year-to-year variation in FEI's actual demand from 2011 to 2020 was 4.7 percent, with the absolute average at approximately 1.6 percent. As such, FEI does not consider a variation of 10 percent in its demand to be realistic. However, even under the extreme and unrealistic scenario of reducing FEI's demand by 10 percent, FEFN's commercial customers will still see a savings due to common rates and the impact to FEFN's residential customers would remain relatively small at approximately $6 per year with the 10-year phase-in applied. Furthermore, if a 10 percent reduction in FEI's demand did occur, which would result in a large delivery rate increase, FEI would likely propose rate smoothing or other mitigation measures in order to reduce the delivery rate impact from a large reduction in FEI's demand.

1 **Table 1: Assumed FEFN and FEI Delivery Rate Increases in 2023 were +/- 1 percent Higher or**
2 **Lower**

Scenario i) FEI & FEFN 2023 delivery rate varies by +/- 1 percent	-1%	0% (As Filed)	+1%
2023 Bill Impact - Average Customer ($)			
Residential (RS 1)			
Option 1 - Status Quo	56	63	69
Option 2 - Common Delivery Only	228	237	246
Option 3 - Full Common Rates	383	392	401
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	211	220	229
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	51	58	65
Small Commercial (RS 2)			
Option 1 - Status Quo	172	191	209
Option 2 - Common Delivery Only	(132)	(115)	(97)
Option 3 - Full Common Rates	292	309	327
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(177)	(159)	(142)
Large Commercial (RS 3)			
Option 1 - Status Quo	2,206	2,486	2,767
Option 2 - Common Delivery Only	(235)	26	281
Option 3 - Full Common Rates	6,356	6,618	6,873
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(1,102)	(841)	(586)
Incremental 2023 Bill Impact due to Common Rates Only ($)			
Residential (RS 1)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	171	174	176
Option 3 - Full Common Rates	327	329	332
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	155	157	160
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	(5)	(5)	(5)
Small Commercial (RS 2)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	(304)	(305)	(306)
Option 3 - Full Common Rates	120	118	117
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(349)	(350)	(351)
Large Commercial (RS 3)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	(2,441)	(2,460)	(2,486)
Option 3 - Full Common Rates	4,151	4,131	4,106
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(3,308)	(3,327)	(3,353)

3

1 **Table 2: Assumed Cost of Gas and Midstream Rates were +/- 1 percent Higher or Lower**

Scenario ii) Assumed 2023 Cost of Gas and midstream rates varies by +/-1%	-1%	0% (As Filed)	+1%
2023 Bill Impact - Average Customer ($)			
Residential (RS 1)			
Option 1 - Status Quo	59	63	67
Option 2 - Common Delivery Only	232	237	239
Option 3 - Full Common Rates	387	392	397
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	216	220	224
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	54	58	61
Small Commercial (RS 2)			
Option 1 - Status Quo	180	191	201
Option 2 - Common Delivery Only	(115)	(115)	(115)
Option 3 - Full Common Rates	295	309	324
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(160)	(159)	(159)
Large Commercial (RS 3)			
Option 1 - Status Quo	2,292	2,486	2,680
Option 2 - Common Delivery Only	23	26	29
Option 3 - Full Common Rates	6,358	6,618	6,877
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(848)	(841)	(840)
Incremental 2023 Bill Impact due to Common Rates Only ($)			
Residential (RS 1)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	174	174	174
Option 3 - Full Common Rates	329	329	332
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	158	157	158
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	(4)	(5)	(4)
Small Commercial (RS 2)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	(292)	(305)	(312)
Option 3 - Full Common Rates	117	118	126
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(337)	(350)	(357)
Large Commercial (RS 3)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	(2,269)	(2,460)	(2,652)
Option 3 - Full Common Rates	4,065	4,131	4,197
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(3,140)	(3,327)	(3,520)

2

Table 3: Assumed FEI 2023 Demand Was +/- 10 percent Higher or Lower

Scenario iii) FEI 2023 Demand varies by +/- 10 percent	-10%	0% (As Filed)	+10%
2023 Bill Impact - Average Customer ($)			
Residential (RS 1)			
Option 1 - Status Quo	63	63	63
Option 2 - Common Delivery Only	345	237	148
Option 3 - Full Common Rates	500	392	303
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	328	220	131
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	69	58	49
Small Commercial (RS 2)			
Option 1 - Status Quo	191	191	191
Option 2 - Common Delivery Only	96	(115)	(287)
Option 3 - Full Common Rates	520	309	137
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	52	(159)	(332)
Large Commercial (RS 3)			
Option 1 - Status Quo	2,486	2,486	2,486
Option 2 - Common Delivery Only	3,131	26	(2,518)
Option 3 - Full Common Rates	9,722	6,618	4,074
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	2,264	(841)	(3,385)
Incremental 2023 Bill Impact due to Common Rates Only ($)			
Residential (RS 1)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	282	174	85
Option 3 - Full Common Rates	438	329	240
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	266	157	68
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	6	(5)	(14)
Small Commercial (RS 2)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	(94)	(305)	(478)
Option 3 - Full Common Rates	330	118	(54)
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(139)	(350)	(522)
Large Commercial (RS 3)			
Option 1 - Status Quo	-	-	-
Option 2 - Common Delivery Only	644	(2,460)	(5,004)
Option 3 - Full Common Rates	7,236	4,131	1,588
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(223)	(3,327)	(5,871)

In response to BCUC IR 1.2 of the FEI 2022 Annual Review proceeding, FEI provided the following table which shows a high level estimate of 2023 and 2024 delivery rate changes for FEI:

	2023	2024
High Level Forecast Delivery Rate Change (%)	4.00%	4.14%

On page 106 of Transcript Volume 1 on FEI's workshop for the FEI 2022 Annual Review proceeding, FEI stated that the rate increases for 2023 and 2024 referred to in that IR response [BCUC IR 1.2] "would be a reasonable level going forward, and we would hope to be able to achieve that."

12.4 Please provide updated analyses, tables and IR responses for this proceeding assuming, a 4 percent forecast delivery rate increase for FEI in 2023, as opposed to 8.07 percent.

Response:

As stated in the response to BCUC IR1 1.2 in FEI's Annual Review for 2022 Delivery Rates, the approximate 4 percent FEI 2023 delivery rate increase was a high level estimate which assumed, with the exception of a few already known changes such as formula capital, formula O&M, and CPCNs, that there would be no changes in 2023 to the components of FEI's revenue requirement, including demand forecasts. However, as discussed during FEI's Annual Review workshop, and as referenced in the preamble, FEI stated that the high level estimates are reasonable assumptions going forward based on the information available at the time.

As explained in the response to BCUC IR1 12.1 in the current proceeding, FEI chose to use a more conservative assumption of an 8.07 percent delivery rate increase for FEI in 2023, which is the same level as the proposed delivery rate increase in 2022. This is a conservative assumption because a delivery rate increase of 8.07 percent for FEI is considered to be high when compared to the delivery rate increases that FEI has had in recent years. Also, as explained in the Annual Review workshop, a large component of the 8.07 percent delivery rate increase is the impact of the elimination of the accumulated revenue surplus, which is a one-time impact to FEI's rates in 2022. Thus, FEI considers the incremental rate impact to FEFN residential customers from moving to common rates provided in the Application to be on the high end since FEI has used a conservative assumption regarding FEI's 2023 delivery rate increase. Even with this conservative assumption, FEFN's commercial customers are still estimated to benefit from common rates considerably while the impact to FEFN's residential customers would be manageable when utilizing the proposed phase-in rider that includes the 2021 revenue surplus. As shown in the response to BCUC IR1 11.3, with the phase-in rider for FEFN's residential customers, the incremental impact due to common rates in 2023 would be almost eliminated.

Please refer to the tables below for the updated analysis of common rates for FEFN using a four percent delivery rate increase for FEI in 2023. While FEI is amenable to using the four percent increase for FEI's 2023 delivery rate increases as an alternative assumption in the analysis of the common rate options, the 2023 delivery rate increase in FEI's 2023 Annual Review is likely to fall somewhere in between four percent and 8.07 percent. FEI therefore considers these rate increases provide a reasonable range of scenarios.

As shown in Table 1 below, reducing the FEI 2023 delivery rate increase to four percent results in an even greater benefit (i.e., bill reduction) to FEFN's commercial customers and a lower bill increase to FEFN's residential customers.

Table 1: Comparison of FEFN's Estimated 2023 Average Bill Impact due to Common Rates between an FEI Delivery Rate Increase of 8.07 percent (as-filed) and 4 percent in 2023

Scenario	FEI 2023 Delivery Rate Increase @ 8.07% (As Filed)	FEI 2023 Delivery Rate Increase @ 4.00%
2023 Bill Impact - Average Customer ($)		
Residential (RS 1)		
Option 1 - Status Quo	63	63
Option 2 - Common Delivery Only	237	200
Option 3 - Full Common Rates	392	355
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	220	183
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	58	54
Small Commercial (RS 2)		
Option 1 - Status Quo	191	191
Option 2 - Common Delivery Only	(115)	(186)
Option 3 - Full Common Rates	309	238
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(159)	(231)
Large Commercial (RS 3)		
Option 1 - Status Quo	2,486	2,486
Option 2 - Common Delivery Only	26	(1,032)
Option 3 - Full Common Rates	6,618	5,559
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(841)	(1,899)
Incremental 2023 Bill Impact due to Common Rates Only ($)		
Residential (RS 1)		
Option 1 - Status Quo	-	-
Option 2 - Common Delivery Only	174	137
Option 3 - Full Common Rates	329	292
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	157	120
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (w/ 10-yr RS 1 Phase-In)	(5)	(9)
Small Commercial (RS 2)		
Option 1 - Status Quo	-	-
Option 2 - Common Delivery Only	(305)	(377)
Option 3 - Full Common Rates	118	47
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(350)	(421)
Large Commercial (RS 3)		
Option 1 - Status Quo	-	-
Option 2 - Common Delivery Only	(2,460)	(3,519)
Option 3 - Full Common Rates	4,131	3,073
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI	(3,327)	(4,386)

Table 2: Revised Table 5-6 of the Application: Estimated FEFN 2023 Average Bill Impact under Option 2 Compared to Status Quo (Using 4% Delivery Rate Increase for FEI in 2023)

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 2 - Common Delivery Rate Bill Impact in 2023 ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	125	63	200	137	13.0%
Small Commerical RS 2	335	191	(186)	(377)	-12.5%
Large Commerical RS 3	6,375	2,486	(1,032)	(3,519)	-7.6%

Table 3: Revised Table 5-9 of the Application: Estimated FEFN 2023 Average Bill Impact under Option 3 Compared to Status Quo (Using 4% Delivery Rate Increase for FEI in 2023)

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 3 - Full Common Rate Bill Impact in 2023 ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	125	63	355	292	27.8%
Small Commerical RS 2	335	191	238	47	1.6%
Large Commerical RS 3	6,375	2,486	5,559	3,073	6.7%

Table 4: Revised Table 5-9 of the Application: Estimated FEFN 2023 Average Bill Impact under Option 4 Compared to Status Quo (Using 4% Delivery Rate Increase for FEI in 2023)

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%)
Residential RS 1	125	63	183	120	11.4%
Small Commerical RS 2	335	191	(231)	(421)	-13.9%
Large Commerical RS 3	6,375	2,486	(1,899)	(4,386)	-9.5%

Table 5: Estimated FEFN 2023 Average Bill Impact under Option 4 (With FEFI's Residential Phase-in Credit Rider) Compared to Status Quo (Using 4% Delivery Rate Increase for FEI in 2023)[12]

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%) - With RS 1 Phase-in
Residential RS 1	125	63	54	(9)	-0.8%
Small Commerical RS 2	335	191	(231)	(421)	-13.9%
Large Commerical RS 3	6,375	2,486	(1,899)	(4,386)	-9.5%

12.5 Please discuss the reasonableness of using the above-noted assumption.

Response:

Please refer to the response to BCUC IR1 12.4.

12.6 Please explain the basis for the statement that the 8.07 percent delivery rate increase for FEI in 2023 is conservative, and specifically if this is related to the high-level forecast delivery rate increase of 4 percent in the FEI 2022 Annual Review.

Response:

Please refer to the response to BCUC IR1 12.4.

12 As discussed in Section 5.5 of the Application, FEI's proposed phase-in rider includes the 2021 FEFN revenue surplus. As such, the bill impact in 2023 for FEFN's residential customers with the phase-in rider is estimated to be less than the bill impact under the status quo.

On page 55 of the Application, FEI provides Table 5-13 which "compares the estimated rates in 2023 for FEFN between Option 4 (common delivery and cost of gas rates with the midstream rates set at five percent of FEI's midstream rates) and the status quo (rates highlighted in green represent the components that would be impacted by moving to common rates with FEI)", as follows:

Rate Schedule		FEFN Option 1 - Status Quo (2023 Estimated)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI (2023 Estimated)
Residential			
Rate Schedule 1 Residential Service	**Basic Charge ($/Day)**	**0.3701**	**0.4216**
	Delivery Charge ($/GJ)	**4.798**	**6.038**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	0.051	0.073
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**5.223**	**4.588**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	0.052	0.074
Rate Schedule 3 Large Commercial Service (Over 2,000 GJ)	**Basic Charge ($/Day)**	**3.6845**	**4.8026**
	Delivery Charge ($/GJ)	**4.360**	**3.910**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	0.043	0.062

12.7 Please confirm, or explain otherwise, that FEI has assumed the same 2022 gas costs for FEFN and FEI.

12.7.1 If confirmed, please explain the reasonableness of this assumption given that FEFN and FEI are expected to have different commodity costs according to Table 5-13 under the proposed common rate option.

Response:

Not confirmed; they are not the same. The 2022 and 2023 cost of gas (Commodity Cost Recovery) and midstream (Midstream Charge) rates, reflected in Table 5-13 were based on the 2021 Second Quarter Gas Cost Reports for each of FEI and FEFN.

The actual incurred and forecast gas costs, as well as the cost of gas and midstream rates, will vary from quarter to quarter. Changes to the cost of gas and midstream rates are subject to BCUC approval and, based on market conditions and other circumstances at the time of the rate review, rates may increase or decrease.

12.8 Please explain the rationale for FEI's assumption that there will be no change in gas costs for FEFN and FEI for 2023.

Response:

Please refer to the response to BCUC IR1 12.7.

13.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 5.2.3 and 5.3.5, pp. 42, 51–53

Common Rate Options

On page 42 of the Application, FEI writes:

> Postage stamp rates are the accepted regulatory approach approved by the BCUC for most other utilities in BC. In fact, as discussed in Section 3, Fort Nelson is the only remaining service area within FEI that is not part of the overall postage stamp (common) rates.

On page 51 of the Application, FEI states:

> Under Option 4, FEI proposes to move FEFN to common delivery and cost of gas rates while maintaining FEFN's midstream (storage & transport) rates at a level consistent with what FEFN is currently being charged. This approach will achieve the benefits of common delivery rates discussed previously, and transition FEFN customers to a common cost of gas rate with FEI without the significant negative bill impact to FEFN customers seen in Option 3 (Full Common Rates).

Further, on page 53 of the Application, FEI states:

> FEI believes setting FEFN's midstream rates at 5 percent of FEI's midstream rates is appropriate. FEI based the 5 percent on a number of factors, including the current difference between FEI and FEFN's midstream rates, and the average difference in midstream rates historically. The current difference in percentage between FEI and FEFN is approximately three percent, while the average difference in percentage between the cumulative FEFN midstream recovery requirement and the cumulative FEFN midstream recovery at FEI's midstream rates from 2011 to 2020 (assuming FEFN rates are based on FEI's midstream rates since 2011) is approximately seven percent. Based on these two considerations, FEI has determined that setting FEFN's midstream rates at five percent (i.e., the average between three and seven percent) of FEI's midstream rates is the most appropriate balance between the current difference and the average historical difference.

13.1 Please explain how setting FEFN's midstream rate at 5 percent of FEI's midstream rate is in alignment with the "overall postage stamp (common) rates" approach discussed on page 42 of the Application.

Response:

The Proposed Common Rate Option furthers the objective of achieving fairness through postage stamp rates while also mitigating the bill impact to FEFN customers. While it is true that Option

3 (full common rates) best achieves postage stamp or common rates, as explained in the Application and in more detail in the responses to BCUC IR1 7.2 and 7.3, FEI considered other factors in its determination of the recommended common rate option.

The Proposed Common Rate Option (Option 4) will fully achieve common delivery and commodity rates, and it will result in common accounting of midstream costs between FEI and FEFN. The only aspect of FEFN rates that will not be postage stamped is that FEFN customers will pay a percentage of the midstream cost, as opposed to the full midstream cost. FEI considers this to be a reasonable exception to the postage stamp rate approach given the significant difference between FEFN's and FEI's midstream resources as described in BCUC IR1 14.1. In other words, this approach will achieve the greatest alignment of rates (i.e., common rates) between FEI and FEFN as possible without causing significant negative bill impacts to FEFN's customers (which are two of the Objectives discussed in Section 5.2 of the Application).

13.2 Please explain whether setting of FEFN's midstream rate at 5 percent of FEI's midstream rate is intended to be applied indefinitely or is intended to mitigate a fixed-period transition to common rates.

13.2.1 If the FEFN's midstream rate is to be set indefinitely at 5% of FEI's, please provide the rationale and explain the long-term cumulative impact on FEI ratepayers.

<u>Response:</u>

At this time, based on the current commodity contracts and agreements in place for FEFN, FEI would characterize its proposal to set FEFN's midstream rates at 5 percent of FEI's midstream rates to be "for the foreseeable future". The purpose or intent of the proposal for FEFN's midstream rates is to achieve the greatest alignment of rates (i.e., common rates) between FEI and FEFN as possible while continuing to reflect the only difference between FEI and FEFN that is considered significant, which is the midstream resources as described in BCUC IR1 14.1, and therefore, mitigate the negative bill impacts to FEFN customers of moving to common rates. The intent is <u>not</u> to mitigate a fixed-period transition to common rates, as contemplated in this information request.

FEI intends to monitor the difference between FEFN's gas costs and FEI's midstream rates on an ongoing basis, and if the difference changes significantly from the 5 percent that FEI is proposing in this Application, FEI would consider applying to the BCUC to change the percentage allocation of FEI's midstream rates to FEFN customers. This is one of the advantages of the Proposed Common Rate Option, as the accounting of FEI and FEFN gas costs will be aligned, making further changes to the midstream rates for FEFN customers easy to implement.

As discussed in Section 4.3.1.2 of the Application, there has been a steady decline in production from the Fort Nelson plant in recent years and in 2019 the supply contracts for the Fort Nelson service area were not renewed by the producers. FEI was able to reach an agreement for FEFN supply with a gas marketer for the short term; however, FEI is uncertain if similar agreements can be reached in the future if the supply from the Fort Nelson plant continues to decline. FEI believes the gas costs for Fort Nelson might change significantly in the future; however, until that time, and in consideration of the bill impact to FEFN's customers, FEI believes it is more appropriate to set FEFN's midstream rate at five percent of FEI's midstream rate, as this approach ensures that FEFN's midstream rates continue to reflect the significant difference in FEI's and FEFN's midstream costs.

As discussed in Section 5.3.5.1 of the Application, the long-term cumulative impact to FEI's ratepayers of the Proposed Common Rate Option is small. This is demonstrated by the historical analysis provided in Table 5-12 of the Application which shows that if FEFN's midstream rates had been set at five percent of FEI's midstream rates since 2011, the cumulative variance over the 10-year period between 2011 and 2020 would have been approximately $97 thousand, which is equivalent to a cumulative impact of $0.15 for an average FEI residential customer over the entire 10-year period.

13.3 Please confirm, or explain otherwise, that the intent of setting FEFN's midstream rate at 5 percent of FEI's midstream rate is to mitigate "significant negative bill impacts" to FEFN customers. As part of the response, please discuss the threshold FEI applied to determine what is "significant."

Response:

Confirmed. However, as explained in BCUC IR1 13.2, the purpose or intent of the proposal for FEFN's midstream rates is to achieve the greatest alignment of rates (i.e., common rates) between FEI and FEFN as possible while continuing to reflect the only difference between FEI and FEFN that is considered significant, which is the midstream resources as described in BCUC IR1 14.1, and therefore, mitigate the negative bill impacts to FEFN customers of moving to common rates.

FEI considers the term "significant" to be subjective and based on a number of factors, including the context with which the term is being used. FEI did not develop a specific threshold to determine whether the rate impacts to FEFN customers resulting from common rates would be "significant"; however, in the case of common rate Option 3, the bill impacts would likely be viewed as "significant" under any definition or threshold, particularly with regard to residential customers, who would experience (without phase-in) an incremental annual bill impact of $329 due to implementing Option 3.

In Section 5.4 of the Application, FEI explained how it scored the four common rate options against Objective 4 (mitigating the rate impact to FEFN customers of adopting common rates). As explained in this section of the Application, Options 2 (common delivery rates only) and 4 (Proposed Common Rate Option) received green scores because bill savings are achieved for some/all customer classes. Option 1 (status quo) received a yellow score because even though no savings would be experienced by any customer class, when compared to Option 4, the bill increases are smaller. Option 3 received a red score because it results in the largest negative bill impact for all customer classes.

As shown in the response to BCUC IR1 11.3, the average bill impact to FEFN's residential customers for Option 3 and Option 4 is $329 (31.2 percent) and $157 (14.9 percent), respectively, when the proposed phase-in rider for FEFN's residential customers is excluded. FEI believes the difference between the two, which is approximately $172 per year or 16.3 percent, is significant and is predominately due to the difference in midstream rates between the two options. Furthermore, FEI considers the savings available to commercial customers under Option 4 to be significant (i.e., $350 and $3,327 for small and large commercial customers, respectively). As such, FEI believes setting FEFN's midstream rate at 5 percent of FEI's midstream rate would be appropriate given the significant difference between FEFN's and FEI's midstream resources as described in BCUC IR1 14.1 and will help to limit the impact to FEFN's residential customers due to common rates.

13.4 Please discuss the pros and cons of a phased-in transition to FEI's full common midstream rates for FEFN customers.

13.4.1 Please explain why FEFN's midstream rate proposal does not incorporate a phased-in approach to eventually attain full common rates for FEFN customers.

Response:

The advantage of a phased-in transition for FEFN's customers to full common rates is that it would provide a defined timeline to achieve a full transition to common rates between FEI and FEFN without FEFN customers experiencing the significant immediate bill increase which would result from a move to full common rates as proposed under Option 3 (i.e., full common rates with no phase-in). The achievement of full common or postage stamp rates would increase the benefit of fairness (i.e., Objective 3).

The disadvantage of a phased-in transition to full common rates is that there is a greater negative bill impact to FEFN's residential customers compared to the Proposed Common Rate Option (i.e., Option 4) and, instead of bill decreases for FEFN commercial customers, these customers would experience bill increases. As shown in the response to BCUC IR1 15.5, a 10-year phase-in of

Option 3 (full common rates) would result in annual bill increases for residential customers of approximately $33, as opposed to an annual bill increase of approximately $17 under the Proposed Common Rate Option. For small and large commercial customers, a 10-year phase-in of Option 3 would result in annual bill increases of $12 and $412, respectively, compared to an immediate bill decrease for small and large commercial customers of $350 and $3,327, respectively, under the Proposed Common Rate Option.

Please refer to the response to BCUC IR1 13.2 for an explanation of why FEI's midstream rate proposal for FEFN customers does not incorporate a phased-in approach to eventually attain full common rates. Please also refer to the response to BCUC IR1 15.3 for an explanation of why a phased-in common rate transition was not explored for each common rate option, including Option 3.

14.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Section 5.3.5.1, p. 52

Changes to Accounting Treatment required for FEFN's Natural Gas Supply Costs under Option 4

On page 52 of the Application, FEI states:

> Similar to Revelstoke, FEI proposes to capture FEFN's natural gas supply portfolio costs in FEI's existing MCRA. This is because, as discussed in Section 4.3.1.2, the natural gas purchases for FEFN are shaped to the relative level of seasonal consumption, similar to how FEI currently captures the costs for seasonal shaping in FEI's natural gas supply in the MCRA. In contrast, FEI's existing CCRA captures the volumetric purchases for the baseload over 365 days per year.

14.1 Please clarify whether FEFN experiences an amount of baseload consumption over a 365 day per year period.

14.1.1 If so, please explain why FEFN's baseload consumption should not be captured in the CCRA and seasonal consumption captured in the MCRA.

Response:

FEFN experiences seasonal consumption differences by its sales class customers which are not dissimilar to the seasonal consumption differences in the FEI service area's low load factor sales class customers. However, FEFN does not utilize a baseload model for its commodity supply portfolio for the reason explained below.

FEI currently sources the natural gas supply for FEFN from a producer or a gas marketer at the outlet of the Fort Nelson gas processing plant. FEI also contracts for third party transportation capacity on the Westcoast Energy Inc. (Westcoast) T-North system in order to facilitate the movement of commodity supply each day from the plant outlet for delivery to Fort Nelson.

FEI is able to contract firm term supply to Fort Nelson on favourable and flexible terms for its daily requirements; more importantly, FEFN benefits from a unique supply arrangement that allows it to take only what it requires based on the next day's load forecast for Fort Nelson rather than taking 100 percent of the contracted quantity each day.

From an operational perspective, FEI schedules the required amount of gas supply with the supplier and the pipeline each day based on forecast load requirements for the next day. Any excess or shortfall in the commodity supply based on Fort Nelson's demand for the actual gas day is managed via a balancing agreement that FEI has with Westcoast for its overall portfolio. FEI and Westcoast then settle the cumulative imbalance for the overall portfolio due to over-or-under deliveries over time, in order to manage imbalances on a timely basis.

In the future, if the natural gas supply available from the Fort Nelson plant continues to decline, FEI may not be able to negotiate this type of agreement. FEI may then need to source its natural gas supply for FEFN from other supply points such as Station 2 on the Westcoast Energy Inc. system. At that time, FEFN's normalized commodity supply requirements could be incorporated into the FEI Essential Services Model (ESM) and accounted for through the CCRA. FEI's midstream resources, which are accounted for through the MCRA, would need to be utilized more fully in order to balance the baseload commodity supply, based on the normalized annual forecast, to the actual daily seasonal consumption requirements.

Also, on page 52 of the Application, FEI states:

> FEI notes that this accounting treatment is consistent with the amalgamation of Revelstoke's propane supply portfolio costs into FEI's MCRA, which was approved by the BCUC as part of the Revelstoke Propane Portfolio Cost Amalgamation Decision and Order G-245-20. The only difference between the treatment approved for Revelstoke and the proposed treatment for FEFN is that Revelstoke's midstream rates are now equal to FEI's (i.e., full common midstream rates), while for FEFN, under this proposed Option 4, the midstream rates will be set based on 5 percent of FEI's midstream rates in order to maintain FEFN's midstream rates at amounts close to the current rates, thus minimizing the rate increase for FEFN associated with common rates.

14.2 Please explain the reason for the difference in the proposed approach to FEFN's midstream rates under Option 4 versus Revelstoke's midstream rate transition to full common rates.

Response:

The reason for the difference in the proposed approach to FEFN midstream rates under Option 4 versus Revelstoke's approved transition to common gas rates (which included both commodity and midstream rates) is that there is a significant difference between FEI and FEFN's midstream resources and costs which would result in negative rate impacts to FEFN's customers if full common midstream rates were implemented. This is in contrast to Revelstoke, where all rate classes experienced savings due to the transition to common gas rates with FEI. Please refer to the table below which shows the difference in bill impact between FEFN's transition to full common rates under Option 3 and the approved Revelstoke transition to full common rates.

Rate Schedule	Average UPC (GJ)	Average Annual Bill Impact ($)	Average Annual Bill Impact (%)
FEFN Customers			
Reference - BCUC IR1 11.3			
Rate Schedule 1 - Residential Service	125	329	31%
Rate Schedule 2 - Small Commercial	335	118	4%
Rate Schedule 3 - Large Commerical	6,375	4,131	9%
Revelstoke Customers			
Reference - Revelstoke Application (Table 5-1, page 20)			
Rate Schedule 1 - Residential Service	50	(407)	-45%
Rate Schedule 2 - Small Commercial	300	(2,116)	-49%
Rate Schedule 3 - Large Commerical	6,650	(48,259)	-56%

14.3 Please provide the difference in bill impact between Revelstoke's move to common rates versus FEFN's potential move to full common rates under Option 3.

Response:

Please refer to the response to BCUC IR1 14.2.

15.0 Reference: REVIEW OF COMMON RATE OPTIONS

Exhibit B-1, Sections 5.4 and 5.5, pp. 56–58

Evaluation of Common Rate Options

On page 56 of the Application, FEI states:

> Table 5-16 below summarizes the four options and weighs each option against the Objectives. Each option is scored against each objective, with each objective weighted equally. The score for objectives 1 to 3 is based on a score of 2 for Green, 1 for Yellow, and 0 for Red.

Table 5-16 is reproduced below:

Table 5-16: Evaluation of All 4 Options of Common Rates for FEFN

Objectives	Option 1 – Status Quo	Option 2 – Common Delivery Only	Option 3 – Full Common Rates	Option 4 – Common Delivery and Cost of Gas with Midstream @ 5% of FEI
1) **Eliminate regulatory filings and costs**	• No. There is no reduction in regulatory filings per year – stays at: 5.5 • FEFN will continue to bear the full cost of regulatory proceedings.	• Partial. Number of regulatory filings per year reduced to: 4 • Elimination of regulatory costs for RRA and CPCN proceedings.	• Yes. Number of Regulatory filings per year: 0	• Yes. Number of regulatory filings per year: 0
2) **Provide long-term rate stability for FEFN customers**	• No	• Yes	• Yes	• Yes
3) **Achieve fairness across all FEI service areas, including FEFN**	• No	• Partial. Fairness achieved for delivery rates only.	• Yes	• Most components. Fairness achieved for delivery and cost of gas, and accounting of midstream costs is now aligned with FEI (though FEFN is only paying 5% of the midstream costs).
4) **Mitigating rate impact to FEFN customers**	• Bill Impact in 2023: RS 1 = $63 RS 2 = $191 RS 3 = $2,486	• Bill Impact in 2023: RS 1 = $237 RS 2 = ($115) RS 3 = $26 • Incremental to Status Quo: RS 1 = $174 RS 2 = ($305) RS 3 = ($2,460)	• Bill Impact in 2023: RS 1 = $392 RS 2 = $309 RS 3 = $6,618 • Incremental to Status Quo: RS 1 = $329 RS 2 = $118 RS 3 = $4,131	• Bill Impact in 2023: RS 1 = $220 RS 2 = ($159) RS 3 = ($841) • Incremental to Status Quo: RS 1 = $157 RS 2 = ($350) RS 3 = ($3,327)
Total Score (2 for Green, 1 for Yellow, 0 for Red)	1	6	6	8

15.1 Please explain the rationale for the options scoring of Objective 3. Specifically, please address how Options 3 and 4 received the same score (a score of 2 for Green), given the qualifiers listed for Option 4.

Response:

For simplicity of assessing the four common rate options against the Objectives, FEI limited the scoring to three colours and assigned the colours to each option based on whether the option did not meet the Objective (red), somewhat met the Objective (yellow), or substantially or fully met the Objective (green). Had FEI included further gradations to the colour scoring, Option 4 could have been assigned a lighter green for Objective 3. However, on balance, FEI considers that Option 4 is more appropriately assigned a score of green (as opposed to yellow) because it achieves full common rates for FEFN's delivery and cost of gas rates and results in common accounting of FEFN and FEI's gas supply costs. The only remaining difference is that FEFN customers will be allocated 5 percent of the FEI midstream costs. Thus, Option 4 substantially achieves fairness in rates, albeit to a slightly lesser extent than Option 3.

Additionally, when considering the immaterial impact to FEI's customers under Option 4 as shown in the response to BCUC IR1 11.1, there is not any undue unfairness to either FEI or FEFN customers. FEFN customers are still paying their fair share of costs under the midstream rates with essentially no impact to FEI's customers. In other words, the level of fairness is not materially different between Options 3 and 4.

In contrast, even though the impact to FEI's customers for Options 2 and 4 are almost the same and essentially immaterial for both as shown in the response to BCUC IR1 11.1, Option 2 warranted a score of 1 (yellow) because this option will only result in common delivery rates which is only one of the three components of FEI and FEFN bills (delivery, cost of gas, and midstream).

FEI notes that even if FEI were to amend the scoring of Option 4 under Objective 3 to a score of 1 (yellow) or 1.5 (between yellow and green), the total score for Option 4 would still be higher than the other options (i.e., a score of either 7 or 7.5). As such, based on this revised scoring, Option 4 is still the most appropriate option and best able to achieve all four Objectives.

On page 58 of the Application, FEI writes the following:

> Under the Proposed Common Rate Option, FEFN residential customers will see an increase in their bills in 2023 while commercial customers will see a savings, primarily due to the impact of the transition to common delivery rates. FEI seeks to mitigate this bill impact to FEFN's residential customers and, therefore, proposes to phase in the transition of common delivery rates for FEFN's residential

customers over a 10-year period through a phase-in delivery rate rider. FEI notes the phase-in rider will apply to residential customers only while FEFN's commercial customers will fully transition to common delivery rates in 2023. FEI also notes that the phase-in is only applicable to delivery rates and not the cost of gas rates since FEI expects there will be a minimal bill impact (positive or negative) associated with the move to common cost of gas rates.

15.2 Given FEI expects there will be "minimal bill impact" associated with a move to common cost of gas rates and the midstream rate would be held at FEFN's or a similar level for Options 2 and 4, please explain the rationale for the difference in scoring of these options (1 for Yellow and 2 for Green, respectively) for Objective 3.

Response:

Please refer to the response to BCUC IR1 15.1.

15.3 Please explain why a phased-in common rate transition was not explored for each option that resulted in a positive incremental billing impact and additional cost to FEN ratepayers. As part of the response, please explain whether there was a "threshold" increase or savings in bills which FEI applied before it considered phase-in approaches.

Response:

FEI clarifies that for the purposes of evaluating each common rate option, a phase-in analysis was not performed (including for the Proposed Common Rate Option) because whether or not a phase-in approach was utilized, the comparative analysis of the options would not have changed. For example, the scoring of Objective 4 under Table 5-16 of the Application was done based on the bill impact to FEFN's customers that would happen immediately if common rates are implemented in 2023. As such, FEI excluded the phase-in rate rider in its scoring of Option 4 against the other options when evaluating the common rate options against Objective 4.

The comparison between the options would not have changed even if each option was compared with a phase-in rate rider applied. The option that has the highest bill impact over a single year will still have the highest bill impact if spread over multiple years (e.g., ten years). Therefore, Option 4 will still have the least bill impact and the higher overall score than the other options. As such, FEI's approach was to first evaluate all four common rate options and select the "preferred" option based on the assumption that the bill impact of moving to each common rate option occurs immediately. Once the preferred option was selected, FEI then explored the potential of mitigating any negative bill impacts through a phase-in rate rider. Had FEI determined that Option 2 or Option 3 was the preferred option, FEI would have performed a similar phase-in analysis.

FEI does not consider there to be a specific threshold that would have triggered a decision to propose a phase-in approach. Generally, it has been accepted that a double-digit bill increase (i.e., 10 percent or more) in a single year is considered to be rate shock[13]; however, FEI notes that there have been instances where FEFN's rates have increased by more than 10 percent due to the relatively large impact on delivery rates from increases in costs and/or decreases in load. Regardless, FEI did consider the potential for rate shock when determining the proposed phase-in approach for FEFN's residential customers under Option 4.

With regard to bill savings, FEI did not consider a phase-in approach and therefore has not proposed phasing in the bill savings to the commercial customer classes under Option 4. FEI explored a phase-in approach for FEFN's residential customers because they are the only customers that will experience an increase to the annual bill due to the transition to common rates, as shown in Table 5-14 of the Application and also in response to BCUC IR1 11.3. FEI does not believe there is any benefit to FEFN's commercial customers from phasing in the savings. However, FEI is not opposed to implementing a phase-in of the savings to FEFN's commercial customers as part of the move to common rates if such an approach is directed by the BCUC.

For further discussion of the use of a "threshold", please refer to the response to BCUC IR1 13.3.

15.4 Please explain why the impact of a phased-in common rate transition to all customer classes, supported by a rate rider, was not considered as a part of the analysis for all options under Objective 4.

Response:

Please refer to the response to BCUC IR1 15.3.

15.5 Please provide an analysis of Options 2 and 3 for the case where a 10-year phased-in approach is used, similar to Option 4, for all customer classes that would

13 In Section 2.3 of the Elenchus Research Associates Inc. (Elenchus) Rate Design Report for FEI's 2016 Rate Design Application (RDA), dated June 23, 2017, which the BCUC referenced in the RDA Decision and Order G-135-18, Elenchus stated: "Rate shock is an important concept that constrains the pace at which the rates for specific classes, or specific customers within a class, are increasing in a single year.", and "Elenchus has observed that a common threshold for defining a rate/bill increase that constitutes rate shock is a double-digit increase (i.e., 10% or more)".

experience net bill increase. Please include the assessed 10-year billing impacts to FEFN customers and the resulting financial impact to FEI customers.

<u>Response:</u>

Please refer to Tables 1 to 3 below for the 10-year bill impacts to FEFN customers under Options 2, 3, and 4, respectively. Each table also provides the cumulative financial impact to FEI customers due to the phase-in rate rider. For Options 2 and 4, only FEFN residential customers will experience a net bill increase due to common rates; as such, only Residential RS 1 is shown in Tables 1 and 3 below. For Option 3, all three rate classes will experience net bill increases; as such the 10-year bill impact due to common rates is shown for all three rate classes. Furthermore, the forecast 2021 deferred revenue surplus of approximately $94 thousand was applied to FEFN's residential customers only under Options 2 and 4 since only FEFN's residential customers will experience a net bill increase. However, for Option 3, the 2021 deferred revenue surplus was applied proportionally across all three rate classes since all three rate classes will experience net bill increases.

As noted in the response to BCUC IR1 15.3, comparing the options with phase-in applied would not change the result of the preferred option. It can be seen from the tables below that the option that has the least impact over a single year (i.e., Option 4) will also have the least impact over a 10-year period with phase-in implemented since the phase-in was essentially spreading the single year bill impact over multiple years.

Table 1: Option 2 – 10-year Bill Impacts due to Common Rates with Phase-In Rate Rider

Line	Particular	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1	**Option 2**										
2											
3	**<u>FEFN Residential - RS 1</u>**										
4	Average UPC (GJ)	125	125	125	125	125	125	125	125	125	125
5	Average Bill Impact due to Common Rate - Year-to-Year ($)	12	17	17	17	17	17	17	17	17	23
6	Cumulative Bill Impact due to Common Rates ($)	174									
7											
8	Cumulative Rate Impact to FEI - Compared to 2021 Approved (%)	0.15%									
9	Equivalent Cumulative Impact to FEI Residential ($)	0.59									

Table 2: Option 3 – 10-year Bill Impacts due to Common Rates with Phase-In Rate Rider

Line	Particular	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1	**Option 3**										
2											
3	**FEFN Residential - RS 1**										
4	Average UPC (GJ)	125	125	125	125	125	125	125	125	125	125
5	Average Bill Impact due to Common Rate - Year-to-Year ($)	30	33	33	33	33	33	33	33	33	36
6	Cumulative Bill Impact due to Common Rates ($)	329									
7											
8	**FEFN Small Commerical - RS 2**										
9	Average UPC (GJ)	335	335	335	335	335	335	335	335	335	335
10	Average Bill Impact due to Common Rate - Year-to-Year ($)	10	12	12	12	12	12	12	12	12	17
11	Cumulative Bill Impact due to Common Rates ($)	118									
12											
13	**FEFN Large Commerical - RS 3**										
14	Average UPC (GJ)	6,375	6,375	6,375	6,375	6,375	6,375	6,375	6,375	6,375	6,375
15	Average Bill Impact due to Common Rate - Year-to-Year ($)	383	412	412	412	412	412	412	412	412	451
16	Cumulative Bill Impact due to Common Rates ($)	4,131									
17											
18	Cumulative Rate Impact to FEI - Compared to 2021 Approved (%)	0.30%									
19	Equivalent Cumulative Impact to FEI Residential ($)	1.20									

Table 3: Option 4 – 10-year Bill Impacts due to Common Rates with Phase-In Rate Rider

Line	Particular	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1	**Option 4**										
2											
3	**FEFN Residential - RS 1**										
4	Average UPC (GJ)	125	125	125	125	125	125	125	125	125	125
5	Average Bill Impact due to Common Rate - Year-to-Year ($)	(5)	17	17	17	17	17	17	17	17	23
6	Cumulative Bill Impact due to Common Rates ($)	157									
7											
8	Cumulative Rate Impact to FEI - Compared to 2021 Approved (%)	0.15%									
9	Equivalent Cumulative Impact to FEI Residential ($)	0.59									

16.0 Reference: CONSIDERATION OF BONBRIGHT'S RATE DESIGN PRINCIPLES
Exhibit B-1, Section 5.7, 62
Principle 4 – Customer Understanding and Acceptance

On page 62 of the Application, FEI states that it acknowledges the manner in which EFN physically receives gas and its proximity to the Fort Nelson plant has been a key point of FEFN customers' opposition to moving to common rates. As such, FEI's proposals include the following:

(i) to set FEFN's midstream rates at 5 percent of FEI's midstream rates. FEI states "This results in a negligible rate impact to FEFN customers from moving to common commodity rates"; and

(ii) a proposed phase-in rate rider for FEFN's residential customers. FEI states the phase-in rate rider "ensures that the changes will be gradual and small over a 10-year period, which aligns with the principle of ease of acceptance."

16.1 In the event that FEI's common rates proposals are approved, please discuss how FEI plans to ensure a smooth transition and help customers to understand the change. Please provide a specific response to each change that FEFN customers will see.

Response:

If FEI's Proposed Common Rate Option is approved, FEI's communication plan will use some or all of the following four communication channels:

1. Bill messages;
2. Bill inserts;
3. Website content;
4. Social media posts; and
5. Other media as may be appropriate.

These communication channels are consistent with those used following BCUC decisions in the FEU Common Rates and Amalgamation[14], the FEI 2016 RDA[15], and the Revelstoke Propane Portfolio Cost Amalgamation[16].

The objective of FEI's communications plan is to ensure FEFN customers understand the changes and any impacts of the transition to common rates. If proposals are approved as applied for, this will include using the communication channels discussed above to prepare various

[14] Order G-21-14.
[15] Order G-135-18.
[16] Order G-245-20.

communications so customers can be made aware of the changes to various rates and help them understand what impact those changes will have on their bill. In the event that the Proposed Common Rate Option is approved as requested, the following rates will change for FEFN customers:

- Implementation of FEFN's Storage and Transport (midstream) rates at 5 percent of FEI's midstream rates:
  - This component represents a relatively small impact to FEFN's customers since FEFN's current midstream rates are approximately 5 percent of FEI's storage and transport charge[17].
- Implementation of FEFN's Cost of Gas rate set at the same level as the FEI Cost of Gas rate:
  - Similar to the proposed midstream rate changes, the impact of the change to the Cost of Gas rate to equal FEI's Cost of Gas rate will be minimal.
- Implementation of common delivery rates and delivery rate riders for FEFN, including the proposed FEFN Residential Common Rate Phase-in rate rider, applicable to FEFN RS 1 residential customers only over a 10-year period:
  - This component would impact both fixed and variable delivery rates to FEFN customers (including fixed and variable rate riders[18]) and results in a small increase to the variable delivery charge annually over the 10-year phase-in period. The phase-in amounts would be in addition to any annual rate changes to RS 1 that may occur through the annual review or rate setting process in place at the time.
  - Communication of the phase-in amounts will be in conjunction with any other annual rate changes to provide customers with the overall cumulative impact they will see to their bill while providing details as to the individual contributing factors.
  - At the end of the phase-in period, communication will similarly encompass any other annual rate changes at the time.

In addition, FEI will provide training and information about the changes to its customer service representatives so that they will be able to discuss these changes with FEFN customers and answer any questions they may have.

FEI also confirms that there is no change to the bill format required for FEFN customers in the event the common rate proposals are approved because FEI's bill format is the same for all service areas.

[17] Including Midstream Rate Rider 6.

[18] FEI notes that rate riders do not appear as separate line items on customer bills; rather, they are associated with specific line items on the bill and embedded within in each charge.

16.1.1 For FEFN residential customers, please explain how FEI plans to help customers understand the residential phase-in rate rider and the change after the 10-year phase-in period compared to the status quo.

Response:

Please refer to the response to BCUC IR1 16.1.

E. CONSULTATION AND ENGAGEMENT

17.0 Reference: CONSULTATION AND ENGAGEMENT

Exhibit B-1, Section 6.3, p. 67

Stakeholders Impacted by the Application

On page 67 of the Application, FEI states, as part of its engagement planning process, that it identified several groups potentially impacted by and/or who may have an interest in the Application and shared information with the following groups:

- Fort Nelson customers;
- Municipal and regional government of Fort Nelson;
- Industry and industrial associations of Fort Nelson; and
- Fort Nelson Indigenous groups.

17.1 Please confirm, or explain otherwise, that FEI has not shared information about the common rate application with FEI customers, as part of its engagement planning process.

17.1.1 If confirmed, please explain why not.

17.1.2 If not confirmed, please summarize the engagement and information shared with FEI customers and the feedback, if any, from FEI customers.

Response:

Confirmed. As shown in the response to BCUC IR1 11.1, the impact to FEI's customers is immaterial at around 0.02 percent, or approximately $0.20 per year for FEI's residential customers and approximately $3.80 per year for FEI's large commercial customers under the proposed Option 4. Additionally, FEI customers will not experience any changes or differences to how they are currently being served, including any changes to their bills. As such, FEI considered the cost of consultation and engagement (which would be borne by FEI customers) against the impact of the Application proposals to FEI customers, and determined that, given there is no impact to FEI customers beyond a very small bill increase, it was reasonable not to incur the costs to perform specific consultation/engagement activities with FEI customers.

18.0 Reference: CONSULTATION AND ENGAGEMENT

Exhibit B-1, Section 6.1, pp. 66, 68–72, Tables 6-1, 6-2, 6-3; Appendix C-4

Audience Questions at Virtual Town Hall, Additional Information Requested by Survey Participants, and Questions Asked at Fort Nelson Regional Council Presentation

On page 66 of the Application, FEI states:

> As part of the engagement planning process for this Application, FEI has and continues to work to ensure that Indigenous groups and stakeholders are informed about the Application, and that their feedback and concerns are received and appropriately addressed where possible.

On pages 70 to 72 of the Application, FEI provides Tables 6-1 to 6-3, summarizing the questions raised by stakeholders in the following:

- Virtual town hall held on April 27, 2021 (Table 6-1);
- Online survey from March 15, 2021 until June 10, 2021 (Table 6-2); and
- Fort Nelson Regional Council presentation on June 14, 2021 (Table 6-3).

In Appendix C-4 of the Application, FEI provides certain questions and answers related to common rates in a Frequently Asked Questions (FAQ) document. FEI states on page 69 of the Application that the document was added to the webpage fortisbc.com/fortnelsonrates on June 10, 2021.

18.1 Please confirm whether the answers to the questions included in the FAQ document (Appendix C-4) reflect FEI's common rate proposal (Option 4) as presented in this Application given that the FAQ document was added to FEI's website on June 10, 2021 whereas the Application was filed August 12, 2021.

18.1.1 To the extent that there are differences between the answers in the FAQ document and the Application, please identify the questions and answers which would be different and provide an updated answer to the FAQ document, with reference to the Application.

18.1.1.1 If applicable, please explain how stakeholders have been informed of the changes to any answers to the questions with the filing of this Application.

<u>Response:</u>

Not confirmed. However, the purpose of the FAQ document was not to address the specifics of each potential common rate option; the purpose was to inform customers more generally of what a move to common rates might mean for customers and to address the key themes in the questions and comments raised by customers during the virtual town hall held on April 27, 2021 and from the online survey. Further, and as explained below, the majority of questions and comments received (and thus the majority of the answers provided in the FAQ document) were not related to a specific common rate option.

The presentations at the virtual town hall and to the Fort Nelson Regional Council and the Fort Nelson First Nation Chief and Council were primarily focused on the two "bookend" options for common rates in terms of bill impact to FEFN customers that FEI was exploring at that time. These options were common delivery rates only (equivalent to Option 2 of the Application), which at that time was expected to be the option with the least bill impact, and full common rates (equivalent to Option 3 of the Application), which would be the option with the highest bill impact. FEI was clear during these presentations that it was still exploring different options at that time and that the options were not limited to the two options that were presented. Based on feedback received from the virtual town hall and through additional analysis of options to achieve partial alignment of FEI and FEFN's commodity rates, FEI ultimately developed the Proposed Common Rate Option.

Except for one question, as explained in the table below, no changes are required to the answers in the FAQ document to incorporate Option 4. As explained above, the purpose of the FAQ document was not to address the specifics of each potential common rate option but was instead to inform customers more generally of what a move to common rates might mean for customers and to address the key themes in the questions and comments raised by customers during the virtual town hall and from the online survey. Please refer to the table below which highlights the changes in red to the response to one question from the FAQ document. The changes are specific to the dollar amount of bill impacts only.

Questions	Original Answer	Revised Answer (Changed highlighted in Red)
So to go to common rates we are looking at ~30 per cent increase for residential?	This will depend on the options of common rates for Fort Nelson. If common rates is for delivery charge only, the bill impact to residential customers is estimated to be around $100 per year but commercial customers will see savings in their bill ranging from around $300 to $2,000 per year, depending on the consumption level. If common rates is with all three components of the natural gas bill (i.e. delivery, cost of gas, and storage & transport), then the bill impact to residential customers is estimated to be around $280 per year.	This will depend on the options of common rates for Fort Nelson. If common rates is for delivery charge only, the bill impact to residential customers is estimated to be around **$174** per year but commercial customers will see savings in their bill ranging from around **$305** to **$2,460** per year, depending on the consumption level. If common rates is with all three components of the natural gas bill (i.e. delivery, cost of gas, and storage & transport), then the bill impact to residential customers is estimated to be around **$329** per year.

As shown above, there is only one answer from the FAQ document that would have required a change to reflect Option 4, and as stated in that answer, the bill impacts are estimates only. Furthermore, all stakeholders were informed when the Application was filed with the BCUC, either directly through email or indirectly through the public notices, information added to FortisBC's website and postings to social media.

18.2 Please confirm, or explain otherwise, that the questions and answers in the FAQ document in Appendix C-4 are a subset of the questions summarized in Tables 6-1 to 6-4 .

18.2.1 If confirmed, please identify which questions in Tables 6-1 to 6-4 are not answered in the FAQ document and provide the answer to the question with consideration to FEI's common rate proposal (Option 4) as presented in the Application and include reference(s) to the Application if appropriate.

Response:

FEI does not agree with the characterization that the questions and answers in the FAQ document are a "subset" of the questions summarized in Tables 6-1 to 6-4, as this implies that FEI only responded to the questions included in the FAQ document. As explained in the Application, FEI responded to most of the questions directly at the virtual town hall, the Regional Council meeting and at the meeting with the Chief and Council of the Fort Nelson First Nation. FEI also received follow-up questions subsequent to the virtual town hall which were responded to via email.

FEI developed the FAQ document based on the questions or comments that were received from the online survey and during the virtual town hall held on April 27, 2021. In developing the FAQ document, FEI sought to group specific questions into themes or topics and provided responses based on these themes/topics, as a number of questions were simply variations on the same theme. Further, the purpose of the FAQ document was to provide relevant information to as many people as possible in language that would be as easily understandable as possible, particularly since FEI responded to the majority of stakeholders' specific questions at the events/presentations themselves.

There are two questions contained in Table 6-2 (i.e., information requested by survey participants) which were not covered generally by the FAQ document – questions 1 and 3 in Table 6-2. However, these questions have been addressed in the Application and/or in IR responses. Question No. 1 regarding maintenance and upgrade projects is addressed in Section 4.3.3.2 of the Application and in the responses to BCUC IR1 5.1 and 5.2. Question No. 3 regarding other examples of FortisBC implementing common rates is addressed in Section 3 of the Application and in the responses to RCIA IR1 1.1 and 1.2.

With respect to FEI's Proposed Common Rate Option (Option 4), as discussed in the response to BCUC IR1 18.1, the answers provided in the FAQ document are still applicable. With the exception of one question where the dollar amounts could be updated to align with Option 4 (please see these updates in the response to BCUC IR1 18.1), there would be no difference in the answers developed for the FAQ document regardless of FEI's proposed option in the Application.

In response to the question "Is FortisBC planning more system improvements in the area?" in Appendix C-4, FEI writes, "There are several upgrades that our system in Fort Nelson requires over the coming years. That is why this common rates application makes sense, so Fort Nelson residents are not forced to bear the financial burden of these upgrades <u>on their own</u>." [Emphasis added]

FEI also states, in response to the question "While rate changes may be smoother - currently if we look at 2021 rates Fort Nelson is about 25 per cent less than the Mainland based on the same usage. What is planned that would bring that gap closer?":

> Currently, natural gas rates (including delivery, cost of gas, and storage & transport) for Fort Nelson residential customers are about 25 percent lower than the rest of FortisBC customers while small and large commercial customers' rates

> are about two percent and seven percent lower than that of FortisBC customers. FortisBC is exploring a number of different common rates options in order to mitigate the difference in rates between Fort Nelson customers and the rest of FortisBC. FortisBC is upgrading its natural gas infrastructure in Fort Nelson in order to continue to deliver safe and reliable energy to its customers. Rates for Fort Nelson customers have been steadily increasing to cover the cost of these upgrades. As these upgrades continue, the cost of these upgrades are currently covered by approximately 2,400 customers in Fort Nelson. By merging Fort Nelson into our larger rate base, the cost of these upgrades will be spread out over a million customers. By spreading the cost of future upgrades across a larger rate base, future rate impacts for Fort Nelson customers may be lessened. [Emphasis added]

18.3 Please confirm, or explain otherwise, that the responses to the questions above indicates that FEI customers will be subsidizing Fort Nelson customers by moving to common rates. If confirmed, please elaborate on the fairness of moving to common rates from the perspective for Fort Nelson and FEI customers, respectively.

Response:

Not confirmed. The responses to the questions above were not indicating that FEI customers will be subsidizing Fort Nelson customers. Rather, the responses to the questions above were highlighting the rate stability benefits of common rates, due to the ability to spread costs over all customers, rather than FEFN customers bearing costs on their own.

Moreover, as discussed in the response to BCUC IR1 2.1, moving FEFN to common rates would reduce cross-subsidization rather than increase it. As explained in the Application (Section 5.2.3 and Table 5-18) and in the response to BCUC IR1 10.1, there is very little difference in the cost to deliver energy between FEFN and FEI, due in large part to the fact that the majority of FEFN's costs are currently determined based on FEI's costs and rates (e.g., through the shared services fee charged to FEFN and the depreciation, net salvage and financing rates which are flowed through to FEFN based on FEI's approved rates). As such, the current rates for FEFN are not representative of the true regional differences in the costs to serve between FEFN and FEI, and it is difficult to justify the continuing rate disparity between FEFN and other FEI customers for essentially the same service of delivering energy when most customers pay the same rates regardless of location. Under common rates, all FEI customers within the same rate class, including those in FEFN, will pay the same rate for the same level of service regardless of their location.

The statutory standard in the *Utilities Commission Act* (UCA) does not disapprove or disallow rates that will subsidize other customers, but rather a utility is not allowed to charge rates that are "unjust, unreasonable, unduly discriminatory or unduly preferential". Regardless of the rate structure chosen, cross-subsidization to some degree occurs amongst customers within a rate schedule, based on where they are on the system, when they joined the system, when they use gas (at peak times versus non-peak times) and how often the customers avail themselves of services such as calling the contact centre. Each of FEI's customers, within and across rate schedules, generally cost different amounts to serve. As part of the BCUC's Decision and Order G-245-20 approving common commodity rates for FEI's Revelstoke propane customers, the BCUC reiterated that it has "recognized the application of postage stamp rates as both just and reasonable in several instances throughout the province, and as an appropriate means of allocating costs to various customer groups."[19]

While the Proposed Common Rate Option will have a neutral impact to the rate stability of FEI ratepayers, it will significantly improve rate stability for FEFN ratepayers. FEI will experience regulatory efficiency from having one set of filings for gas cost reporting, revenue requirement filings and other regulatory reports that are currently applicable to both FEI and FEFN. All of the aforementioned changes would be in the public interest.

[19] Appendix A to Order G-245-20, p. 26.

19.0 Reference: CONSULTATION AND ENGAGEMENT

Exhibit B-1, Section 6.4.1, p. 73

Impacted Indigenous Communities

On page 73 of the Application, FEI states that there are two Indigenous groups in the Fort Nelson area. FEI states:

> FNFN [Fort Nelson First Nation] has residential customers on Reserve lands who are directly billed by FEI, while Prophet River First Nation is currently and FEI commercial customer… [*Emphasis added*]

19.1 For clarity, please confirm whether FNFN residential customers and Prophet River First Nation are customers of FEFN or FEI. To the extent that they are customers of FEI, please clarify the impact on FNFN residential customers and Prophet River First Nation if common rates with FEI are approved for FEFN.

Response:

FEI clarifies that the references to "FEI" on page 73 of the Application (as provided in the preamble) were a typographical error and should have referred to "FEFN". Both the customers within Fort Nelson First Nation (FNFN) Reserve lands and Prophet River First Nation (PRFN) are currently customers of FEFN. (Note that as FEFN is a service area of FEI, all FEFN customers are also customers of FEI.) Accordingly, the analysis of the bill impacts to FEFN customers from moving to the Proposed Common Rate Option provided in the Application is also applicable to FNFN and PRFN customers, as they are part of FEFN's customer base.

20.0 Reference: CONSULTATION AND ENGAGEMENT

Exhibit B-1, Section 6.4.2, pp. 73–74

Engagement with Indigenous Communities

On pages 73 to 74 of the Application, FEI described how it has been engaging with affected Indigenous groups in the Fort Nelson service area, as follows:

- Email and follow emails informing the Chief and Council of the Application;
- Sharing and repositing of social media on Fort Nelson First Nation social media channels advertising the public virtual town hall;
- Offering a separate presentation of the Application, the regulatory process and the potential impacts on each Indigenous community to Fort Nelson First Nation (FNFN) and Prophet River First Nation (PRFN).

FEI states on page 74, as at the time of the filing the Application (i.e. August 12, 2021), that it has not received a response from PRFN.

Further on page 74, FEI states that it will continue to keep both Indigenous groups informed and offer meetings as appropriate throughout the Application process.

Order G-97-17 provides that Participant Assistance/Cost Award (PACA) funding is available to participants in a proceeding pursuant to section 118 of the Utilities Commission Act. The BCUC has published PACA Guidelines[20] on the nature of costs that PACA covers and provides guidance to participants on how to apply for PACA funding.

20.1 Please describe FEI's engagement activities with FNFN and PRFN since the filing of the Application, including communication FEI has had with FNFN and PRFN and why were these communication method(s) selected.

Response:

FEI has informed both FNFN and PRFN of the filing of the Application via email (please refer to Attachment 20.1) with an offer to provide more information, if requested. The emails included Order G-277-21. Due to COVID-19 pandemic restrictions, both communities are closed to visitors, which is why FEI selected email as the method of communication.

20.2 Please explain and describe the extent to which FEI has assisted FNFN and PRFN in their participation on the Application and regulatory process, including whether FEI has made FNFN and PRFN aware of the PACA Guidelines and PACA funding

20 https://docs.bcuc.com/documents/Guidelines/2021/G-97-17_BCUC_PACA-Guidelines.pdf.

available or provided or intends to provide other capacity funding to enable their participation.

Response:

FEI has working relationships with both First Nations and is in regular dialogue; however, the conversations thus far have not involved discussions on PACA funding. As discussed on pages 73 and 74 of the Application and referenced in the preamble, FEI has engaged with both FNFN and PRFN during the development of the Application with emails and offered to provide separate presentations regarding the Application to each community. FEI has also forwarded the public notice as directed by Order G-277-21 to both FNFN and PRFN which included information on how to participate in the regulatory process.

Prior to the Application being filed, FEI attended a virtual meeting with the FNFN Chief and Council on May 18, 2021. At this meeting, FEI presented on the Application. This presentation included an explanation of what it means to be a regulated utility and how the regulatory process works. As part of the information provided, FEI explained the various ways that the FNFN could participate in the BCUC process (i.e., registering as an intervener, registering as an interested party, or filing a letter of comment) and explained what the level of involvement that each of these options would enable. FEI did not specifically explain the PACA Guidelines or the PACA funding process; however, FEI notes that the FNFN did not have any questions related to the portion of FEI's presentation on the regulatory process.

With regard to the PRFN, as mentioned on page 74 of the Application, FEI has not received any correspondence regarding the Application.

FEI does not presume whether a First Nation wants or needs capacity funding. Should a First Nation request capacity funding, FEI accommodates that request and works directly with the requesting Nation to determine an appropriate level of funding.

21.0 Reference: CONSULTATION AND ENGAGEMENT

Exhibit B-1, Section 6.4.3, p. 74, Table 6-4

Questions from Fort Nelson First Nation Chief and Council

On page 74 of the Application, FEI states that the Fort Nelson First Nation (FNFN) invited FEI to provide a virtual presentation to the Chief and Council on May 18, 2021. Table 6-4 on page 74 (reproduced below) summarizes the questions raised during the presentation:

Table 6-4: Summary of Questions from Fort Nelson First Nation Chief and Council

Topic	Question
Rates	What are common rates as opposed to special rates?
	Can costs be reduced if gas were coming from a local LNG facility that has been / is being built in the First Nation?
	What is the average increase in rates?
	What would the average cost of gas to each unit/dwelling in the FNFN area be?
Infrastructure	Where is the gas currently coming from?
	Are there any capital projects planned?
General	Is this proposal of common rates just to increase FortisBC profits?
	With the pandemic and all that is trying for those of us living in the North, now may not necessarily be the best time to join the Fort Nelson service area with FEI; however, as the commercial rates could potentially decrease significantly, this is also kind of a "catch-22" for whether the change in rates will benefit Fort Nelson customers.

21.1 Please explain how FEI's common rate proposal (Option 4) does/does not accommodate the concerns of the FNFN Chief and Council as raised in the questions on the May 18, 2021 presentation, and in particular the following questions:

(i) Can costs be reduced if gas were coming from a local LNG facility that has been / is being built in the First Nation?

(ii) Is this proposal of common rates just to increase FortisBC profits?

(iii) With the pandemic and all that is trying for those of us living in the North, now may not necessarily be the best time to join the Fort Nelson service area with FEI; however, as the commercial rates could potentially decrease significantly, this is also kind of a "catch-22" for whether the change in rates will benefit Fort Nelson customers.

Response:

FEI believes the Proposed Common Rate Option (Option 4) accommodates many of the concerns raised by the FNFN Chief and Council during the May 18, 2021 presentation. As shown in Table 6-4 of the Application, the concerns from the FNFN Chief and Council were primarily related to the increase in rates due to common rates, the cost of gas in their bills, and also future capital projects. The Proposed Common Rate Option will result in immediate savings for commercial customers within the Reserve lands of FNFN while the immediate negative impact to residential customers will be mostly mitigated by the proposed residential phase-in credit rate rider. Further, since FEI's proposal will set FEFN's midstream rates at 5 percent of FEI's midstream rates, FEFN customers, including those within the Reserve lands of FNFN, will pay a similar level of midstream costs to their current costs. Also, as discussed in Section 4.3.3 of the Application, with common delivery rates, future capital additions in the FEFN service area would be shared by all FEI customers, including FEFN, thereby limiting the delivery rate impact to FEFN customers due to capital additions within the FEFN service area.

The following addresses the three specific questions highlighted by this information request:

i) **Can costs be reduced if gas were coming from a local LNG facility that has been / is being built in the First Nation?**
This question is unrelated to common rates and the construction of such a project would be dependent on many factors unrelated to any of FEI's common rate proposals. However, should common rates be implemented and an LNG facility were constructed by or in partnership with the FNFN, to the extent that the costs of such a project were to be borne by all customers, it would be much less impactful to FEFN customers under common delivery rates with FEI. FEI is unable to predict whether a local LNG facility within FNFN could reduce gas costs, but would be open to exploring such a project with the FNFN and indicated as such at the Chief and Council meeting.

ii) **Is this proposal of common rates just to increase FortisBC profits?**
The move to common rates is designed to be revenue-neutral. None of the common rate proposals will change FEI's approved capital structure and earned return because FEFN is not a separate entity from FEI; thus FEI and FEFN share the same capital structure. Therefore, there is no impact to FEI's profits from any of the common rate proposals.

iii) **With the pandemic and all that is trying for those of us living in the North, now may not necessarily be the best time to join the Fort Nelson service area with FEI; however, as the commercial rates could potentially decrease significantly, this is also kind of a "catch-22" for whether the change in rates will benefit Fort Nelson customers.**
FEI notes this is more a comment by the Chief and Council of FNFN rather than a question and that the Chief and Council is demonstrating their understanding of the potential benefits to commercial customers under common rates. The Proposed Common Rate Option is consistent with the Chief and Council's statement regarding commercial customers as they will see immediate savings in their bills. Additionally, the Proposed Common Rate Option addresses concerns regarding bill impacts to residential customers through the implementation of the phase-in credit rate rider. FEI also notes that while it is difficult to predict the continued impact of the COVID-19 pandemic, the implementation of the Proposed Common Rate Option would not be until 2023. At that time, the impacts of the pandemic may have lessened or may even no longer be a factor.

F. IMPLEMENTATION AND ACCOUNTING MATTERS

22.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Section 4.3.1.1, p. 20

Operational Effects of Common Rates

On page 20 of the Application, FEI states: "With regard to O&M, FEFN is supported by two direct full-time field employees who reside in Fort Nelson, while the remainder of the management, operational and administrative activities are provided by FEI's resources through Shared Services."

22.1 Please discuss how FEFN operations will change, if at all, from the move to common rates and the resulting impacts on FEI's base O&M.

Response:

There will be no change to the operations in the Fort Nelson service area. The field employees in Fort Nelson will continue to serve the Fort Nelson service area, and the supporting operations, management, and administrative activities will continue to be provided by other departments within FEI. Please refer to the response to BCUC IR1 24.1 for the impact to FEI's base O&M.

22.2 Please confirm whether FEI will continue to track revenues and delivery margin by service area for the Fort Nelson region.

Response:

FEI will continue to track revenues and delivery margin between different regions, including the Fort Nelson region. The Fort Nelson region will be added to the breakdown by region in FEI's Annual Report[21], which currently includes the Lower Mainland, Inland, Columbia, Vancouver Island, and Whistler regions.

[21] Pages 17, 18 and 19 of FEI's Annual Report.

23.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Section 7.1.2, p. 77

Changes to FEI's Rate Base

On page 77 of the Application, FEI states:

> The amalgamation of the FEI and FEFN rate bases would result in only a minor increase to FEI's rate base. For instance, FEFN's approved 2021 rate base is approximately $12.503 million, which represents approximately 0.2 percent of FEI's approved 2021 rate base of $5.212 billion.

23.1 Please provide an illustrative delivery rate and revenue deficiency impact for FEI customers, had FEFN's 2021 rate base been amalgamated with FEI's in 2021.

Response:

The BCUC has asked a number of IRs seeking to understand the impact to FEI's delivery rates and revenue deficiency for certain individual components of FEI's revenue requirement that would change as a result of implementing common rates (i.e., BCUC IR1 24.1, 25.3 and 26.1). FEI notes that it is not meaningful to isolate the impact of a change to only one component of its revenue requirement because, if common delivery rates are implemented, all elements of FEFN's revenue requirement will need to be incorporated into FEI's revenue requirement, as explained in Section 7 of the Application (e.g. formula O&M, growth capital, and sustainment capital). As such, FEI has calculated the total incremental impact to its delivery rates and deficiency of adopting common rates, which includes the individual components requested in BCUC IR1 24.1, 25.3, and 26.1, as well as the offsetting revenue from FEFN. FEI has undertaken this analysis for 2021 as requested in this IR, but also included the years 2020 and 2022 as these years were requested in the other IRs.

Please refer to the table below which shows the impact to FEI's approved delivery rate and approved deficiency for 2020, 2021 and 2022 if common rates between FEI and FEFN were implemented with FEFN's rate base amalgamated with FEI's rate base starting in 2020.

- The net O&M expenses shown on Line 9 are FEI's incremental O&M had FEFN's customer count been included in FEI's inflation indexed O&M since 2020 (with FEI's UCOM adjusted to account for FEFN) as shown in the response to BCUC IR1 24.1.
- For the FEFN growth capital and sustainment and other capital as shown in BCUC IR1 25.3 and 26.1, respectively, the resulting incremental impact to FEI's revenue requirement is included in depreciation, income tax and earned return[22]. FEI also notes the analysis

[22] Since both FEI and FEFN's sustainment and other capital are developed on a forecast basis rather than a formula, the effect of FEFN's sustainment and other capital on FEI's depreciation, income tax and earned return would be the same as the FEFN's revenue requirement approved for those years.

below includes the proposed phase-in rider for FEFN's residential customers, assumed for this purpose to begin in 2020.

As the table below shows, the impact to FEI of amalgamating FEFN's rate base and revenue requirement with FEI, including offsetting revenues from FEFN, is small. Over the three-year analysis period (2020 to 2022), there would have been virtually no impact to FEI's customers.

Line	Particular	Reference	2020 Approved	2021 Approved	2022 Approved
1	FEFN Mid-Year Rate Base ($000s)	2020: G-48,19; 2021: G-78-21; 2022: App E-1; See Note 1	12,633	13,554	15,228
2					
3	FEFN Incremental Earned Return				
4	Debt Component	2020: G-48,19; 2021: G-78-21; 2022: App E-1	391	393	428
5	ROE	2020: G-48,19; 2021: G-78-21; 2022: App E-1	426	457	513
6	Total Incremental Earned Return ($000s)	Line 4 + Line 5	817	850	941
7					
8	Incremental Delivery Margin due to FEFN				
9	O&M Expense - Incremental to FEI Inflation Indexed O&M (Net)	BCUC IR1 24.1	677	514	529
10	Depreciation & Amortization	2020: G-48,19; 2021: G-78-21; 2022: App E-1; See Note 1	596	605	711
11	Property Tax	2020: G-48,19; 2021: G-78-21; 2022: App E-1	128	151	159
12	Other Revenue	2020: G-48,19; 2021: G-78-21; 2022: App E-1	(17)	(14)	(19)
13	Income Tax	2020: G-48,19; 2021: G-78-21; 2022: App E-1; See Note 1	104	38	57
14	Earned Return	Line 6	817	850	941
15	Subtotal FEFN Incremental Delivery Margin ($000s)	Sum of Line 9 to 14	2,305	2,145	2,378
16	FEI non-bypass Forecast Delivery Margin ($000s)	2020 & 2021: G-319-20; 2022: G-366-21	830,268	879,479	957,018
17	Total Amalgamated non-bypass Forecast Delivery Margin ($000s)	Line 15 + Line 16	832,573	881,624	959,396
18					
19	Forecast Margin at FEI Existing Rate				
20	FEI (Non-bypass)	2020 & 2021: G-319-20; 2022: G-366-21	813,968	824,897	885,532
21	FEFN (Non-bypass)	FEFN Demand at FEI Existing Rates	2,003	2,104	2,219
22	Total Amalgamated non-Bypass Forecast Margin at Existing Rate ($000s)	Line 20 + Line 21	815,971	827,001	887,751
23					
24	Total Amalgamated Deficiency/(Surplus)	Line 17 - Line 22	16,602	54,623	71,645
25	Delivery Rate Change - FEI & FEFN (%)	Line 22 / Line 24	2.03%	6.60%	8.07%
26					
27	Total FEI 2021 Approved Deficiency ($000s)	G-319-20, 2021: Schedule 1, Line 28, Column 3	16,300	54,582	71,486
28	**Impact on FEI 2021 Approved Deficiency ($000s)**	**Line 24 - Line 27**	**302**	**41**	**159**
29					
30	FEI 2021 Approved Delivery Rate Change (%)	G-319-20, 2021: Schedule 1, Line 31, Column 3	2.00%	6.62%	8.07%
31	**Impact on FEI 2021 Delivery Rate Change (%)**	**Line 25 - Line 30**	**0.03%**	**-0.02%**	**0.00%**

24.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Sections 4.3.1.1, 7.1.3.1, pp. 20, 77

Changes to FEI's Formula O&M Expense

On page 77 of the Application, FEI states:

> Under the MRP, FEI's annual O&M expense is primarily determined by formula. FEI was approved for a Base O&M per Customer (UCOM) amount as part of the MRP Decision, and this UCOM is escalated annually by an inflation factor less a productivity improvement factor, or a net inflation factor. In order to account for FEFN's O&M as part of FEI's formula O&M, FEI will add FEFN's forecast 2023 customer count to FEI's forecast 2023 customer count… To illustrate the impact of this on FEI's formula O&M, had FEFN's customer count been added to the calculation of FEI's 2021 formula O&M, FEI's O&M would have increased by $932 thousand, which is comparable to FEFN's approved 2021 gross O&M expense of $935 thousand. This increase to FEI's formula O&M equates to an increase of 0.34 percent (FEI's approved 2021 formula O&M is $272.5 million).

On page 20 of the Application, FEI states, "With regard to O&M, FEFN is supported by two direct full-time field employees who reside in Fort Nelson, while the remainder of the management, operational and administrative activities are provided by FEI's resources through Shared Services."

24.1 Please provide the illustrative impact on FEI's formula O&M in dollars, had FEFN's customer count been added to the calculation of FEI's formula O&M, for 2020 and 2022.

24.1.1 Please discuss whether the illustrative impacts provided in the response above are comparable to FEFN's 2020 approved and 2022 forecast gross O&M expense. If not, please explain FEI's rationale for considering the 2021 illustrative impact only.

<u>Response:</u>

FEI clarifies that the illustrative example referenced in the preamble is a high level estimate of incorporating FEFN into FEI's formula O&M and was used for the purpose of demonstrating that, given FEFN's comparatively small amount of O&M, the impact to FEI's formula O&M from moving FEFN to common rates is expected to be minor. It is not a true representation of the required adjustments nor the actual impact to FEI's formula O&M in 2021 of incorporating FEFN into the calculation of FEI's formula O&M.

To reflect the actual adjustment that would be required to FEI's formula O&M if common rates are approved, please refer to Table 1 below which shows the calculation of the total FEI and FEFN formula O&M (i.e., Line 34) and the incremental net O&M expense to FEI (i.e., Line 42) in 2020, 2021, and 2022. FEI's formula O&M is calculated based on a continuity of the base unit cost O&M (UCOM), the approved net inflation factor, and the average customer count in each year. Assuming common rates for FEFN were to be effective 2020, then a one-time adjustment to the Base UCOM in 2020 is required (i.e., the first year of common rates; Lines 1 to 6 in Table 1 below). As discussed in the response to BCUC IR1 24.3, FEI's Base UCOM is required to be adjusted to include FEFN since it was developed in accordance with the MRP Decision and Order G-165-20 which did not include FEFN O&M costs and customer counts.

As shown in Table 1 below, the impact to FEI's O&M due to the inclusion of FEFN in FEI's formula O&M is minimal, ranging from an increase of 0.22 percent to 0.31 percent of FEI's O&M. It is not possible nor appropriate to evaluate the delivery rate impact to FEI from only the change to O&M expense without considering other components of the revenue requirement, including the offsetting revenues that would have come from FEFN. For a comprehensive view of the impact to FEI's deficiency and delivery rates for 2020, 2021, and 2022 (assuming common rates were implemented in 2020), please refer to the response to BCUC IR1 23.1.

Table 1: Calculation of FEI & FEFN Formula O&M in 2020, 2021, and 2022 (Assuming Common Rates were Implemented in 2020)

Line	Particular	Reference	2020 Approved	2021 Approved	2022 Forecast
1	**Base Unit O&M adjustment due to FEFN**				
2	2019 FEI Base O&M (Actual)	G-165-20 Decision, Page 5, Table 3	253,790		
3	2019 Average Customers (Actual)	G-165-20 Decision, Page 5, Table 3	1,031,862		
4	2019 FEFN Gross O&M (Actual)	FEFN 2019 Annual Report, Page 21	821		
5	2019 Average Customer (Actual)	FEFN 2019 Annual Report, Page 18	2,378		
6	**Base O&M per Customer (FEI & FEFN Combined)**	**(Line 2 + Line 4) / (Line 3 + Line 5)**	**246.18**		
7					
8	**FEI & FEFN Combined Inflation Indexed O&M**				
9	Prior year Base Unit Cost O&M	Prior Year; Line 11; For 2020, Line 6	$ 246.2	$ 251.8	$ 260.0
10	Net Inflation Factor	FEI 2022 Annual Review, Schedule 3, Line 9	2.290%	3.253%	3.324%
11	Base Unit Cost O&M	Line 9 x (1 + Line 10)	$ 251.8	$ 260.0	$ 269.0
12					
13	**FEFN Growth in Average Customer Calculation**				
14	FEFN Average Customer Forecast - Prior Year	Prior Year; Line 15; For 2020, G-48-19, Schedule 27, Line 15, Col 9	2,423	2,409	2,331
15	FEFN Average Customer Forecast - Test Year	Avg No. of Customers (2020: G-48-19; 2021: G-78-21; 2022: App E1)	2,409	2,331	2,314
16	FEFN Average Customer Change	Line 15 - Line 14	(14)	(78)	(17)
17	Customer Growth Factor Multipler	G-165-20	75%	75%	75%
18	FEFN Change in Customer - Rate Setting Purpose	Line 16 x Line 17	(11)	(59)	(13)
19					
20	**FEFN Average Customer Continuity for Rate Setting Purpose**				
21	Average Customer Forecast - Prior Year	Prior Year; Line 23	2,423	2,413	2,354
22	Change in Customers - Rate Setting Purpose	Line 18	(11)	(59)	(13)
23	Average Customer Forecast - Rate Setting Purposes	Line 21 + Line 22	2,413	2,354	2,341
24					
25	**FEI & FEFN Combined Average Customer Forecast - Rate Setting Purpose**				
26	FEFN Average Customer Forecast - Rate Setting Purpose	Line 23	2,413	2,354	2,341
27	FEI Average Customer Forecast - Rate Setting Purpose	Schedule 20; 2020 & 2021: G-319-20, 2022: G-366-21	1,040,410	1,047,935	1,059,333
28	Total FEI & FEFN Average Customer Forecast	Line 26 + Line 27	1,042,823	1,050,289	1,061,674
29					
30	**FEI & FEFN Combined Inflation Index O&M**				
31	FEFN Inflation Index O&M	Line 11 x Line 26 / 1000	608	612	630
32	FEI Inflation Index O&M	Line 11 x Line 27 / 1000	261,996	272,463	284,961
33	Prior Year Average Customer True-up for FEI ($000s)	2022 Only: G-366-21 (Schedule 20, Line 10)	-	-	258
34	**Total FEI & FEFN Inflation Index O&M ($000s)**	**Sum of Line 31 to Line 33**	**262,604**	**273,075**	**285,848**
35					
36	Approved FEI Inflation Indexed O&M ($000s)	2020 & 2021: G-319-20; 2022: Annual Review for 2022 Rates	261,798	272,463	285,219
37	Incremental due to FEFN ($000s)	Line 31	608	612	630
38	Incremental to FEI due to increase of UCOM ($000s)	Line 32 + Line 33 - Line 36	198	0	(0)
39	**Incremental Inflation Indexed O&M due to FEFN ($000s)**	**Line 34 - Line 36**	**806**	**612**	**629**
40					
41	Less: Capitalized Overhead ($000s)	Line 39 x -16%	(129)	(98)	(101)
42	**Total Incremental Net O&M Expense ($000s)**	**Line 39 + Line 41**	**677**	**514**	**529**
43	% Increase to FEI's Gross O&M Expense	Line 39 / Line 36	0.31%	0.22%	0.22%

Table 2 below provides FEFN's 2020 Approved, 2021 Approved, and 2022 Forecast gross O&M (Line 1) and compares these amounts to the incremental inflation-indexed O&M calculated using FEI's approved MRP formula O&M approach (Line 2 or Line 31 of Table 1 above). As Table 2 below shows, if FEFN was included in the calculation of FEI's formula O&M, the incremental O&M for FEFN would be lower than FEFN's gross O&M that was approved/forecast separately from FEI. However, there is little comparative value to these amounts as one is a forecast-based O&M (with a large portion related to the shared service allocation from FEI) while the other is a performance-based or indexed-based O&M. FEI is not proposing to move FEFN to its own separate performance-based or indexed-based rate-setting regime. For the purposes of including FEFN in FEI's approved MRP, which as explained above includes a formula O&M amount that is calculated based on a continuity of the base unit cost O&M (UCOM), the simplest approach is to add FEFN's customer count to FEI in 2023, thus increasing the average number of customers escalating FEI's formula O&M.

With regard to the question in BCUC IR1 24.1.1 about the appropriateness of using 2021 to illustrate the impact to FEI's formula O&M, as explained above and shown in Table 1 above, under any of the years 2020 through 2022, the impact to FEI's O&M would be similar and small.

Table 2: Comparison of FEFN's Existing Approved/Forecast O&M to FEFN's O&M if Calculated using FEI's O&M Formula Approach (Assuming Common Rates were Implemented starting 2020)

Line	Particular	2020 Approved	2021 Approved	2022 Forecast
1	FEFN Gross O&M ($000s)	1,015	935	976
2	Incremental Inflation Indexed O&M due to FEFN ($000s)	608	612	630
3	Difference	(407)	(323)	(346)

24.2 Please provide the impact on FEI's 2020 and 2021 Approved and 2022 Forecast delivery rate increases and revenue deficiencies/surpluses, had FEFN's customer count been added to the calculation of FEI's formula O&M.

Response:

Please refer to the response to BCUC IR1 23.1. Further, as discussed in the response to BCUC IR1 24.1, it is not possible nor appropriate to evaluate the delivery rate impact to FEI from changing only the O&M expense without considering other components of the revenue requirement, including the offsetting FEFN revenues. In the response to BCUC IR1 23.1, FEI provides a comprehensive view of the impact to FEI's deficiency and delivery rates for 2020, 2021 and 2022 (assuming common rates begin in 2020) that includes all components of FEFN's revenue requirement.

24.3 Please explain the rationale for why no change to FEI's UCOMas per the MRP Decision is needed given that FEI's UCOM was established excluding Fort Nelson costs and customers. Please include in the response the rationale as it relates to the current incremental direct cost of FEFN's operations and any potential costs savings arising from efficiencies gained in moving to common rates.

Response:

FEI clarifies that it will make a one-time adjustment to its Base unit cost O&M (UCOM) in the first year that common rates are effective (this adjustment would be made in 2023 if common rates are approved as applied for) to incorporate the impact on FEI's O&M of including FEFN's customer base with FEI. Please refer to the response to BCUC IR1 24.1 for a sample calculation of the Base UCOM adjustment.

This approach is consistent with how FEVI and FEW were approved to be incorporated into FEI's formula O&M under FEI's 2014-2019 Performance-based Rate-making (PBR) Plan. Since FEI's Base O&M under the 2014-2019 PBR Plan was set prior to FEVI and FEW being included as part of the amalgamated FEI utility, FEI's Base O&M was adjusted in 2015 (i.e., the second year of the PBR Plan term) to incorporate the O&M from FEVI and FEW.

With respect to potential cost savings or efficiency gains as a result of common rates, regardless of how the O&M is set under FEI, the costs savings with efficiencies gained from common rates will be associated with the elimination of regulatory burden and costs as discussed in Section 5.2.1 of the Application. Beyond these savings, any potential for increased productivity in terms of direct costs from FEFN will mirror that in FEI, since the distribution systems and maintenance of the systems are essentially the same between FEI and FEFN. The difference in O&M shown in Table 2 of the response to BCUC IR1 24.1 is simply because FEI's O&M is set under a performance-based or indexed-based rate-setting regime. Given the small impact of incorporating FEFN's O&M with FEI, the simplest approach is to add FEFN's customer count to FEI's customer count in calculating FEI's formula O&M under common rates.

24.4 To the extent possible, please provide in a table FEFN's 2020 Actual to 2022 Forecast O&M expense expressed per customer based on the calculation methodology approved for FEI in the MRP Decision and compared to FEI's approved and forecast UCOM for the same period.

Response:

Please refer to the table below for a calculation of FEFN's Gross O&M expense per customer (average customer count based on 2020 Actual, 2021 Projected, and 2022 Forecast) using the indexed-based formula approach utilized by FEI as part of FEI's approved MRP, and also compared against FEI's approved/forecast Base Unit Cost O&M (UCOM) for the same period. However, the amounts provided in the "FEFN Gross O&M calculated as FEI Inflation Indexed O&M" line item in the table below are not based on FEFN's approved or actual (or forecast) O&M expenses. These amounts are simply the incremental formula O&M amounts that would be included as part of FEI's formula O&M based on the inclusion of FEFN's average number of customers in the calculation of FEI's UCOM.

	2020 Approved	2021 Projected	2022 Forecast
FEFN Gross O&M calculated as FEI Inflation Indexed O&M[1] ($000s)	608	612	630
FEFN Average Customers Count	2,409	2,331	2,314
FEFN Gross O&M per Customers ($/Customer)	**252.2**	**262.6**	**272.2**
FEI Approved/Forecast Base UCOM ($/Customer)	**252.0**	**260.0**	**269.0**

Note 1: Calculation provided in Table 1 of the response to BCUC IR1 24.1 (Line 31).

25.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Section 7.1.3.2, p. 78

Changes to FEI's Formula Growth Capital

On page 78 of the Application, FEI states, "Under the MRP, FEI's growth capital is determined annually by formula. This formula calculation is the prior year's approved unit cost for growth capital (UCGC) escalated by a net inflation factor, which includes a forecast of FEI's gross customer additions."

Further, FEI states, "… no adjustment is required to the growth capital formula. Any new customer additions forecast for FEFN for 2023 and beyond will be included as part of FEI's forecast 2023 new customer additions."

25.1 Please elaborate why no adjustment is required to FEI's growth capital formula given that the calculation in the MRP Decision is based on FEI's prior year UCGC which excluded costs and growth pertaining to Fort Nelson.

Response:

FEI is not proposing an adjustment to FEI's unit cost growth capital (UCGC) (i.e., FEI's growth capital formula) because there would be no impact to the UCGC given the small growth capital and small number of gross customer additions (GCAs) from FEFN historically. Please refer to the table below which shows the calculation of FEI's approved UCGC as well as the combined FEI and FEFN UCGC based on the methodology approved by the MRP Decision and Order G-165-20[23], assuming FEFN had been combined with FEI when the UCGC of FEI's MRP growth capital formula was developed. As the table below shows, the starting UCGC of FEI's growth capital formula for the MRP term (2020-2024) would remain at $3,704 (Line 10 and Line 25)[24].

[23] Compliance Filing to Order G-165-20, Dated July 20, 2020, Table 5, Page 7.

[24] The UCGC ($/GCA) is not updated each year except for the approved net inflation factor. The total allowed formula growth capital is trued-up for variances between actual and forecast gross customer additions each year.

Line	Growth Capital ($000s)	2016 Actual	2017 Actual	2018 Actual	Average	Reference
1	**FEI (MRP Decision)**					
2	Total Growth (Gross)	$ 50,452	$ 63,108	$ 87,316		Compliance Filing G-165-20; July 20, 2020; Table 5; Page 7
3	CIAC	(2,505)	(2,770)	(2,529)		Compliance Filing G-165-20; July 20, 2020; Table 5; Page 7
4	Total Growth (Net of CIAC)	$ 47,947	$ 60,339	$ 84,787		Line 2 + Line 3
5	Inflation Adjustment	107.30%	104.86%	102.08%		Compliance Filing G-165-20; July 20, 2020; Table 5; Page 7
6	Infl Adj Growth (Net)	$ 51,447	$ 63,271	$ 86,551	$ 67,090	Line 4 x Line 5
7	Gross Customer Additions	17,261	20,825	22,439	20,175	Compliance Filing G-165-20; July 20, 2020; Table 5; Page 7
8	Unit Cost Growth Capital $/GCA (Net of CIAC)				$ 3,325	Line 6 / Line 7 x 1000
9	Unit Cost Growth Capital $/GCA Incremental				378	Compliance Filing G-165-20; July 20, 2020; Table 5; Page 7
10	Total Unit Cost Growth Capital $/GCA (Net of CIAC) - 2019				$ 3,704	Line 8 + Line 9
11						
12	**FEI & FEFN**					
13	FEI Total Growth (Gross)	$ 50,452	$ 63,108	$ 87,316		Line 2
14	FEFN Total Growth (Gross)	25	24	26		
15	FEI CIAC	(2,505)	(2,770)	(2,529)		Line 3
16	FEFN CIAC	(5)	-	(3)		
17	Total FEI & FEFN Growth (Net of CIAC)	$ 47,967	$ 60,362	$ 84,810		Sum of Line 13 to 16
18	Inflation Adjustment	107.30%	104.86%	102.08%		Line 5
19	Infl Adj Growth (Net)	$ 51,469	$ 63,296	$ 86,574	$ 67,113	Line 17 x Line 18
20	FEI Gross Customer Additions	17,261	20,825	22,439		Line 7
21	FEFN Gross Customer Additions	7	6	10		
22	Total FEI & FEFN Gross Customer Additions	17,268	20,831	22,449	20,183	Line 20 + Line 21
23	FEI & FEFN Unit Cost Growth Capital $/GCA (Net of CIAC)				$ 3,325	Line 19 / Line 22 x 1000
24	Unit Cost Growth Capital $/GCA Incremental				378	Line 9
25	Total FEI & FEFN Unit Cost Growth Capital $/GCA (Net of CIAC) - 2019				$ 3,704	Line 23 + Line 24

25.2 Please provide FEFN's growth-related capital for 2020 Actual to 2022 Forecast in dollars.

Response:

Please refer to the table below for FEFN's growth-related capital for 2020 Actual, 2021 Projected, and 2022 Forecast.

	2020 Actual	2021 Projected	2022 Forecast
Growth-related Capital Expenditures ($000s)	20.7	14.4	14.4

25.3 Please illustrate the impact on FEI's growth capital in dollars, had FEFN's forecast 2021 gross customer additions been added to FEI's forecast, for 2020, 2021 and 2022.

25.3.1 Please discuss whether the illustrative impacts provided in the response above are comparable to FEFN's growth-related capital for 2020 Actual to 2022 Forecast. As part of the response, please explain the extent to which this comparison is relevant. If not, please explain why not.

25.3.2 Please provide the impact on FEI's 2020 and 2021 Approved and 2022 Forecast delivery rate increases and revenue deficiencies/surpluses, had FEFN's forecast gross customer additions been added to FEI's forecast.

Response:

Please refer to Table 1 below for the impact to FEI's growth capital in dollars (i.e., Line 13) and the incremental revenue requirement (i.e., Line 15) for 2020 to 2022, assuming common rates for FEFN are approved starting 2020 and FEFN's gross customer additions (GCA) had been added to the calculation of FEI's formula growth capital as approved in the MRP Decision and Order G-165-20. As discussed in the response to BCUC IR1 25.1, FEI is proposing no adjustment to the unit cost growth capital (UCGC). It can be seen that the impact due to FEFN's GCA is effectively zero (when rounded to two decimal places), given the small number of GCAs in FEFN relative to FEI.

FEI notes that it is not possible nor appropriate to evaluate the delivery rate impact to FEI from only the change to growth capital without considering other components of the revenue requirement, including the offsetting revenues that would have come from FEFN. For a comprehensive view of the impact to FEI's deficiency and delivery rates for 2020, 2021 and 2022 (assuming common rates begin in 2020), please refer to the response to BCUC IR1 23.1.

Table 1: Calculation of FEI & FEFN Formula Growth Capital in 2020, 2021, and 2022 (Assuming Common Rates were Implemented Starting in 2020)

Line	Particular	Reference	2020 Approved	2021 Approved	2022 Forecast
1	**FEI Inflation Indexed Capital Growth**				
2	Prior Year Unit Cost Growth Capital	Prior Year: Line 4; 2020: BCUC IR1 25.1	3,704	3,789	3,912
3	Net Inflation Factor	FEI 2022 Annual Review, Schedule 3, Line 9	2.29%	3.253%	3.324%
4	Current Year Unit Cost Growth Capital	Line 2 x (1 + Line 3)	3,789	3,912	4,042
5					
6	FEI Gross Customer Additions	Schedule 4, Line 5, 2020 & 2021: G-319-20; 2022: Annual Review	18,000	16,000	20,000
7	FEFN Gross Customer Additions	BCUC IR1 25.4	2	5	5
8	Total Gross Customer Additions	Line 6 + Line 7	18,002	16,005	20,005
9					
10	**Total FEI & FEFN Inflation Index Growth Capital ($000s)**	**Line 4 x Line 8 / 1000**	**68,206**	**62,613**	**80,860**
11					
12	FEI Approved Inflation Index Growth Capital ($000s)	Schedule 4, Line 6, 2020 & 2021: G-319-20; 2022: Annual Review	68,199	62,593	80,840
13	**Incremental Growth Capital - due to FEFN ($000s)**	**Line 10 - Line 12**	**8**	**20**	**20**
14					
15	Total Incremental Revenue Requirement due to FEFN Growth Capital ($000)		0.04	0.9	2.8

Table 2 below provides FEFN's 2020 Actual, 2021 Approved, and 2022 Forecast growth-related capital (Line 1) and compares these amounts to the incremental inflation-indexed growth capital calculated using FEI's approved MRP formula growth capital approach (Line 2 or Line 13 of Table 1 above). As Table 2 below shows, the incremental growth capital for FEFN under formula is higher than approved/forecast amounts in 2021 and 2022 and is lower than the actual capital amount in 2020. However, there is little comparative value to these amounts as FEI is not proposing to move FEFN to its own separate performance-based or indexed-based rate-setting regime. Determining FEFN's growth capital based on formula as a standalone service area does not make sense given its small size. For the purposes of moving FEFN to common rates with FEI, however, such factors are not relevant given the fact that the inclusion of FEFN's growth capital as part of FEI's growth capital has an immaterial impact regardless of whether the amounts from Line 1 or Line 2 of Table 2 are used as the addition to FEI's growth capital (i.e., a difference to FEI's approved/forecast total formula growth capital of 0.001 percent).

Table 2: Comparison of FEFN Gross O&M and FEI's Incremental Formula Growth Capital due to FEFN (Assuming Common Rates were Implemented Starting in 2020)

Line	Particular	2020 Actual	2021 Approved	2022 Forecast
1	FEFN Growth-related Capital ($000s)	21	14	14
2	Incremental Inflation Growth Capital due to FEFN ($000s)	8	20	20
3	Difference ($000s)	(13)	5	6

25.4 To the extent possible, please provide in a table FEFN's 2020 Actual to 2022 Forecast UCGC based on the calculation methodology approved for FEI in the MRP Decision and compare to FEI's approved and forecast UCGC for the same period.

Response:

Please refer to the table below for FEFN's UCGC for 2020 Actual, 2021 Projected, and 2022 Forecast, calculated based on the methodology (i.e., growth-related capital divided by number of gross customer additions) approved for FEI in the MRP Decision, and compared against FEI's approved/forecast UCGC for the same period. However, FEI does not believe this comparison is relevant nor appropriate given the small sample size of gross customer additions from FEFN. The average unit cost of FEFN, which is based on sample sizes that range from two to five, should not be compared with an average unit cost that is based on sample sizes ranging from 16 thousand to 20 thousand, which is on average 5,400 times higher than FEFN.

	2020 Actual	2021 Approved	2022 Forecast
FEFN Growth Capital ($000s)	20.7	14.4	14.4
FEFN Gross Customer Additions (GCA)	2	5	5
FEFN UCGC ($/GCA)	**10,325**	**2,874**	**2,874**
FEI Approved/Forecast GCA	**18,000**	**16,000**	**20,000**
FEI Approved/Forecast UCGC ($/GCA)	**3,789**	**3,912**	**4,042**

26.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Section 7.1.3.3, p. 78

Changes to FEI's Sustainment and Other Capital Expenditures

On page 78 of the Application, FEI states:

> Assuming that common delivery rates are effective January 1, 2023, FEI will incorporate FEFN's forecast sustainment and other capital expenditures for 2023 and 2024 as part of FEI's updated forecasts for 2023 and 2024 sustainment and other capital, which FEI will be providing as part of its 2023 Annual Review.

26.1 Please provide FEFN's sustainment-related and other capital for 2020 Actual to 2022 Forecast in dollars.

26.1.1 Please provide the impact on FEI's 2020 and 2021 Approved and 2022 Forecast delivery rate increases and revenue deficiencies/surpluses, had sustainment-related and other capital been added to FEI's forecast.

<u>Response:</u>

Please refer to the table below for FEFN's sustainment and other capital expenditures for 2020 Actual, 2021 Projected, and 2022 Forecast in dollars (i.e., Lines 1 and 2), and FEI's incremental revenue requirement from 2020 to 2022, assuming FEFN's sustainment and other capital had been added to FEI's forecast since 2020. FEI notes the numbers in the table below are FEFN's actual/forecast capital expenditures for sustainment and other capital from 2020 to 2022, not capital additions.

FEI notes that it is not possible nor appropriate to evaluate the delivery rate impact to FEI from only the change in sustainment and other capital without considering other components of the revenue requirement, including the offsetting revenues that would have come from FEFN. For a comprehensive view of the impact to FEI's deficiency and delivery rates for 2020, 2021 and 2022 (assuming common rates begin in 2020), please refer to the response to BCUC IR1 23.1.

Line	Particular	2020 Actual	2021 Projected	2022 Forecast
1	Incremental FEFN Sustainment Capital Expenditures	457	929	894
2	Incremental FEFN Other Capital Expenditures	74	95	96
3	**Total FEFN Incremental Capital Expenditures to FEI**	**530**	**1,024**	**990**
4				
5	Total Incremental Revenue Requirement due to FEFN Sustainment & Other ($000)	(0.30)	51.2	149.4

27.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Sections 7.1.4 and 8.2, pp. 79, 87; 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) proceeding, Exhibit B-1, p. 8

Revenue Stabilization Adjustment Mechanism Deferral Account for FEFN

On page 87 of the Application, FEI states, "Order G-17-04 granted approval for the implementation of the Revenue Stabilization Adjustment Mechanism [RSAM] account for FEFN to capture variations in the delivery margin (Revenue less Cost of Gas) for residential, commercial and industrial rate classes."

On page 8 of Exhibit B-1 in the 2021 FEFN RRA proceeding, FEI stated:

> The variance from forecast delivery margin revenues in 2020 due to variances between approved and actual use rates is being captured in the RSAM deferral account and added to the opening 2021 balance.

27.1 Please clarify whether FEFN's RSAM deferral account captures variances related to use rates only. If not, please explain in detail what variances are approved to be captured in this deferral account.

<u>Response:</u>

Currently, FEFN's RSAM deferral account captures the variances related to the use rates of residential (RS 1) and commercial (RS 2 and RS 3) rate classes only. FEFN's RSAM deferral account was originally approved by Order G-17-04 to capture the variances in delivery margin arising from higher or lower actual use per customer compared to forecast for the residential and commercial rate classes, and to capture all variances arising from the difference between forecast and actual delivery margin for the industrial (RS 25) rate class. However, as part of the FEI 2016 RDA Decision and Order G-135-18, FEI was approved to phase out the RSAM for FEFN's industrial rate class (RS 25). Since FEFN's RSAM deferral account no longer captures the delivery margin variances of RS 25, the only variances that it now captures are related to the residential and commercial customers' use rates.

On page 79 of the Application, FEI proposes to consolidate FEFN's existing RSAM deferral account with FEI's existing RSAM deferral account as part of the implementation of common rates. Further, FEI states:

Assuming common rates are implemented for January 1, 2023, consolidation will result in the closing balance of FEFN's deferral accounts on December 31, 2022 being transferred to FEI's existing deferral account with the same name as an opening balance adjustment on January 1, 2023.

27.2 Please confirm, or explain otherwise, that under FEI's proposal, the closing balance of FEFN's RSAM deferral account on December 31, 2022 will be refunded to or recovered from all FEI customers including FEFN in 2023.

Response:

Confirmed, except that the approved amortization period for the RSAM deferral account is two years. As such, the balance of FEFN's RSAM deferral account will be refunded to or recovered from all FEI customers, including FEFN, over two years in 2023 and 2024.

FEI notes that as explained in the response to BCUC IR1 5.5 of FEFN's 2022 RRA portion of the Application, 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 is 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, the response to BCUC IR1 5.5 also demonstrated that 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. For example, FEI's 2022 RSAM rate rider would only have changed by $0.001 per GJ if the ending FEI and FEFN 2021 RSAM deferral account balances had been consolidated to create a common 2022 RSAM rate rider.

27.2.1 If confirmed, please explain FEI's rationale for this proposal and discuss whether FEI considered refunding/recovering the closing balance of FEFN's RSAM deferral account to/from FEFN customers only, if common rates are approved for FEFN. If not, please explain why not. If yes, please explain why this was not proposed.

Response:

Please refer to the response to BCUC IR1 27.2.

27.2.2 Please provide the rate and bill impacts for each FEFN customer class if the balance of FEFN's RSAM deferral account is refunded to/recovered from FEFN customers only in 2023, assuming common rates are approved for FEFN.

Response:

FEI is unable to forecast the RSAM additions in 2022, therefore, assuming the unrealistic scenario of no RSAM additions in 2022, Table 1 below shows the RSAM & RSAM interest forecast ending balance at December 31, 2022 and the RSAM rate rider calculated if the balances are refunded to FEFN customers only in 2023 (i.e., amortization period of one year). Please also refer to Table 2 for the incremental bill impacts due to common rates for each FEFN customer class in 2023, with the RSAM rate rider shown in Table 1 applied. The bill impact shown in Table 2 assumes common rates under FEI's proposed Option 4 are approved for FEFN. Furthermore, the analysis assumes that under the status quo (Option 1) the RSAM balance is amortized over two years (i.e., the currently approved RSAM amortization period), whereas for the Proposed Common Rate Option (Option 4) the analysis assumes amortization occurs over one year with all remaining FEFN RSAM amounts returned to/recovered from FEFN customers in 2023. It can be seen that with the entire remaining balance of FEFN's RSAM applied to FEFN customers only in 2023, there is a slightly reduced residential bill impact from approximately 14.9 percent to 13 percent. However, FEI cautions that the impact is highly dependent on whether the RSAM deferral account has a debit or a credit balance. This impact only occurs because the December 31, 2021 projected balance is in a credit position. Under the very real possibility that the account is a debit balance, the impact would be directionally opposite.

Table 1: 2023 RSAM Rate Rider (Return/Recover all Dec 31, 2022 Balance from FEFN in 2023)

RSAM + RSAM Interest, Projected December 31, 2022 Balance	(142.0)
Amortization Period (years - 2023)	1
2023 Amortization post-tax ($000)	(142.0)
Tax Rate	27%
2023 Amortization pre-tax ($000)	(195.0)

RSAM (Rider 5) Calculation			
Rate Class	RSAM Amortization ($000)	2023 Volume (TJ)	Rider ($/GJ)
Rate Schedule 1		229.7	(0.432)
Rate Schedule 2		142.8	(0.432)
Rate Schedule 3		78.4	(0.432)
	(195)	450.9	(0.432)

Table 2: Estimated Average 2023 Bill Impact under Option 4 Compared to Status Quo

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo (w/ RSAM) Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery (w/ RSAM) and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($)	FEFN Incremental Bill Impact (w/ RSAM) in 2023 due to Common Rates Only ($)	FEFN Incremental Bill Impact (w/RSAM) in 2023 due to Common Rates Only (%)
Rate Schedule 1	125	88	218	130	13.0%
Rate Schedule 2	335	257	(165)	(422)	-14.6%
Rate Schedule 3	6,375	3,755	1,653	(2,102)	-4.8%

28.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Sections 7.1.4, 8.6.4.2, pp. 80, 116

FN Right-of-Way Agreement Deferral Account

On page 80 of the Application, FEI states that it proposes to transfer to FEI, as separate deferral accounts, the FN Right-of-Way Agreement deferral account and FEFN 2021 Revenue Surplus deferral account. FEI states, "For the FN Right-of-Way Agreement deferral account, FEI will request disposition in a future proceeding (please refer to Section 8.6.4.2 for more details on the status of the agreement."

In Section 8.6.4.2, FEI states:

> As the negotiations in finalizing this agreement are still continuing and there remains uncertainty about the ultimate dollar value to be spent, FEI proposes to continue to record the actual costs in the existing deferral account and apply for disposition of this account in a future proceeding once the final costs are known.

28.1 Please clarify whether FEI considers that the determination of which class(es) or group(s) of customers (FEFN or FEI) the FN Right-of-Way Agreement deferral account should be recovered from is dependent on the BCUC decision regarding common rates. Please explain why or why not.

<u>Response:</u>

Based on FEI's Proposed Common Rate Option, if common rates are approved, the FN Right-of-Way deferral account would be transferred as a separate deferral account to be included as part of FEI's non-rate base deferral accounts and FEI would apply at some point in the future to recover the balance from all non-bypass customers (i.e., both FEI and FEFN customers). If common rates are not approved at all (i.e., status quo is maintained), then the FN Right-of-Way deferral account would remain with FEFN, and FEI would apply at some point in the future to recover the balance from FEFN customers only (note that there would be no distinction between FEFN rate classes as amortization expense is recovered from all rate classes).

However, this does not mean that the determination of which customers the FN Right-of-Way deferral account is recovered from is <u>dependent</u> on the BCUC's decision regarding common rates, as the BCUC could direct a different method to recover this deferral account even if common rates are approved.

If the BCUC was to approve common delivery rates for FEFN, then when FEI applies for disposition of this account in the future once the final costs are known, the BCUC could determine that the costs in this deferral account should only be recovered from FEFN customers or even from only a specific class of FEFN customers. This would likely need to be accomplished through the use of a rate rider, as amortization expense is recovered from all non-bypass customers as part of the revenue requirement. However, FEI does not believe that such an approach would be appropriate as it is not reasonable to isolate the costs of one deferral account and recover them from only FEFN customers when all other components of FEFN and FEI's revenue requirements 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 under common 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.

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.

29.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Section 7.1.4, p. 80; FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Application (FEU 2012-2013 RRA) proceeding, Exhibit B-1, p. 402

New FEFN Transitional Balance Deferral Account

On page 80 of the Application, FEI states:

> If the Proposed Common Rate Option is approved, FEI proposes to consolidate three of FEFN's existing deferral accounts – Property Tax Variance deferral account, Interest Variance deferral account, and the Billing System Costs for FEFN Rate Changes deferral account – into a single rate base deferral account, titled "FEFN Transitional Balance" deferral account, and transfer this consolidated deferral account to FEI on January 1, 2023. The total forecast balance of these three deferral accounts on December 31, 2022 is $9 thousand … Once transferred, FEI proposes to amortize this remaining balance into FEI's delivery rates over one year in 2023.

29.1 Please elaborate on the rationale for consolidating the three above-noted deferral accounts and transferring to FEI, as opposed to transferring the three deferral accounts separately to FEI, if common rates are approved.

Response:

It is more administratively efficient to consolidate the balances in the three above-noted deferral accounts because, going forward, FEI would only need to track and account for one deferral account in its financial schedules. Each of the three FEFN deferral accounts will be discontinued once the small remaining balances are disposed of which, if approved, will occur in 2023. Thus, for ease of administration, and in consideration of the small balances and the short time between transfer and disposition of the balances, it makes the most sense to combine the three accounts prior to transferring the balances to FEI. FEI would have proposed the same treatment if it had a number of residual deferral account balances with such immaterial balances.

29.2 Please confirm, or explain otherwise, that under FEI's proposal the remaining balance of $9,000 would be recovered in 2023 from all FEI customers including FEFN.

29.2.1 If confirmed, please explain FEI's rationale for this proposal.

29.2.2 Please discuss whether FEI considered recovering the remaining balance of $9,000 from Fort Nelson customers only, if common rates are approved for FEFN and the pros and cons of this approach.

Response:

Confirmed, although the actual balance and not the currently forecast balance will be the amount recovered. This proposal is consistent with the treatment of all components of FEFN's revenue requirement and is consistent with the concept of common delivery rates. If approved, once FEFN customers are moved to common delivery rates, there will be no distinction between FEFN and FEI's revenue requirements.

FEI did not consider recovering the remaining balance, estimated at $9 thousand, from Fort Nelson customers only if common rates are approved and does not consider there to be any advantages to such an approach. As explained in the response to BCUC IR1 29.4, there is no observable delivery rate impact to FEI customers of amortizing $9 thousand for recovery from all FEI customers. Therefore, the proposed approach is the most administratively efficient, consistent with FEI's overall proposal for implementing common rates, and has no impact on FEI's customers.

If the question is intending to probe the potential to recover the remaining balance in the three FEFN deferral accounts from FEFN customers in 2022 (i.e., prior to moving to common rates), this approach would not be appropriate because it was not considered and included as part of the 2022 RRA portion of the Application that is under BCUC review concurrently. Further, FEI clarifies that this approach would not achieve the intended result of fully disposing of the deferral accounts prior to implementing common rates. Two of the three deferral accounts – the Interest Variance and Property Tax Variance deferral accounts – will still have balances that will need to be amortized in 2023, as there is expected to be variances between 2022 forecast and actual expenses. Thus, there would still be some amounts related to the variances between forecast and actual FEFN interest and property tax expense that would be recovered from all customers in 2023 (i.e., FEI and FEFN customers).

The additional disadvantage to the approach contemplated in this information request is that it would result in inconsistent treatment between the forecast $9 thousand balance and the rest of FEFN's deferral account balances, as the rest of FEFN's deferral accounts (or balances in FEFN's deferral accounts) would be consolidated with FEI's as proposed in this Application.

On page 402 of Exhibit B-1 in the FEU 2012-2013 RRA proceeding, FEU requested the following change to the amortization period of Fort Nelson's interest variance deferral account which was approved by the BCUC in the decision accompanying Order G-44-12[25]:

> In this Application, Whistler and Fort Nelson are seeking approval to change the amortization period from one year to three years for consistency with Mainland.

29.3 Please confirm, or explain otherwise, that FEFN's Interest Variance deferral account is currently amortized over three years in accordance with Order G-44-12.

Response:

FEI confirms that FEFN's Interest Variance deferral account is currently amortized over three years.

29.4 Please explain the rationale for why the amortization period for the proposed FEFN Transitional Balance deferral account is one year, as opposed to some other timeframe.

Response:

As stated on page 80 of the Application, the forecast ending 2022 balance of the proposed FEFN Transitional Balance deferral account is $9 thousand. Amortizing a balance of $9 thousand over one year has zero impact on FEI customers' delivery rates and is essentially a rounding error for FEI. It would be highly atypical to amortize an FEI deferral account balance of this amount over more than one year.

FEI is unsure of the purpose of the reference to the FEU 2012-2013 RRA Decision in the above preamble; however, if the intention was to probe the consistency of FEI's proposed treatment for the FEFN Transitional Balance deferral account, FEI confirms that the proposed amortization period is consistent with how FEI has proposed to treat residual balance deferral accounts in the past and is consistent with the length of amortization period that it would propose for a deferral account balance of this magnitude.

[25] The FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Decision and Order G-44-12 dated April 12, 2012, p. 116.

30.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Sections 5.5, 7.1.4.4, pp. 59, 81; 2021 FEFN RRA proceeding, Exhibit B-6, p. 1

FEFN Residential Common Rate Phase-in Deferral Account

On page 81 of the Application, FEI states:

> As part of the Proposed Common Rate Option, FEI proposes to phase in the move to common delivery rates for residential Fort Nelson customers over 10 years, through the establishment of the FEFN Residential Common Rate Phase-in Rate Rider. In order to implement the rate rider, … FEI proposes to add the revenue deficiency created by phasing in residential delivery rates over 10 years to the existing FEFN 2021 Revenue Surplus deferral account. This deferral account, which was approved as part of the 2021 Deferral Account Decision, has a forecast ending 2022 after-tax balance of $94 thousand (credit).

30.1 Please provide a sensitivity analysis of the Option 4 annual rate increases and rate rider if the move to common delivery rates for residential FEFN customers is: i) not phased in, and ii) phased in over 3; 5; 7 years, including the pros and cons of each.

Response:

Please refer to the table below for the incremental bill impact for FEFN's residential customers due to common rates under Option 4 with different phase-in periods.

Phase-in Scenarios	No Phase-in (As Filed)	3-year	5-year	7-year	10-year (As Filed)
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI					
2023 Bill Impact - Average Residential Customer ($)	220	78	68	62	58
Incremental 2023 Bill Impact due to Common Rates Only ($)	157	16	5	(0)	(5)
Incremental 2023 Bill Impact due to Common Rates Only (%)	14.9%	1.5%	0.5%	0.0%	-0.5%

For FEI, other than the need to create and track the phase-in rate rider through a deferral account, there is virtually no difference whether common rates are phased in or not, as the delivery rate impact for FEI's customers is negligible in all scenarios. As such, there are no notable advantages or disadvantages for FEI with respect to the different amortization periods. Only FEFN's residential customers will be impacted by the different amortization periods. The advantages/disadvantages are as follows:

- For the scenario of no phase-in, there would be no advantages for FEFN's residential customers due to the relatively large impact to FEFN's residential customers in 2023 due to common rates. The purpose of phasing-in common delivery rates is to allow FEFN's residential customers to gradually transition to common rates so that the annual bill impact would be smaller and smoothed instead of one large bill impact immediately in a single year;

- For shorter phase-in periods (i.e., three or five years), the advantages would be achieving full postage stamp rates earlier. However, the bill impact to FEFN's residential customers would be higher as the phase-in period is shortened;
- For longer phase-in periods (i.e., seven or ten years), the bill impact to FEFN's residential customers is mostly mitigated, as shown in the table above, which is an advantage for FEFN customers.

FEI believes a phase-in period of ten years is the most appropriate as it almost eliminates the immediate bill impact due to common rates in 2023 and the increment each year is relatively small at an average of $17 per year as shown in the response to BCUC IR1 15.5.

However, FEI is amenable to other phase-in periods if the BCUC deems a shorter phase-in period to be more appropriate, taking into consideration that a reduced phase-in period will increase the annual rate impact to FEFN residential customers from moving to common rates.

30.2 Under the scenario whereby the balance in the FEFN 2021 Revenue Surplus deferral account is not used to offset any bill impact from moving to common rates, please provide a sensitivity analysis of the annual rate increases and rate rider if the move to common delivery rates for residential FEFN customers is: i) not phased in, and ii) phased in over 3; 5; 7; 10 years, including the pros and cons of each.

Response:

Please refer to the table below for the incremental bill impact to FEFN's residential customers due to common rates under Option 4 with different phase-in periods, but without the inclusion of FEFN's 2021 revenue surplus.

Phase-in Scenarios	No Phase-in (As Filed)	3-year	5-year	7-year	10-year (As Filed)
Option 4 - Common Delivery & COG w/ Midstream @ 5% of FEI (No 2021 Deferred Surplus)					
2023 Bill Impact - Average Residential Customer ($)	220	104	81	71	63
Incremental 2023 Bill Impact due to Common Rates Only ($)	157	41	18	8	1
Incremental 2023 Bill Impact due to Common Rates Only (%)	14.9%	3.9%	1.7%	0.8%	0.1%

The advantages and disadvantages for each phase-in period are the same with or without the 2021 revenue surplus. Please refer to the response to BCUC IR1 30.1 for a discussion of the advantages and disadvantages.

As explained in the response to BCUC IR1 10.1 in the 2022 RRA portion of the Application, FEI believes using the 2021 revenue surplus is the most appropriate approach as FEFN's residential customers are the only customer group that will see a bill increase due to the Proposed Common

Rate Option. As such, the 2021 revenue surplus will help to further mitigate the impact due to common rates.

However, FEI is not opposed to returning the entire revenue surplus to FEFN's customers (residential only or all customer classes) immediately in 2023 instead of over a 10-year period.

In Table 5-17 on page 59 of the application, FEI shows the calculation of the FEFN Residential Common Rate Phase-in Rate Rider forecast over a 10-year period.

30.3 Please discuss whether the proposed 10-year amortization of the rate rider may have an impact on intergenerational equity given the length of time.

Response:

When proposing an amortization period (or length of a rate rider) for any deferral account, FEI seeks to balance a variety of considerations, including intergenerational equity. Other considerations include, but are not limited to, matching costs and benefits, and customer rate impacts.

Generally speaking, the longer an amortization period, the greater the chance of intergenerational inequity, as customers may leave or join the system during the amortization period. However, FEI believes that the proposed 10-year amortization 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 be the same customers throughout the 10-year amortization period. Thus, FEI believes that overall the proposed 10-year amortization of the rate rider is the most equitable approach as it minimizes the rate increase for all FEFN residential customers from moving to common rates to a large extent while potentially creating only minimal intergenerational inequity. FEI also notes that given FEFN's small size, longer amortization periods are generally more common, recognizing that a smaller amount of costs (or revenue) can have a comparatively larger impact on customers than would be the case with FEI.

However, FEI is amenable to other amortization periods if the BCUC deems a shorter amortization period to be more appropriate, taking into consideration that a reduced amortization period will increase the annual rate impact to FEFN residential customers from moving to common rates.

Further, on page 81 of the Application, FEI states that phasing-in common delivery rates for residential Fort Nelson customers will "serve to further reduce the annual bill impact that will be experienced by FEFN's residential customers resulting from the transition to common rates." FEI states:

> This treatment is appropriate since only FEFN's residential customers will experience a bill increase as a result of the transition to common rates, while FEFN's commercial customers will experience savings on their bills. Furthermore, this treatment will ensure FEFN's customers, and not FEI's customers, will benefit from this surplus accumulated within FEFN.

On page 1 of Exhibit B-6 in the 2021 FEFN RRA proceeding, FEI provided "the delivery rate impact and bill impact for each FEFN customer class under the scenario that a delivery rate change is implemented effective January 1, 2021 that reflects the forecast 2021 revenue surplus."

30.4 Please confirm, or explain otherwise, that the amounts in the FEFN 2021 Revenue Surplus deferral account relate to all FEFN customers.

30.4.1 If confirmed, please explain the fairness of FEI's proposal to use the balance in the FEFN 2021 Revenue Surplus deferral account to mitigate the annual bill impact for FEFN's residential customers only compared to returning the balance to all FEFN customers.

Response:

Confirmed. With regard to the fairness of FEI's proposal to use the balance in the FEI 2021 Revenue Surplus deferral account to mitigate the bill impact to FEFN's residential customers only, FEI believes it is also important to consider the difference in bill impacts between FEFN's residential and commercial customers and to prioritize minimizing the negative bill impact which will be experienced by FEFN's residential customers. Please refer to the response to FNDCC-NRRM IR1 6.3 in the 2022 RRA component of the Application for further explanation.

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.

30.5 Please discuss whether the balance in the FEFN 2021 Revenue Surplus deferral account should be distributed to all FEFN customers prior to any potential move to common rates, including the pros and cons of such an approach.

Response:

Please refer to the responses to BCUC IR1 10.1 and FNDCC-NRRM IR1 6.1 in the 2022 RRA component of the Application.

30.6 Under the scenario whereby the balance in the FEFN 2021 Revenue Surplus deferral account is refunded to all FEFN customers over a period of one year, for example in 2022, please provide the rate impact and dollar savings for an average customer in each customer class.

Response:

FEI notes that in order to return the FEFN 2021 Revenue Surplus to FEFN customers in 2022, the BCUC will have to make this determination in the 2022 RRA portion of the Application, which is under a concurrent regulatory process and is expected to complete before the common rate portion of the Application.

If the FEFN 2021 Revenue Surplus deferral account, with a projected balance of $89 thousand at December 31, 2021[26], is returned to all FEFN customers in 2022, the 2022 delivery rate change would decrease by 0.25 percent followed by an increase of 13.34 percent in 2023 (assuming no move to common rates in 2023). This is compared to the proposed 3.41 percent increase in 2022 followed by a forecast 9.68 percent increase in 2023.

Please refer to Table 1 below which shows the bill impact for FEFN's customers under Option 1 Status Quo (i.e., common rates for FEFN are not approved) with and without the 2021 revenue surplus being returned in 2022. It can be seen that returning the FEFN 2021 revenue surplus in 2022 would result in savings in FEFN's customer bills in 2022, but cumulatively over 2022 and 2023, there would be no savings.

Table 1: Estimated Average Bill Impact for FEFN Customers in 2022 and 2023 under Option 1 – Status Quo (With and Without Returning 2021 Revenue Surplus in 2022)

		With 2021 Surplus return in 2022			Without 2021 Surplus return in 2022		
FEFN Customers	Avg. UPC (GJ)	Bill Impact in 2022 ($)	Bill Impact in 2023 ($)	Cumulative 2022-2023 ($)	Bill Impact in 2022 ($)	Bill Impact in 2023 ($)	Cumulative 2022-2023 ($)
Residential RS 1	125	(1)	86	85	22	63	85
Small Commercial RS 2	335	(7)	263	256	65	191	256
Large Commercial RS 3	6,375	(108)	3,430	3,321	835	2,486	3,321

[26] The forecast 2022 ending after-tax balance in the deferral account for the 2021 revenue surplus is $94 thousand. This balance is comprised of the approved 2021 revenue surplus of $132 thousand, less FEI's external legal costs and BCUC direct costs related to the review of the application which total $14 thousand, less income taxes of $32 thousand, plus carrying charges accrued on the deferral account balance of $3 thousand in 2021.

Please also refer to Table 2 below which shows the bill impact and incremental bill impact under Option 4 (i.e., move to common delivery and cost of gas rates effective 2023) under the scenario where the revenue surplus is returned to FEFN customers in 2022 and where it is not returned to FEFN customers in 2022. Further, Table 3 below provides the same analysis as Table 2 but with the proposed phase-in for FEFN's residential customers included.

It can be seen that if the 2021 revenue surplus is returned to FEFN customers in 2022, FEFN's residential customers will see a slightly larger impact in 2023 if the proposed 10-year phase-in is included (i.e., without the use of the 2021 revenue surplus as part of the phase-in). If there is no phase-in (i.e., Table 2), returning the revenue surplus in 2022 would not change the incremental bill impact due to common rates for FEFN. This is because FEI's proposal is to use the 2021 revenue surplus as part of the FEFN residential phase-in rate rider. Therefore, it will only change the incremental bill impact due to common rates for FEFN's residential customers under the scenario where the phase-in rate rider is applied.

Table 2: Estimated Average 2023 Bill Impact under Option 4 (Without FEFN's Residential Phase-in) Compared to Status Quo (With and Without Returning 2021 Revenue Surplus in 2022)

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($) - Without RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($) - Without RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%) - Without RS 1 Phase-in
With 2021 Revenue Surplus return in 2022					
Residential RS 1	125	86	243	157	15.3%
Small Commerical RS 2	335	262	(88)	(350)	-11.8%
Large Commerical RS 3	6,375	3,430	102	(3,327)	-7.4%
Without 2021 Revenue Surplus return in 2022					
Residential RS 1	125	63	220	157	14.9%
Small Commerical RS 2	335	191	(159)	(350)	-11.6%
Large Commerical RS 3	6,375	2,486	(841)	(3,327)	-7.2%

Table 3: Estimated Average 2023 Bill Impact under Option 4 (With FEFN's Residential Phase-in) Compared to Status Quo (With and Without Returning 2021 Revenue Surplus in 2022)

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%) - With RS 1 Phase-in
With 2021 Revenue Surplus return in 2022					
Residential RS 1	125	86	87	1	0.1%
Small Commerical RS 2	335	262	(88)	(350)	-11.8%
Large Commerical RS 3	6,375	3,430	102	(3,327)	-7.4%
Without 2021 Revenue Surplus return in 2022					
Residential RS 1	125	63	58	(5)	-0.5%
Small Commerical RS 2	335	191	(159)	(350)	-11.6%
Large Commerical RS 3	6,375	2,486	(841)	(3,327)	-7.2%

31.0 Reference: IMPLEMENTATION AND ACCOUNTING MATTERS

Exhibit B-1, Section 7.1.5.2, p. 83

Proposed Amendments to FEI Rate Schedules

In Table 7-3 on page 83 of the Application, FEI shows the delivery margin related rate riders which will be applicable to Fort Nelson customers by adding the Fort Nelson service area to FEI Rate Schedules (RS) 1, 2 and 3.

31.1 Please clarify what is meant by the heading "Existing" which is shown before Rider 2 – Clean Growth Innovation Fund and Rider 5 – Revenue Stabilization Adjustment Charge in Table 7-3 for RS 1, 2 and 3. Does it mean that these ride riders are currently charged to FEFN customers under FEFN RS 1, 2 and 3 at the same rates as FEI customers? If not, please provide the incremental cost to residential, small commercial and large commercial FEFN customers from moving to the FEI rate riders and confirm whether these costs are included in the incremental bill impacts in Tables 5-6, 5-9 and 5-14. If these costs are not included in the incremental bill impacts shown, please reproduce those tables showing the effect of the inclusion of these costs.

<u>Response:</u>

FEI clarifies that the heading "Existing" in Table 7-3 is referring to the rate riders that FEI currently has for FEI's customers and will be "applied/implemented" to FEFN customers if common rates for FEFN are approved. Please refer to Table 1 below for a revised version of Table 7.3 in which FEI replaced the heading "Existing" with "Implementation of FEI Rate Riders" if common rates are approved. FEI further clarifies that, currently, FEFN's RSAM rate rider 5 is the only applicable delivery margin rate rider for FEFN RS 1, 2 and 3. If common rates for FEFN are approved, FEFN's customers will be transitioning to FEI's RSAM rate rider 5 that will be consolidated with FEFN's RSAM deferral account, as discussed in the response to BCUC IR1 27.2 and also the response to BCUC IR1 5.5 in the 2022 RRA component of the proceeding.

FEI confirms that the bill impacts shown in Tables 5-6, 5-9 and 5-14 of the Application include the Clean Growth Innovation Fund Rider 2 and the Midstream Cost Reconciliation Account (MCRA) Rider 6[27], however, FEI did not include the RSAM Rider 5 in the calculations. The RSAM Rider 5 was not included in the calculations of the bill impact in 2023 as FEI does not forecast this item because it would be based on a prediction of the variance in use rates resulting from actual weather and forecasting differences for both FEI and FEFN in 2022. The RSAM rate rider, whether calculated for FEI or FEFN, is set based on an actual/projected calculation which is then applied to the following year. Given the fact that the RSAM rate riders for both FEI and FEFN can be either positive or negative depending on the variances in the use rates, FEI does not believe including the RSAM rider in the bill impact calculations for 2023 is appropriate as it does not

[27] Table 7-3 reflects the proposed changes to delivery margin related rate riders. The MCRA Rider 6 is a commodity related rider and, as such, is not listed in Table 7-3.

isolate the impact due to common rates only. With the RSAM rider included, the incremental bill impacts shown in Tables 5-6, 5-9, and 5-14 will be a result of both common rates and the RSAM rate rider (which can be a credit or debit for both FEI and FEFN). Furthermore, since the RSAM rate rider can vary positively or negatively in each year, by including the RSAM rate rider into the calculation of incremental bill impacts to common rates, it could in theory result in the incremental bill impacts being positive in one year and negative in another year, depending on the RSAM rate rider calculation.

Table 1: Revised Table 7-3: Summary of Proposed Amendments to FEI RS 1, 2 and 3 if Common Rates Approved

FEI Rate Schedule	Service Area	Proposed Delivery Margin Related Rate Riders Applicable to FEFN if Common Rates Approved
RS 1 (Residential Service)	Add New Fort Nelson Service Area column	• Implementation of FEI Rate Riders: ○ Rider 2 – Clean Growth Innovation Fund Account ○ Rider 5 – Revenue Stabilization Adjustment Charge (RSAM) • New Proposed Rider Applicable ONLY to Fort Nelson RS 1 Residential customers: ○ Rider 4 – FEFN Residential Common Rate Phase-in
RS 2 (Small Commercial Service)		• Implementation of FEI Rate Riders: ○ Rider 2 – Clean Growth Innovation Fund Account ○ Rider 5 – Revenue Stabilization Adjustment Charge (RSAM)
RS 3 (Large Commercial Service)		• Implementation of FEI Rate Riders: ○ Rider 2 – Clean Growth Innovation Fund Account ○ Rider 5 – Revenue Stabilization Adjustment Charge (RSAM)

31.2 Please explain why Rider 3 – Biomethane Variance Account, which is a delivery margin rate rider applicable to in FEI Mainland and Vancouver service areas[28], will not be applicable to the Fort Nelson service area.

Response:

As discussed in Section 7.1.5.3 of the Application, FEI did not propose as part of the Proposed Common Rate Option to make FEI's Renewable Gas (RG) program (including Biomethane) available to FEFN customers. This is because FEI has recently completed a comprehensive review of FEI's RG program and has filed an application for changes with the BCUC on December 17, 2021 (the Comprehensive Review and Application for a Revised Renewable Gas Program or

[28] Appendix D – Blacklined versions of FEI RS 1, 2 and 3 shows a placeholder charge ($X.XXX) for Mainland and Vancouver service area and no charge ($0.00) for Fort Nelson area.

RG Application). Given that the RG Application is requesting changes to the current Biomethane service offering and related Rate Rider 3, and given the uncertainty around what changes may be approved, FEI believes it would be more appropriate to wait until a decision on the RG Application is issued to offer the RG program to FEFN customers. If the RG Application, including new rate riders, is approved and if the BCUC approves common rates for FEFN, FEI will propose to make the RG program available to FEFN customers either separately or during the RG Application proceeding if applicable.

Attachment 9.4

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)

Attachment 12.2

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)

Attachment 20.1

From:	Mason, Matt
To:	[redacted]
Cc:	[redacted]
Subject:	FortisBC Energy Inc. Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area - BCUC Order G-277-21 and Public Notice
Date:	Thursday, September 23, 2021 4:49:00 PM
Attachments:	G-277-21 FEI Fort Nelson 2022 Common Rates-RRA Timetable-Notice.pdf

Hi Chief Sharleen,

In accordance with BCUC Order G-277-21, FortisBC Energy Inc. is providing the attached Order and notice of FEI's Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area to the Fort Nelson First Nation in the FEI Annual Review for 2022 Delivery Rates and the FEI 2019 and 2020 Revenue Requirements Application for the Fort Nelson Service Area.

Please let me know if you have any questions or concerns.

Kind regards,

Matt Mason
Community & Indigenous Relations Manager
Desk: 250-717-0815
Cell: 250-212-6428
matt.mason@fortisbc.com

From: Mason, Matt
To: [redacted]
Subject: FortisBC Energy Inc. Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area - BCUC Order G-277-21 and Public Notice
Date: Thursday, September 23, 2021 5:08:00 PM
Attachments: G-277-21 FEI Fort Nelson 2022 Common Rates-RRA Timetable-Notice.pdf

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Hi Chief Valerie and Julia,

In accordance with BCUC Order G-277-21, FortisBC Energy Inc. is providing the attached Order and notice of FEI's Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area to the Prophet River First Nation in the FEI Annual Review for 2022 Delivery Rates and the FEI 2019 and 2020 Revenue Requirements Application for the Fort Nelson Service Area.

Please let me know if you have any questions or concerns.

Kind regards,

Matt Mason
Community & Indigenous Relations Manager
Desk: 250-717-0815
Cell: 250-212-6428
matt.mason@fortisbc.com

bcuc
British Columbia
Utilities Commission

Patrick Wruck
Commission Secretary

Commission.Secretary@bcuc.com
bcuc.com

Suite 410, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
P: 604.660.4700
TF: 1.800.663.1385
F: 604.660.1102

September 21, 2021

Sent via eFile/email

FEI COMMON RATE AND 2022 RR FOR FORT NELSON EXHIBIT A-3

Diane Roy
Vice President, Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V4N 0E8
gas.regulatory.affairs@fortisbc.com

Re: FortisBC Energy Inc. – Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area – Project No. 1599246 – BCUC Order G-277-21

Dear Ms. Roy:

Further to your August 12, 2021 filing of the above-noted application, enclosed please find British Columbia Utilities Commission Order G-277-21 establishing a regulatory timetable and public notice.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/jo
Enclosure

bcuc
British Columbia
Utilities Commission

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Vancouver, BC Canada V6Z 2N3
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ORDER NUMBER
G-277-21

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Energy Inc.
Application for Common Rates and 2022 Revenue Requirements
for the Fort Nelson Service Area

BEFORE:
A. K. Fung, QC, Panel Chair
E. B. Lockhart, Commissioner
A. Pape-Salmon, Commissioner

on September 21, 2021

ORDER

WHEREAS:

A. On August 12, 2021, FortisBC Energy Inc. (FEI) filed with the British Columbia Utilities Commission (BCUC), pursuant to sections 59 to 61 of the *Utilities Commission Act*, an application for approval to set the delivery rates and the Revenue Stabilization Adjustment Mechanism (RSAM) rate rider for the Fort Nelson service area (FEFN), effective January 1, 2022 (2022 Delivery Rates), and to implement common delivery and cost of gas rates for FEFN with FEI, effective January 1, 2023 (Common Rates) (together, the Application);

B. In the Application, FEI requests the following approvals for FEFN, among others:

(i) To increase FEFN delivery rates by 3.41 percent on a permanent basis, effective January 1, 2022;

(ii) To change the RSAM rate rider from a credit of $0.333 per gigajoule (GJ) to $0.416 per GJ on a permanent basis, effective January 1, 2022;

(iii) To implement common delivery rates with FEI for FEFN Rate Schedule (RS) 1, RS 2 and RS 3, effective January 1, 2023, including the phase-in of common delivery rates for the FEFN residential customer rate class (RS 1) over 10 years through the creation of a Residential Customer Phase-in Rate Rider, effective January 1, 2023, to mitigate the initial delivery rate impact to FEFN residential customers; and

(iv) To amalgamate FEFN's gas supply portfolio costs with FEI's Midstream Cost Reconciliation Account, effective January 1, 2023, which includes charging FEFN customers the same cost of gas rate as FEI and setting FEFN's midstream rates based on 5 percent of FEI's midstream rates;

C. In the Application, FEI also seeks interim approval for FEFN of a refundable/recoverable delivery rate increase of 3.41 percent and a change to the RSAM rate rider from a credit of $0.333 per GJ to $0.416 per GJ, both effective January 1, 2022;

D. FEI proposes a written hearing process for the review of the Application, and requests an earlier BCUC decision on the 2022 Delivery Rates; and

E. The BCUC considers the establishment of a regulatory timetable for the review of the Application and the setting of interim rates for FEFN are warranted.

NOW THEREFORE pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act*, the BCUC orders as follows:

1. A regulatory timetable for the review of the Application is established, as set out in Appendix A to this Order.

2. FEI is to publish the Public Notice attached as Appendix B to this Order in display-ad format and in the appropriate local news publications to provide adequate notice to the public in the Fort Nelson service area, as soon as reasonably possible but no later than Wednesday, October 6, 2021.

3. FEI must publish notice of this Application on its Twitter, LinkedIn and Facebook social media platforms on or before Monday, September 27, 2021, and must publish weekly reminder notices on each of these platforms until the conclusion of the intervener registration period on Wednesday, October 20, 2021.

4. FEI is directed to publish the Application, this Order and the Regulatory Timetable on its website and to provide copies, electronically where possible, to the Fort Nelson First Nation, Prophet River First Nation, any other Indigenous communities that may be impacted by the Application, and registered interveners in the FEI Annual Review for 2022 Rates or FEI 2019 and 2020 Revenue Requirements Application for the Fort Nelson Service Area, as soon as reasonably possible but by no later than Wednesday, October 6, 2021.

5. Interveners are to register with the BCUC by completing a Request to Intervene form, available on the BCUC website, by the date established in the regulatory timetable, and in accordance with the BCUC's Rules of Practice and Procedure attached to Order G-15-19. Persons requesting intervener status in this proceeding must identify whether they have an interest in issues related to (i) 2022 Delivery Rates; (ii) Common Rates; or (iii) both in the intervener registration form, where it states: "Please list the key issues you intend to address in the proceeding."

6. FEI is directed to file the supplemental information outlined in Appendix C to this Order by Wednesday, September 29, 2021.

7. FEI is approved to increase delivery rates by 3.41 percent and to set the RSAM rate rider at a credit of $0.416 per GJ for FEFN, on an interim and refundable or recoverable basis, effective January 1, 2022.

8. FEI is directed to refund/recover any differences between the interim and permanent rates, after the BCUC renders its final decision on the 2022 Delivery Rates, with interest calculated at the average prime rate of FEI's principal bank for its most recent year.

9. In accordance with the terms of this Order, FEI is directed to file amended tariff pages for FEFN no later than December 1, 2021.

DATED at the City of Vancouver, in the Province of British Columbia, this 21st day of September 2021.

BY ORDER

Original signed by:

A. K. Fung, QC
Commissioner

Attachments

FortisBC Energy Inc.
Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area

REGULATORY TIMETABLE

Action	Date (2021)	
	2022 Delivery Rates	**Common Rates**
FEI to file Supplemental Information	Wednesday, September 29	N/A
FEI publishes Public Notice	Wednesday, October 6	
Intervener Registration	Wednesday, October 20	
BCUC Information Request (IR) No. 1 on 2022 Delivery Rates and Common Rates	Wednesday, October 27	Wednesday, November 3
Intervener IR No. 1 on 2022 Delivery Rates and/or Common Rates	Wednesday, November 3	Wednesday, November 10
FEI response to BCUC and Intervener IR No. 1 on 2022 Delivery Rates and Common Rates	Thursday, November 25	Thursday, December 9
Letters of Comment deadline on 2022 Delivery rates	Thursday, December 2	N/A
FEI Written Final Argument on 2022 Delivery Rates*	Thursday, December 16	N/A
	Date (2022)	
Intervener Written Final Argument on 2022 Delivery Rates	Thursday, January 13	N/A
FEI Written Reply Argument on 2022 Delivery Rates	Thursday, January 27	N/A
Procedural Conference on Common Rates**	N/A	Thursday, January 13

* Including submissions on issues raised in IRs and any letters of comment.
** Commencing at 9:00 am. Further details on the procedural conference format and location will be circulated in due course.

bcuc
British Columbia
Utilities Commission

We want to hear from you

FortisBC Energy Inc. Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area

On August 12, 2021, FortisBC Energy Inc. (FEI) filed an application with the British Columbia Utilities Commission (BCUC) seeking, among other things, approvals for changes to 2022 Delivery Rates and for the implementation of Common Rates for the Fort Nelson service area commencing January 1, 2023.

2022 Delivery Rates:

- FEI is seeking approval for a delivery rate increase of 3.41 percent, and an increase to the Revenue Stabilization Adjustment Mechanism (RSAM) rate rider from a credit of $0.333 per GJ to a credit of $0.416 per GJ, on a permanent basis, both effective January 1, 2022 (**2022 Delivery Rates**). The requested delivery rate increase, including the change in the RSAM rate rider, results in an estimated annual bill increase for an average Fort Nelson residential customer of approximately $12 in 2022.

Common Rates:

- FEI is seeking approval to implement common delivery and cost of gas rates for the Fort Nelson service area with FEI, and to smooth delivery rate impacts for residential customers over a 10-year period through a phase-in delivery rate rider, effective January 1, 2023 (**Common Rates**). For the delivery portion of the common rates (excluding cost of gas rates), the estimated annual bill increase for an average residential customer is approximately $17 over the 10-year period.

HOW TO PARTICIPATE

- **Submit a letter of comment**
- **Register as an interested party**
- **Request intervener status**

IMPORTANT DATES

1. **Wednesday, October 20, 2021** – Deadline to register as an intervener with the BCUC*
2. **Wednesday, November 3, 2021** – Deadline for Intervener Information Request No. 1 on 2022 Delivery Rates
3. **Wednesday, November 10, 2021** – Deadline for Intervener Information Request No. 1 on Common Rates

For more information about FEI's application, please visit the **Proceeding Webpage**. To learn more about getting involved, please visit our website (**www.bcuc.com/get-involved**) or contact us at the information below.

******Persons requesting intervener status in this proceeding must identify whether they have an interest in issues related to (i) 2022 Delivery Rates; (ii) Common Rates; or (iii) both in the intervener registration form, where it states: "Please list the key issues you intend to address in the proceeding."*

GET MORE INFORMATION

FortisBC Energy Inc. Regulatory Affairs

16705 Fraser Highway
Surrey, BC Canada V4N 0E8

E: gas.regulatory.affairs@fortisbc.com

P: 604.592.7664

British Columbia Utilities Commission

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FortisBC Energy Inc.
Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area

SUPPLEMENTARY INFORMATION

1. Please provide, in a similar format to the table[1] below, the revenue requirement and revenue surplus/deficiency for Fort Nelson Service Area (FEFN) for 2020 Approved and Actual, 2021 Approved and Projected, and 2022 Forecast.

Table 1: 2021 FEFN Revenue Requirement and Revenue Surplus ($000's)[17]

Component	2020 Approved	2020 Projection[18]	2021 Forecast
Revenue Requirement			
O&M	893	798[19]	823
Property Taxes	128	153	151
Depreciation & Amortization	596	584	587
Other Revenue	(17)	(9)	(14)
Financing Costs[20]	383	383	363
Income Taxes	121	182	70
ROE	417	417	421
Additional Earned Return		148	
Total	**2,521**	**2,656**	**2,401**
Revenue at Existing Rates	3,213	3,321	3,392
Cost of Energy	692	665	859
Margin	2,521	2,656	2,533
Revenue Surplus	**0**	**0**	**132**

[1] 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, Decision and Order G-78-21 dated March 16, 2021, p. 4.