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December 23, 2021

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

Attention: Ms. Bev Vandersteen

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

Attention: Mr. Mike Gilbert

Dear Ms. Vandersteen and Mr. Gilbert:

Re: FortisBC Energy Inc. (FEI)

Project No. 1599246

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

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

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

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

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1.0 Regulatory History / Postage Stamp Rates

Reference: Exhibit B-1, Application, p. 13.

At p. 13, FEI describes the Commission's February 2013 rejection of common rates for FEFN in Order G-26-13 and cites to the BC Ministry of Energy and Mines' support for postage stamp rates in its reconsideration and variance proceeding.

1.1 Please confirm that FEI did not seek postage stamp rates for the Fort Nelson service area as part of its review and variance application with respect to Order G-26-13. If not confirmed, please explain your response.

<u>Response:</u>

Confirmed. As stated on page 13 of the Application, in April 2013, FEI filed an application for Reconsideration and Variance of Order G-26-13 requesting a determination that the proposed amalgamation was in the public interest and the proposed postage stamp rates for the amalgamated utility (now excluding the service area of Fort Nelson) be approved. As explained on page 3 of the reconsideration application, FEI did not seek reconsideration and variance of Order G-26-13 regarding postage stamp rates for the Fort Nelson service area, as the basis for reconsideration relied in part on the section 53 amalgamation request which did not apply to Fort Nelson as it was already part of FEI.

FEI notes that in the BCUC's decision approving FEI's application for reconsideration and variance of Order G-26-13 (Reconsideration Decision), the BCUC Panel stated that it "agrees that there would appear to be a logical inconsistency in maintaining regional rates for Fort Nelson"[1].

1.2 Please provide a map showing FEI's gas distribution service areas in British Columbia and identify the Fort Nelson service area.

<u>Response:</u>

Please refer to Attachment 1.2 for a map showing FEI's gas distribution service areas in British Columbia. Fort Nelson and Prophet River are identified on the map which are part of the Fort Nelson Service Area.

[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 19.

1.3 Please confirm that Pacific Northern Gas also provides natural gas distribution service in northeastern British Columbia.

Response:

Confirmed.

1.4 Please confirm that Pacific Northern Gas' customers pay different rates than FEI's customers.

Response:

Confirmed. However, the reference to postage stamp rates provided in the preamble (and included on page 13 of the Application) applies to common rates within a utility, not to common rates amongst utilities. Under the *Utilities Commission Act*, rates are set for each public utility with respect to the costs of, and service provided by, each public utility. As Pacific Northern Gas (PNG) is a separate public utility unrelated to FEI, PNG's rates must be set to recover PNG's cost of service from PNG's customers, just as FEI's rates recover FEI's cost of service from FEI's customers. For the same reason, BC Hydro's rates are set separately from FortisBC Inc.'s rates.

The BCUC's recent decision and Order G-245-20 in FEI's Revelstoke Portfolio Cost Amalgamation Application reinforces this position:

> The BCUC has recognised 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. In the present case such an application is not seen as inconsistent with the Bonbright principles. FEI's proposal is considered in keeping with these principles by its **seeking to equalize rates fairly across its service territory.** It achieves a balanced allocation of costs, promotes price stability and reduces burdens on a significant customer group by means of a proposal which minimizes negative effects and leaves open options for alternatives in the future. [Emphasis added]
>
> **The Panel does not consider FEI's proposal to be motivated by a belief that the entire province should receive either natural gas or other gas at the same rate**, with the cost of effecting such a policy to be borne largely by natural gas customers. Rather, **the Panel accepts the intention is to best address propane pricing in Revelstoke within the overall framework of FEI's energy provision service**. [Emphasis added]

2.0 Regulatory History / Revelstoke Propane

Reference: Exhibit B-1, Application, pp. 13-14.

At pp. 13-14, FEI describes the Commission's recent approval of a common cost of gas for Revelstoke propane customers.

2.1 Please confirm that prior to Decision and Order G-245-20, FEI's Revelstoke propane customers paid common delivery rates. If not confirmed, please explain your response.

Response:

Confirmed. As stated on page 13 of the Application, "[f]rom the outset of service in 1991, propane customers in Revelstoke had paid the same delivery rates as FEI natural gas customers".

2.2 Please confirm that in approving a common cost of gas rate, the Commission found that FEI's proposal "offer[ed] considerable betterment [to] Revelstoke".

Response:

Confirmed.

FEI's Proposed Common Rate Option also offers considerable betterment to FEFN. In particular, small and large commercial customers will realize savings in their bills immediately by approximately 11.6 percent and 7.2 percent, respectively, as shown in the response to BCUC IR1 11.3 (Revised Table 5-14). Additionally, there would be reduced external regulatory costs for FEFN through the elimination of separate regulatory proceedings for revenue requirement applications and other publicly reviewed applications such as Certificates of Public Convenience and Necessity (CPCN). Finally, if FEFN is part of FEI and its much larger customer base, FEFN's customers will benefit from increased delivery rate stability over the long term as the impact of future capital costs and declines in demand would be absorbed by FEI's larger customer base.

3.0 FEFN Regulatory Context / Separate Rates and Regulatory Filings

Reference: Exhibit B-1, Application, pp. 15-16, 40-41

At pp. 15-16, FEI describes the additional regulatory costs to review FEFN's revenue requirement, CPCN applications, and quarterly gas cost reports.

At pp. 40-41, FEI provides details of the external regulatory costs associated with its FEFN-related filings.

3.1 Please confirm that FEFN's ratepayers pay for FEI's external regulatory costs in rates under the status quo. If not confirmed, please explain your response.

Response:

Not confirmed. Under the status quo, FEFN ratepayers pay for FEFN's external regulatory costs related to FEFN-specific regulatory filings (i.e., revenue requirement applications and CPCN applications) only.

The only exception to this treatment is when FEFN is included as part of a regulatory filing by FEI. A fairly recent example of this is the FEI 2016 Rate Design Application which included changes in the cost of service allocation and rate design for FEFN customers (please see Section 4.2.2 of the Application for further details). FEI sought, and received approval from the BCUC pursuant to Order G-162-16, to record the direct FEFN costs associated with consultation and other activities as well as an allocation of costs from FEI related to FEI's external regulatory costs incurred for the proceeding on behalf of FEFN in a regulatory proceeding cost deferral account. The costs in this deferral account are being recovered from FEFN customers. If common rates are not approved, FEI expects similar treatment to occur when FEI files its updated cost of service allocation (COSA) study in 2023, as FEI would once again be preparing a separate COSA for Fort Nelson.

The above described treatment is how external regulatory costs are currently treated for FEFN and, under the status quo, nothing would change. Accordingly, to re-iterate, FEI's external regulatory costs related to FEI's regulatory filings (which do not involve FEFN) are paid for by FEI's customers, not FEFN customers. After the adoption of common rates, if approved, there will be lower costs overall for the combined entity, since incremental and separate regulatory proceedings will not be required for FEFN; the costs of these proceedings are recovered from FEFN customers only.

3.2 Please confirm that FEI has not recently applied to adjust the shared services fee to reflect any increased regulatory burden from FEFN.

Response:

Confirmed. Please refer to the responses to BCUC IR1 8.2, 8.3 and 10.2 for further discussion.

4.0 FEFN Regulatory Context / 2016 Rate Design

Reference: Exhibit B-1, Application, p. 16, s. 4.2.2

FEI 2016 Rate Design Proceeding, Exhibit B-1-5, Table 13-27, p. 13-51.

At p. 16 of the Application, FEI describes recent amendments to FEFN's rates and rate structures as a result of its 2016 Rate Design Application (RDA).

In the 2016 RDA, FEI provided the following table outlining the revenue-to-cost ratios for FEFN's rate classes after implementation of its rate design proposals and rate rebalancing (as reproduced at p. 53 of 87 of Decision and Order G-135-18):

Table 9-2: Fort Nelson Revenue to Cost and Margin to Cost Ratios after rate rebalancing[366]

Rate Schedule	COSA after Rate Design Proposals		Rebalance Amount ($000)	Approximate Annual Bill Change	COSA after Rate Design Proposals and Rebalancing	
	R:C	M:C			R:C	M:C
Rate 1 *Domestic (Residential) Service*	91.7%	89.4%	66.5	5.4%	95.9%	94.8%
Rate 2.1 *General (Small Commercial) Service*	108.2%	110.8%	(35.0)	-2.2%	105.0%	106.6%
Rate 2.2 *General (Large Commercial) Service*	115.8%	120.0%	(37.2)	-8.6%	105.0%	106.4%
Rate Schedule 25 *General Firm Transportation Service*	91.5%	91.5%	5.7	6.2%	95.0%	95.0%

4.1 Please confirm that the 2016 RDA included rate rebalancing between the rate classes in the Fort Nelson service area based on FEI's cost of service study. If not confirmed, please fully explain your response.

<u>Response:</u>

Not confirmed. FEI clarifies the 2016 RDA included rate rebalancing between the rate classes within the Fort Nelson service area (FEFN) based on <u>FEFN's</u> Cost of Service Allocation (COSA) Study as well as the Rate Design proposals for FEFN. The rate design and rate rebalancing between the rate classes in FEFN were <u>not</u> based on the COSA for the FEI service area.

4.2 Please confirm that if FEI's preferred "Option 4" is implemented, excluding the proposed "rate rider", in 2023 FEFN's residential customers (RS1) will see rate increases while FEFN's commercial customers (RS 2 and 3) will see rate decreases relative to the status quo. If not confirmed, please fully explain your response.

Response:

Confirmed.

4.3 Please explain the cost of service justification for the differences between RS1, RS2 and RS3 delivery rates in the Fort Nelson service area and those in FEI's other service areas. As part of your response, please explain the cost drivers for the difference in delivery rates between RS1 customers in the Fort Nelson service areas and those in FEI's other service areas.

Response:

The rates and rate design for the FEFN and FEI service areas were based on separate and independent cost of service allocation (COSA) studies, most recently approved by BCUC Order G-135-18 as part of FEI's 2016 Rate Design Application (RDA), for the two service areas. While the COSA studies are separate and independent of each other, they both followed the same approach whereby the Cost of Service from each service area's most recent Annual Review / Revenue Requirement plus any pro-forma adjustments were broken down by various functions such as gas supply, transmission, distribution, marketing, etc., then within each function the costs were further classified down into 1) peak demand-related, 2) energy (volume)-related, and 3) customer-related, which then were allocated to each customer class based on the total peak demand, the total energy or the total number of customers in each class. In other words, the amount of costs allocated to FEFN's residential customers would be dependent on the proportion of the total peak demand, total energy, and customer count of FEFN's residential customers relative to other customer classes within the FEFN service area. As such, the allocation of costs between FEFN's customer classes is not impacted by the FEI service area.

As shown in Table 9-2 of FEI's 2016 RDA and referenced in the preamble above, the revenue-to-cost ratio of each FEFN rate class (the second to last column of Table 9-2 referenced above) are all within the range of reasonableness of 95 percent to 105 percent that was accepted by the BCUC as part of Order G-4-18. This suggests the rates and rate design for each of FEFN's customer classes are reasonable and appropriate.

With respect to the difference in delivery rates between FEFN and FEI customer classes, this is primarily a result of each service area's approved allocation methodology and is caused by the different customer mixes between FEFN and FEI. The differences have very little to do with the difference (if any) in cost drivers between FEFN's customers and FEI's customers. For example, FEFN currently only has residential and commercial customers[2] while FEI has a much wider range of customers which include residential, commercial, and industrial. Therefore, within FEFN, commercial customers are allocated a relatively larger share of costs simply because they have a higher proportion of total peak demand, total energy and customer counts with FEFN when compared to the same commercial customer classes in FEI that have other industrial customer classes to share the costs.

[2] During FEI's 2016 RDA, FEFN had one industrial customer under RS 25, but that customer was transferred to RS 3 Large Commercial in 2020.

5.0 FEFN's Gas Supply Portfolio

Reference: Exhibit B-1, Application, pp. 23-24

At pp. 23-24, FEI describes the inter-relationship between FEI's gas supply and Fort Nelson's:

> In summary, FEI contracts for gas supply resources based on the regional needs across its entire diverse system. FEI's pool of gas supply resources and contracting with a diverse set of counterparties are designed to provide security of supply and diversity in the portfolio, including Fort Nelson, while minimizing the costs of the total portfolio. The total pool of gas supply resources is used collectively, and as required, to manage the total daily load for FEI that includes Fort Nelson. As a result, Fort Nelson is already integrated as part of FEI's overall gas supply portfolio with the benefits of having costs optimized through FEI's various supply arrangements within the overall gas supply portfolio.

5.1 Please confirm that FEI has not provided an option that would only establish common commodity rates between FEFN and FEI's broader customer base (i.e. that would leave the delivery and midstream rates the same).

Response:

FEI confirms it has not provided an option that would establish only common commodity rates.

As discussed in the response to BCUC IR1 14.1.1, the gas supply resources for FEI and FEFN are contracted differently and FEFN does not utilize a baseload model for its commodity supply portfolio. The current FEFN commodity rates include the costs related to shaping the commodity supply with the customer load requirements, and the current FEFN midstream rates only include the costs related to the Westcoast Energy Inc. T-North transportation capacity.

The rate setting mechanisms for the FEFN commodity and midstream rates are interrelated and shifting FEFN to a common commodity rate only, based on FEI's baseload model, would thereby shift costs related to shaping FEFN's commodity supply with the customer load requirements to FEFN's midstream rates. FEFN's midstream rates would not remain the same. In other words, common commodity rates cannot be considered in isolation of midstream rates due to the cost accounting of these two gas cost components.

Further, a key component of FEI's common rates proposal is to move FEFN to common delivery rates with FEI. Without common delivery rates, three out of the four Objectives described in Section 5 of the Application would not be achieved (i.e., elimination of the regulatory burden and costs, providing long-term rate stability for FEFN customers, and achieving fairness across all FEI service areas). FEI would not consider a move to common rates that excluded a move to common delivery rates as this would not have value for either FEFN or FEI customers.

5.2 Please provide a table that shows the ten-year history of commodity rates for FEFN and FEI.

Response:

The table below provides a summary of the gas cost recovery charges for FEI and FEFN since January 1, 2011.

FEI and FEFN Gas Cost Recovery Charges for RS-1, RS-2, and RS-3 from January 1, 2011 to January 1, 2022 *(rates shown in $/GJ)*

Effective Date	FEI - Lower Mainland				FEFN			
	Commodity Rates	Midstream Rates			Bundled / Commodity Rates (1)	Midstream Rates (1)		
		RS-1	RS-2	RS-3		RS-1	RS-2	RS-3
Jan 1, 2011	$ 4.568	$ 1.340	$ 1.327	$ 1.018	$ 5.015			
Oct 1, 2011	$ 4.005	$ 1.340	$ 1.327	$ 1.018	$ 4.396			
Jan 1, 2012	$ 4.005	$ 1.365	$ 1.352	$ 1.052	$ 4.396			
Apr 1, 2012	$ 2.977	$ 1.365	$ 1.352	$ 1.052	$ 3.553			
Jan 1, 2013	$ 2.977	$ 1.192	$ 1.183	$ 0.935	$ 3.553			
Jul 1, 2013	$ 3.913	$ 1.192	$ 1.183	$ 0.935	$ 3.553			
Oct 1, 2013	$ 3.272	$ 1.192	$ 1.183	$ 0.935	$ 3.553			
Jan 1, 2014	$ 3.272	$ 1.303	$ 1.309	$ 1.114	$ 2.846			
Apr 1, 2014	$ 4.640	$ 1.303	$ 1.309	$ 1.114	$ 4.775			
Oct 1, 2014	$ 3.781	$ 1.303	$ 1.309	$ 1.114	$ 4.259			
Jan 1, 2015	$ 3.781	$ 1.334	$ 1.334	$ 1.114	$ 4.259			
Apr 1, 2015	$ 2.486	$ 1.334	$ 1.334	$ 1.114	$ 2.579			
Jul 1, 2015	$ 2.486	$ 1.334	$ 1.334	$ 1.114	$ 2.579			
Jan 1, 2016	$ 1.719	$ 0.921	$ 0.934	$ 0.775	$ 1.294			
Apr 1, 2016	$ 1.141	$ 0.921	$ 0.934	$ 0.775	$ 1.294			
Oct 1, 2016	$ 2.050	$ 0.921	$ 0.934	$ 0.775	$ 1.294			
Jan 1, 2017	$ 2.050	$ 0.811	$ 0.820	$ 0.684	$ 2.086			
Jan 1, 2018	$ 1.549	$ 0.758	$ 0.765	$ 0.647	$ 1.571			
Jan 1, 2019	$ 1.549	$ 1.462	$ 1.467	$ 1.226	$ 1.552	$ 0.044	$ 0.044	$ 0.037
Jul 1, 2019	$ 1.549	$ 1.462	$ 1.467	$ 1.226	$ 1.048	$ 0.044	$ 0.044	$ 0.037
Jan 1, 2020	$ 1.549	$ 1.019	$ 1.034	$ 0.862	$ 1.048	$ 0.050	$ 0.050	$ 0.042
Aug 1, 2020	$ 2.279	$ 1.019	$ 1.034	$ 0.862	$ 1.695	$ 0.050	$ 0.050	$ 0.042
Oct 1, 2020	$ 2.844	$ 1.019	$ 1.034	$ 0.862	$ 2.407	$ 0.050	$ 0.050	$ 0.042
Jan 1, 2021	$ 2.844	$ 1.397	$ 1.420	$ 1.188	$ 2.999	$ 0.043	$ 0.043	$ 0.036
Oct 1, 2021	$ 3.844	$ 1.397	$ 1.420	$ 1.188	$ 3.964	$ 0.043	$ 0.043	$ 0.036
Jan 1, 2022	$ 4.503	$ 1.351	$ 1.384	$ 1.177	$ 3.964	$ 0.081	$ 0.083	$ 0.071

Notes:

(1) Prior to January 1, 2019, FEFN's gas cost recovery rates were bundled.
FEFN's gas cost recovery rates were unbundled into commodity and midstream components effective January 1, 2019.

5.3 Please explain how FEI would score the following scenarios under the rubric in Table 5- 16:

(a) Common basic and commodity charges with FEFN specific delivery and midstream charges.

(b) Common basic, commodity, and midstream charges (applying the proposed 5% scaling relative to FEI's rates) with FEFN specific delivery charges.

Response:

FEI notes the following issues with regard to the two scenarios suggested by this information request:

- For both scenarios (a) and (b), the basic charge is part of the delivery-related charges, therefore having a common basic charge while still maintaining an FEFN specific delivery charge would be no different than status quo with FEFN specific basic and delivery charges;
- For scenario (a), as discussed in the response to FNDCC-NRRM IR1 5.1, the rate-setting mechanisms for FEFN's commodity and midstream rates are interrelated; therefore, FEFN's midstream rates would not remain the same if the commodity rate changes.

As such, neither of the scenarios as suggested are valid or feasible alternatives to the options discussed in the Application. FEI would not consider a move to common rates under any of these scenarios.

6.0 FEFN Energy Demand

Reference: Exhibit B-1, Application, pp. 24, 27, and 30.

At p. 24, FEFN states that “FEFN’s demand has been trending downwards over a number of years, and this decline has a negative impact on FEFN customers’ delivery rates.”

FEI then notes that its “demand and customer forecasts for 2021 to 2023 are based on forecasting methods that are consistent with the method used in prior years.”

FEI notes at p. 27 that it “does not know at this time what the future natural gas demand will be” for an anticipated pellet plan and that it “has not included any demand beyond space heating [for the pellet plant” in the forecast.

At p. 30, FEI describes the rate impacts from declining energy demand in the Fort Nelson service area as follows:

> Figure 4-7 below shows the associated delivery rate impact due to the change in energy demand between 2011 and 2020. FEI has held FEFN’s revenue requirement constant in this analysis to isolate the impact of the decreased energy demand. As the figure below shows, since 2014, the decline in energy demand in FEFN resulted in delivery rate impacts that ranged from 3.6 percent to 7 percent. Overall, the cumulative delivery rate impact between 2014 and 2020 is approximately 22.5 percent or an average of approximately 3.2 percent per year. For comparison, a decline of approximately 127 TJs (645 TJs in 2014 to 518 TJs in 2020) is approximately 0.07 percent of FEI’s 2021 total approved non-bypass demand forecast of approximately 194,999 TJs, which would have a delivery rate impact of only 0.07 percent to FEI’s non-bypass customers, assuming the same level of decline all occurred in 2021.

6.1 Please provide the number of customers that take service in the Fort Nelson service area under each of RS1, RS2, and RS3 for 2021 (actuals), 2022 (forecast), and 2023 (forecast).

Response:

For the purposes of forecasting, customer counts are always reported as at year end. As a result, the 2021 actual customer counts are not known at this time. The 2021 seed forecast value has been provided instead. Note that this data is available in Table A2-2 of Appendix A2 to the Application.

FORT NELSON	2021S	2022F	2023F
Customers			
Rate Schedule 1	1,866	1,853	1,841
Rate Schedule 2	449	445	442
Rate Schedule 3	15	13	12
Total Customer	2,329	2,311	2,295

6.2 Please confirm that FEI's forecast does not account for any incremental residential or commercial gas demand that may be added to the FEFN service area if the anticipated pellet plant comes online. If not confirmed, please explain how it has been accounted for.

Response:

Confirmed. FEI does not have firm estimates of demand or timing for the potential pellet plant. Consequently, FEI has not made any adjustments to the forecasts for this development, as it remains uncertain.

6.3 Please confirm that FEI's forecasting does not account for any other new industrial development currently planned for the Fort Nelson area or any effect that such development may have on residential or commercial demand for FEFN. If not confirmed, please explain how it has been accounted for.

Response:

Confirmed. FEI is not aware of any other new industrial development planned for Fort Nelson and therefore has not adjusted either the commercial or residential demand forecasts.

6.4 Please confirm that FEI's forecasts do not attempt to adjust for any one-time effect that COVID-19 may have had on demand in the FEFN service area in 2020 and 2021. If not confirmed, please explain how it is has been accounted for.

Response:

Confirmed. FEI did not consider alternative forecast methods or one-time adjustments to the forecasts. FEI cannot predict the trajectory of the COVID-19 pandemic and when recovery might occur; however, FEI considers the existing forecast method to be reasonable.

From Table A2-3 in Appendix A2 the following data is noted:

Total Demand	2015	2016	2017	2018	2019	Average
Actual	602,830	580,199	555,765	536,505	537,160	
Change, GJ	42,042	22,631	24,433	19,260	(655)	21,542

The average change in aggregate load over the five-year period from 2015-2019 was approximately 21.5 TJ/year.

The change in 2020 relative to 2019 was similar as shown below at 19.3 TJ.

Total Demand	2019	2020
Actual	537,160	517,877
Change, GJ		19,283

This result is consistent with FEI's observations in other regions that show little overall impact on total demand from the COVID-19 pandemic.

Please also refer to the responses to BCUC IR1 2.1, BCUC IR1 3.2 and FNDCC-NRRM IR1 1.1 in the 2022 RRA portion of the proceeding for further discussion on the reasonableness of FEI's forecasts in the context of the COVID-19 pandemic.

6.5 Please confirm that any increase in FEFN's energy demand in the near term would have a positive impact on FEFN's customers' delivery rates. If not confirmed, please explain your response.

Response:

Confirmed; all else equal, increases in demand reduce rates. However, as discussed in the responses to FNDCC-NRRM IR1 6.2 and 6.3, FEI is not aware of any development in the near term that would lead to a reversal of the trend of recent decline in FEFN's demand, as discussed in Section 4.3.2 of the Application. FEI also explained in the response to BCUC IR1 6.1 that FEI does not have any evidence to support any demand scenarios that would significantly vary from the current level.

6.6 Please confirm that any increase in FEFN's local energy demand would have a smaller rate impact (as described on p. 30 with respect to the 127 TJ decline) if FEFN were moved to common rates than under the status quo. If not confirmed, please explain your response.

<u>Response:</u>

Confirmed. However, this logic also applies to decreases in FEFN's local energy demand and is one of the key considerations in FEI's proposal to move FEFN to common delivery rates, as decreases in FEFN's local energy demand will also have a smaller rate impact if FEFN is moved to common delivery rates.

Additionally, if FEFN moves to common delivery rates with FEI, any growth in demand from other regions of FEI as well as FEI's LNG offering under Rate Schedule (RS) 46 would also result in a positive impact to the delivery rates for all FEI non-bypass customers, including FEFN. In contrast, if FEFN remains on separate delivery rates from FEI, FEFN would not benefit from FEI's growth in demand. As shown in FEI's Annual Review for 2022 Delivery Rates, approved by Order G-366-21, FEI's demand has been experiencing small but steady increases over the last 10 years. Over the same period from 2014 to 2020, as referenced in the preamble, FEI's total energy demand increased by 25,200 TJ. This is in contrast to the decline of 127 TJ in FEFN's energy demand over the same period.

7.0 Impact of Capital Additions to Rates

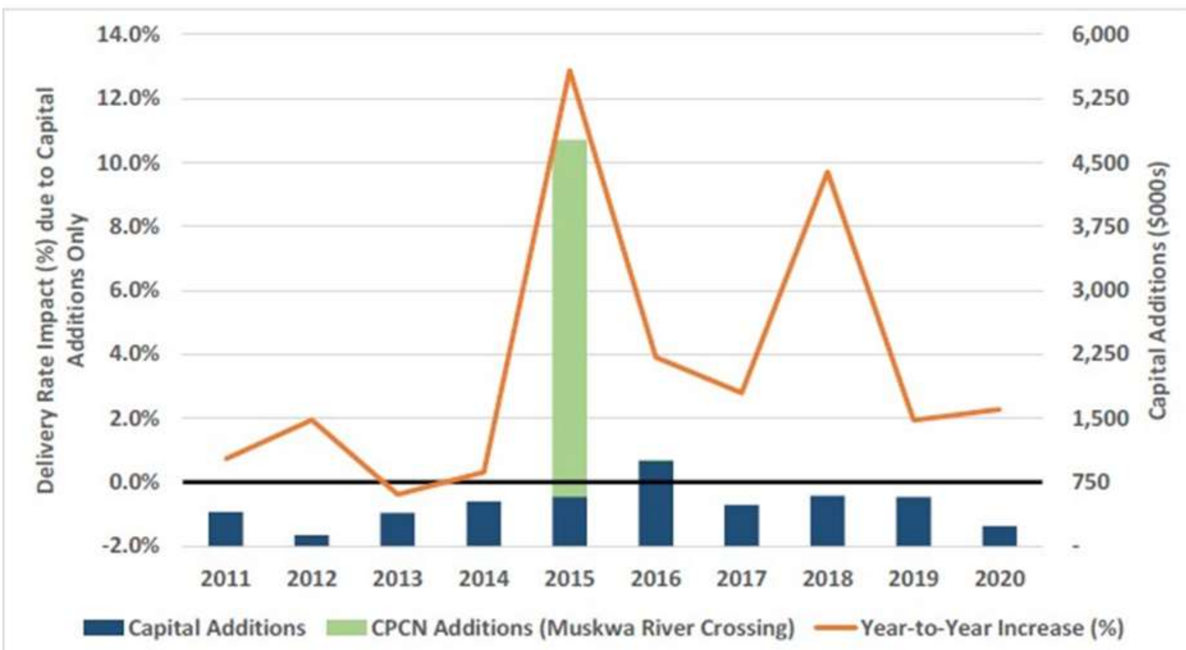
Reference: Exhibit B-1, Application, pp. 31, 33-35

At p. 31, FEI describes the effect of the Muskwa River Crossing Project on FEFN's delivery rates as:

> In the case of large capital projects, the delivery rate impact can be very significant, as was the case with the Muskwa River Crossing Project which entered rate base in 2015 and was the primary driver of an approximately 16.67 percent delivery rate increase in 2015.

At p. 33, FEI provides Figure 4-8 demonstrating delivery rate impacts due to capital additions between 2011 and 2020:

Figure 4-8: FEFN Delivery Rate impact due to Historical Capital Additions from 2011 to 2020[26]



The footnote to Figure 4-8 indicates that "the delivery rate increase in 2018 is primarily due to the Muskwa Cost of Service (COS) deferral account".

With respect to its forecast capital spending, FEI concludes at p. 36: "In summary, FEI expects similar levels of capital additions will continue in the FEFN service area and these additions will increase delivery rates for FEFN customers."

7.1 Please confirm that in years not affected by the Muskwa River Crossing Project (i.e. years other than 2015 and 2018), delivery rate increases due to capital additions in the Fort Nelson service area have been below 4%. If not confirmed, please explain your response.

Response:

Confirmed. Please refer to the response to BCUC IR1 4.3 which shows a revised Figure 4-8 with the capital additions due to the Muskwa River Crossing CPCN excluded. The average delivery rate increase would have been approximately 2.3 percent per year between 2011 and 2020 if the Muskwa River Crossing CPCN is excluded from the analysis. However, as discussed in the response to BCUC IR1 4.2, a project with a similar scope and magnitude could occur in FEFN in the future.

7.2 Please provide the average delivery rate increase due to capital additions for the period 2011 to 2020, excluding 2015 and 2018.

Response:

FEI interprets the intent of this information request as requesting the average delivery rate increases due to capital additions excluding the capital additions in 2015 and 2018 due to the Muskwa River Crossing CPCN from Figure 4-8, rather than excluding all capital additions in those years. Accordingly, please refer to the response to BCUC IR1 4.3 for a revised Figure 4-8 and revised average delivery rate increases with the Muskwa River Crossing CPCN capital additions excluded.

7.3 Please confirm that FEI does not have present plans for capital projects in the FEFN service area where the projected cost is as much or more than the cost of the Muskwa River project. If not confirmed, please provide full details of the proposed capital project.

Response:

FEI does not presently have specific plans for capital projects in the FEFN service area where the projected cost is as much or more than the cost of the Muskwa River project. However, please refer to the response to BCUC IR1 4.2 which discusses FEI's expectations regarding the potential for a project of the scope and magnitude of the Muskwa River Crossing CPCN being required in FEFN in the future. Please also refer to the responses to BCUC IR1 5.1 and 5.2 which discuss a range of capital additions as well as delivery rate impacts for FEFN that FEI expects to occur over the next ten years beyond 2023.

7.4 Please confirm that capital additions will also lead to delivery rate increases for FEFN's customers if they move to a common delivery rate. If not confirmed, please explain your response.

Response:

Confirmed. Please also refer to the response to FNDCC-NRRM IR1 7.5.

7.5 Please confirm that FEFN customers could face lower rate increases due to capital additions under the status quo if capital additions in the FEFN service area cost less per customer than in FEI's other service areas. If not confirmed, please explain your response.

Response:

FEFN customers could experience lower rate increases due to capital additions under the status quo; however, it is equally possible (and more likely) that FEFN customers could experience lower rate increases due to capital additions under common delivery rates with FEI.

Using the 2022 Forecast as an example, FEFN's 2022 forecast total capital additions per customer are $434 while FEI's 2022 forecast total capital additions per customer are $386. This indicates that on a per customer basis, FEFN would be paying less for capital additions under common rates than under the status quo.

Additionally, delivery rate impacts from capital additions would also be influenced by the energy demand of all customers over the life of the asset. Therefore, even if capital additions per customer were lower in Fort Nelson, due to the declining volumes that FEI expects to continue in FEFN in future years, the delivery rate impact could still result in higher rate increases. As discussed in the response to FNDCC-NRRM IR1 6.6, FEI's demand has been experiencing a steady increase over the last ten years which would help to mitigate/offset some of the delivery rate impacts caused by capital additions. This is in contrast to the decline seen in FEFN's demand which is expected to continue to occur. Therefore, even if capital additions per customer were higher in FEI, with the potential for mitigating/offsetting revenue available in FEI that would not be possible in FEFN, FEI customers could still have lower rate increases than FEFN.

7.6 Please confirm that the Application does not forecast the increases to delivery rates that FEFN's customers would face beyond 2023 if they move to common rates relative to the status quo.

Response:

Confirmed. However, in the response to BCUC IR1 1.2 in the FEI Annual Review for 2022 Delivery Rates proceeding, FEI provided a high level estimate of the 2024 delivery rate increase of 4.14 percent, which is the last year of FEI's current MRP term from 2020 to 2024. FEI currently does not have a forecast of delivery rates beyond 2024.

8.0 Delivery Rate Volatility

Reference: Exhibit B-1, Application, pp. 35 to 36

At p. 35, FEI states:

> <u>As discussed in Sections 4.3.2 and 4.3.3, FEFN has been experiencing a decline in energy demand since 2015 which coincides with some significant capital projects entering rate base over the same period, including the Muskwa River Crossing CPCN and the distribution mains renewal program. As a result of these factors and FEFN's small customer base, FEFN has experienced relatively higher delivery rate increases since 2015 and much greater delivery rate volatility compared to FEI.</u> Figure 4-9 below compares the 10-year approved annual delivery rate increase for both FEFN and FEI between 2012 and 2021. The average increase over the 10-year period for FEFN customers is 5.59 percent compared to an increase of only 2.41 percent for FEI customers. Figure 4-9 below also shows that FEI has relatively lower delivery rate volatility over this 10-year period. This is because FEI has a much broader customer base (i.e., over 1 million customers) and rate classes to absorb changes in costs and customer demand compared to FEFN, which has a relatively smaller and less diversified customer base (i.e., approximately 2,400 customers and no industrial class customers). [Emphasis added.]

8.1 Please confirm that, in addition to capital projects, FEFN has also faced larger percentage increases in its delivery rates between 2012 and 2021 because its delivery rates were lower than FEI's (i.e. any one cent increase in delivery rates leads to a higher percentage increase for FEFN than for FEI). If not confirmed, please explain your response.

<u>Response:</u>

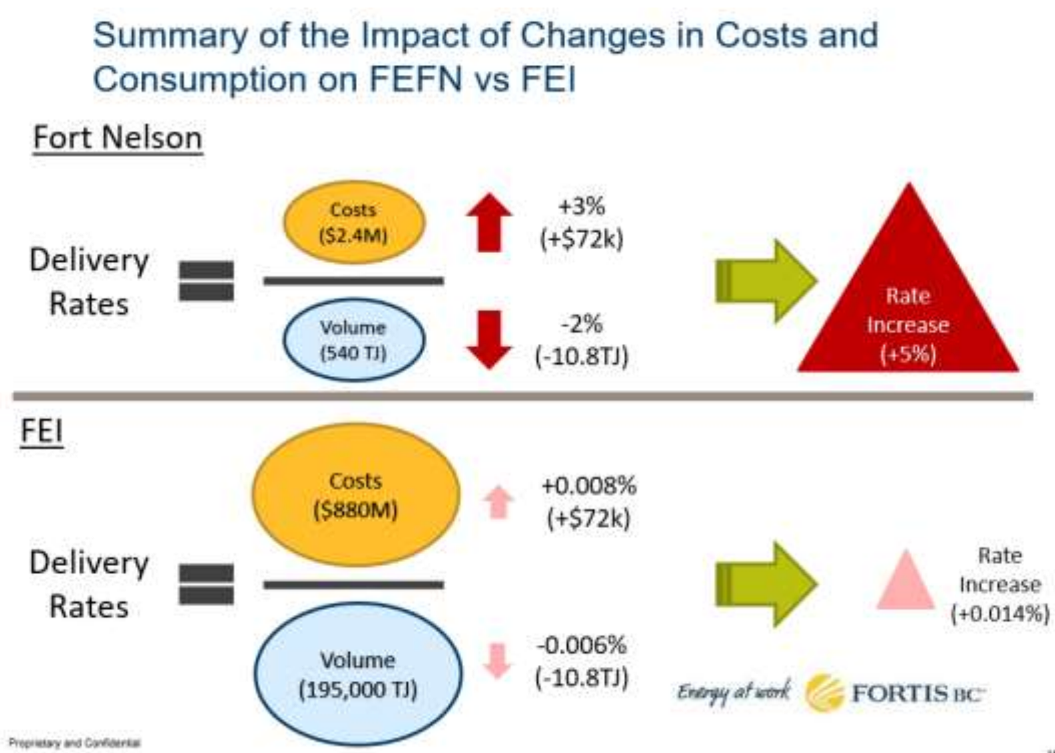
FEI confirms that a one-cent increase to a delivery rate that is smaller to begin with will lead to a higher increase in percentage terms than the same one-cent increase for a higher delivery rate. However, FEI does not consider this to be an accurate characterization of FEFN's situation historically compared to FEI.

First, even though FEFN's residential delivery rates are currently lower than FEI, this does not mean FEFN's overall delivery rates are lower than FEI, as evidenced by the fact that FEFN's commercial delivery rates have been higher than FEI since 2014. Overall, using 2022 Forecast as an example, FEI's effective delivery rate across all non-bypass rate classes is $4.875 per GJ, which is lower than FEFN's effective delivery rate of $5.341 per GJ across all non-bypass rate classes[3].

[3] For FEI, as approved by Order G-366-21, 2022 non-bypass delivery margin of $957.018 million (Schedule 19, Line

Second, the reason FEFN has a higher delivery rate increase in percentage terms is because of the small customer base and demand of FEFN compared to FEI. As explained in Section 4.3.4 of the Application, which is also referenced in the preamble above, FEI has a much broader customer base (i.e., over one million customers) and rate classes to absorb the same changes in costs or customer demand compared to FEFN, which only has approximately 2,300 customers and no industrial customers. Therefore, any one cent increase in costs is shared by over one million customers within FEI while the same one cent increase in costs is shared by just 2,300 customers within FEFN, which leads to higher rate increases in both dollars and percentage than FEI.

FEI also notes that during the virtual town hall held on April 27, 2021, FEI provided the following slide[4] which demonstrated that for the same increase in costs and/or same decrease in customer demand, FEFN will have a higher delivery rate increase in percentage than FEI simply because of FEFN's smaller customer base when compared to FEI.



17, Column 5 of the Compliance Filing to Order G-366-21) divided by the 2022 forecast of non-bypass demand of 196,294.3 TJ (Schedule 19, Line 17, Column 10) = $4.875/GJ. For FEFN, 2022 non-bypass delivery margin of $2.517 million (Appendix E-1, Schedule 15, Line 7, Column 5) divided by the 2022 forecast of non-bypass demand of 471.2 TJ (Appendix E-1, Schedule 15, Line 7, Column 10) = $5.341/GJ.

4 Appendix C-1 to Application, Slide 13.

At p. 36, FEI provides Figure 4-9, which provides the 10 Year Delivery Rate Change for FEFN and FEI.

8.2 Please provide the data used to develop this chart in Excel format.

Response:

Please refer to Attachment 8.2 for the Excel format of Figure 4-9.

8.3 Please provide the changes in delivery rates between 2012 and 2021 in dollars for both FEFN and FEI.

Response:

Please refer to the response to BCUC IR1 9.1 for a table that shows the approved revenue requirements for both FEI and FEFN each year from 2012 to 2021 in dollars and the approved delivery rate changes in percentage. Please also refer to the response to BCUC IR1 9.4 which provides the bill impacts for each of the delivery rate changes and cost of gas changes for FEFN and FEI from 2012 to 2021. The supporting data for BCUC IR1 9.4 is provided as Attachment 9.4 to that response.

9.0 Long-term Rate Stability

Reference: Exhibit B-1, Application, p. 41

At p. 41, FEI explains that it "weighed the goal of achieving long-term rate stability for Fort Nelson customers with the goal of minimizing short-term rate pressures".

9.1 Please explain whether FEI weighed the benefits of long-term rate stability against the risk that Fort Nelson customers face higher long-term rates relative to the status quo to achieve that rate stability. If so, please explain how.

Response:

FEI considered the potential for FEFN customers to face higher long-term rates as a result of moving to common rates with FEI, but concluded that such a scenario was unlikely.

There are a number of reasons that FEI does not consider moving FEFN customers to common rates as proposed in Option 4 is likely to result in higher long-term rates for FEFN customers. FEFN's energy demand is expected to continue to decline, which under the status quo would continue to put increased rate pressure on FEFN's remaining customers as this declining remaining customer base will be required to absorb all of FEFN's cost of service, including the costs for capital additions to maintain the system. Furthermore, given the already small customer base in FEFN, any further decline in customers will only create more risk of delivery rate volatility, particularly in years where more capital work is required due to specific sustainment or other projects.

On the other hand, if FEFN transitions to common rates as proposed (i.e., common rate Option 4), commercial customers will experience immediate savings due to common rates. While implementation of common rates will result in a negative short-term impact to FEFN's residential customers, FEI expects the difference in delivery rates between FEI's and FEFN's residential customers would continue to reduce over the years. Therefore, FEI expects FEFN's residential customers will have lower long-term rates under common rates as compared to the status quo, which will outweigh the short-term impacts to FEFN's residential customers of moving to common rates.

10.0 Achieving Fair and Consistent Rates Reference:

Exhibit B-1, Application, p. 41

At p. 42, FEI states:

> FEI understands that the main criticism of common rates is that maintaining regional rates may more accurately reflect regional differences in costs. However, this view does not consider the fact that a large portion of FEFN's O&M expenses and revenue requirement are made up of allocated costs from FEI (an average of 54 percent of FEFN's O&M expenses and an average of 24 percent of FEFN's revenue requirement as discussed in Section 4.3.1.1). Therefore, the current regional rates for FEFN are not a true representation of the regional difference in costs between FEFN and FEI.

10.1 Please confirm that the rates for FEFN reflect regional differences for the 76% of FEFN's costs not accounted for in the O&M costs allocated from FEI. If not confirmed, please fully explain your response.

Response:

Not confirmed. Please refer to the response to BCUC IR1 10.1.

11.0 Postage Stamp Rates

Reference: Exhibit B-1, Application, p. 42

FEI asserts at p. 42: "Postage stamp rates are the accepted regulatory approach approved by the BCUC for most other utilities in BC."

11.1 Please provide FEI's support for this claim.

Response:

Many of the regulated utilities in BC are currently under postage stamp or common rates, including BC Hydro, FortisBC Inc. (i.e., the electric utility of FortisBC), FEI (with the exception of the Fort Nelson service area), and Nelson Hydro, among others. Accordingly, the vast majority of energy consumers in British Columbia, whether electricity or natural gas, are charged postage stamp rates by their specific utility provider.

BC Hydro, the largest electric utility in BC, charges postage stamp rates to its customers, with the exception of customers within its non-integrated areas (i.e., areas that are not interconnected to the provincial electricity grid and therefore rely on distinct generation resources, such as local IPPs or diesel generation). Even so, BC Hydro's non-integrated customers are charged the same rates within each rate zone. In BC Hydro's most recent rate design application (RDA)[5], the BCUC cited the government policy objective of the continuation of postage stamp rates as a consideration in its determinations on BC Hydro's RDA. As part of the BC Hydro RDA, and as provided in Section 4.4 of the Application, the BC Ministry of Energy and Mines issued a letter to the BCUC stating that postage stamp ratemaking continues to be provincial government policy.

With regard to FEI, and as explained in Section 3.3.2.3 of the Application, the BCUC approved the amalgamation and common rates for FEI, FEVI and FEW by Order G-21-14. The government of BC similarly provided a letter of support for postage stamp or common rates in that proceeding (please refer to Section 4.4 of the Application for excerpts of that letter). Further, 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 he province, and as an appropriate means of allocating costs to various customer groups."[6]

Accordingly, the vast majority of natural gas and electricity consumers in BC are currently under postage stamp or common rates, and FEI considers common rates to be generally supported by both the BCUC and by government.

[5] In the matter of British Columbia Hydro and Power Authority 2015 Rate Design Application, Decision and Order G-5-17 dated January 20, 2017, page 5.

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

11.2 Please confirm that the BCUC does not require different utilities providing the same type of service in the same area to do so with postage stamps rates as between the utilities.

Response:

FEI believes there may be some confusion regarding the provision of energy services in BC and provides the following clarifying explanations.

First, with regard to the portion of the question referring to "different utilities providing the same type of service in the same area", if the reference is to the same "service" area, then such a situation could not occur. Utilities in BC are granted exclusivity in providing their service to a specific location. As an example, FEI provides natural gas service to its customers in Prince George, Chetwynd, and in many other locations, and no other natural gas utilities have a franchise agreement for those areas. Similarly, BC Hydro and FortisBC Inc. do not provide electricity to customers in the same service area.

Second, with regard to different utilities being required to charge the same rates, as explained in the response to FNDCC-NRRM IR1 1.4, the concept of postage stamp rates applies to common rates within a utility, not to common rates amongst utilities. FEI also clarifies that FEFN is a separate service area from the FEI Mainland and Vancouver Island service area, not a separately owned utility. Therefore, the correlation attempting to be drawn to "different utilities providing the same type of service" is not applicable to FEFN's circumstances.

With the above clarifications, FEI confirms that the BCUC does not require FEI or other utilities to charge customers in different service areas the same rates across all service areas.

12.0 Assumptions Used to Evaluate the Common Rate Options

Reference: Exhibit B-1, Application, p. 44

At p. 44, FEI states that for the purpose of comparing the common rate options, for 2023 it "forecasts an FEFN delivery rate increase of 9.68 from the forecast 2022 delivery rates".

12.1 Please provide the calculation of this forecast in Excel format.

Response:

Please refer to the response to BCUC IR1 12.2 for the calculation and breakdown of the forecast FEFN 2023 delivery rate increase of 9.68 percent, including the calculation in Excel format.

12.2 Please explain any assumptions that were applied in deriving this forecast not explained in the Application.

Response:

Please refer to the response to BCUC IR1 12.1.

13.0 Option 4 – Midstream Rates

Reference: Exhibit B-1, Application, pp. 52-53

FEI explains its Option 4 proposal to set FEFN's midstream rates as:

> 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 1 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 whether FEI intends to set midstream rates for FEFN's customers based on the difference in cost of service for FEFN and FEI going forward.

Response:

FEI does not intend to set midstream rates for FEFN's customers based on the annual differences in gas supply portfolio costs for FEI and FEFN going forward.

The Proposed Common Rate Option (i.e., Option 4), which is to set FEFN's midstream rates at 5 percent of FEI's midstream rates, is based on the cost data for a 10-year period from 2011 to 2020. This historical data was used to determine a reasonable percentage for allocating FEI's midstream costs to FEFN (i.e., 5 percent) in order to maintain FEFN's midstream costs at a level consistent with what FEFN customers are currently paying.

Table 5-12 of the Application shows that the variance between FEFN's historical gas costs and the proposed approach of common commodity rates plus setting FEFN's midstream rates at five percent of FEI's midstream rates is small (i.e., $97 thousand over the past ten years), assuming this had been implemented since 2011. Table 5-12 also shows that the variances over the last ten years would have been both positive and negative, indicating that had FEFN's midstream rates been set at five percent of FEI's midstream rates during that time period, FEFN's costs would have been higher in some years and lower in some years compared to the status quo. FEI expects a similar level of variances in the near-term. As such, this approach will levelize the year-to-year variations in the gas supply portfolio costs for FEI and FEFN.

FEI will continue to track FEI and FEFN gas supply portfolio costs separately within its quarterly gas cost reports which are subject to BCUC review and approval. In the event the gas supply portfolio costs for FEI and FEFN start experiencing material differences in the future, in particular, variations of a recurring or more permanent nature, the mechanism would be reviewed and FEI would consider bringing forward a revised approach to setting FEFN's midstream rates to the BCUC for review.

However, FEI's proposal in this Application does not include changes to FEFN's midstream rates beyond the five percent allocation approach proposed as part of common rate Option 4. Please also refer to the response to BCUC IR1 13.2 for further discussion.

13.2 If the previous response is not confirmed, please confirm that if midstream rates are increased above FEFN's cost of service the potential adverse rate impacts for FEFN's customers are greater than those presented in the Application.

Response:

Confirmed; however, FEI considers this scenario to be unlikely and, as explained in the response to FNDCC-NRRM IR1 13.1, the past ten years of gas cost data for FEI and FEFN do not support this potential scenario. However, as also explained in FNDCC-NRRM IR1 13.1, FEI will continue to monitor FEI and FEFN's gas supply portfolio costs and would bring forward a revised approach to setting FEFN's midstream rates to the BCUC for review if warranted.

14.0 Sensitivity Analyses

Reference: Exhibit B-1, Application, pp. 55,

On p. 55, FEI presents Tables 5-13 and 5-14, which show the rate and bill impact of moving to common rates relative to the status quo based on FEI's forecasts.

14.1 Please provide these tables in Excel format.

Response:

Please refer to Attachment 14.1 for Tables 5-13 and 5-14 in Excel format.

14.2 Please provide sensitivity analyses for Tables 5-13 and 5-14 that show the rate and bill impact if FEFN's number of customers are higher than FEI's forecast by:

(a) 1%;

(b) 2%; and

(c) 5%.

Response:

Please refer to the tables below for revised Tables 5-13 and 5-14 with the different scenarios as requested. It can be seen that for all scenarios, FEFN's commercial customers will still experience savings in their bills as a result of moving to common rates with FEI. Please also refer to the responses to BCUC IR1 6.2, 12.3, and 12.4 for additional sensitivity analyses.

Scenario (a): FEFN's 2023 Forecast Number of Customers Higher by 1 Percent:

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)	**4.7390**	**6.0380**
	Commodity Cost Recovery ($/GJ)	**2.9990**	**2.8440**
	Midstream Charge ($/GJ)	**0.0510**	**0.073**
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**5.157**	**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)	**4.319**	**3.91**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	**0.043**	**0.062**

	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	55	220	165	15.6%
Small Commerical RS 2	335	169	(159)	(328)	-10.8%
Large Commerical RS 3	6,375	2,225	(841)	(3,066)	-6.7%

Scenario (b): FEFN's 2023 Forecast Number of Customers Higher by 2 Percent:

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)	**4.6830**	**6.0380**
	Commodity Cost Recovery ($/GJ)	**2.9990**	**2.8440**
	Midstream Charge ($/GJ)	**0.0510**	**0.073**
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**5.091**	**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)	**4.277**	**3.91**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	**0.043**	**0.062**

	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	48	220	172	16.3%
Small Commerical RS 2	335	146	(159)	(306)	-10.1%
Large Commerical RS 3	6,375	1,957	(841)	(2,798)	-6.1%

Scenario (c): FEFN's 2023 Forecast Number of Customers Higher by 5 Percent:

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)	**4.5170**	**6.0380**
	Commodity Cost Recovery ($/GJ)	**2.9990**	**2.8440**
	Midstream Charge ($/GJ)	**0.0510**	**0.073**
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**4.907**	**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)	**4.138**	**3.91**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	**0.043**	**0.062**

	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	28	220	192	18.3%
Small Commerical RS 2	335	85	(159)	(244)	-8.1%
Large Commerical RS 3	6,375	1,071	(841)	(1,912)	-4.2%

14.3 Please provide sensitivity analyses for Tables 5-13 and 5-14 that show the rate and bill impact if FEFN's usage per customer are higher than FEI's forecast by:

(a) 1%;

(b) 2%; and

(c) 5%.

Response:

Please refer to the tables below for revised Tables 5-13 and 5-14 with the different scenarios as requested. It can be seen that for all scenarios, FEFN's commercial customers will still experience savings in their bills as a result of moving to common rates with FEI. Please also refer to the responses to BCUC IR1 6.2, 12.3, and 12.4 for additional sensitivity analyses.

Scenario (a): FEFN's Usage per Customer (UPC) Forecast for 2023 Increased by 1 Percent:

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)	**4.7500**	**6.0380**
	Commodity Cost Recovery ($/GJ)	**2.9990**	**2.8440**
	Midstream Charge ($/GJ)	**0.0510**	**0.073**
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**5.169**	**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)	**4.319**	**3.91**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	**0.043**	**0.062**

	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	57	220	163	15.5%
Small Commerical RS 2	335	173	(159)	(332)	-11.0%
Large Commerical RS 3	6,375	2,225	(841)	(3,066)	-6.7%

Scenario (b): FEFN's UPC Forecast for 2023 Increased by 2 Percent:

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)	**4.7030**	**6.0380**
	Commodity Cost Recovery ($/GJ)	**2.9990**	**2.8440**
	Midstream Charge ($/GJ)	**0.0510**	**0.073**
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**5.118**	**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)	**4.277**	**3.91**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	**0.043**	**0.062**

	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	51	220	169	16.0%
Small Commerical RS 2	335	155	(159)	(315)	-10.4%
Large Commerical RS 3	6,375	1,957	(841)	(2,798)	-6.1%

Scenario (c): FEFN's UPC Forecast for 2023 Increased by 5 Percent:

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)	**4.5690**	**6.0380**
	Commodity Cost Recovery ($/GJ)	**2.9990**	**2.8440**
	Midstream Charge ($/GJ)	**0.0510**	**0.073**
Commerical			
Rate Schedule 2 Small Commercial Service (Less than 2,000 GJ)	**Basic Charge ($/Day)**	**1.2151**	**0.9616**
	Delivery Charge ($/GJ)	**4.972**	**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)	**4.154**	**3.91**
	Commodity Cost Recovery ($/GJ)	**2.999**	**2.844**
	Midstream Charge ($/GJ)	**0.043**	**0.062**

	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	34	220	186	17.6%
Small Commerical RS 2	335	107	(159)	(266)	-8.8%
Large Commerical RS 3	6,375	1,173	(841)	(2,014)	-4.4%

15.0 Delivery Margin Differences

Reference: Exhibit B-1, Application, p. 58

At p. 58, FEI describes the delivery rate margin impact on residential customers as follows:

> Table 5-17 below provides a forecast schedule of the phase-in credit rate rider proposed for FEFN residential customers over a 10-year period, which is calculated based on the initial difference of delivery margin in 2023 for FEFN residential customers, estimated to be $319 thousand, and decreases each year until it reaches zero (Line 5). [Footnotes omitted.]

Footnote 33 provides the calculation for the $319 thousand difference in delivery margin.

15.1 Please confirm that based on this calculation, absent the “rate rider”, FEFN’s RS1 customers would be paying $319,000 more in delivery charges than under the status quo in 2023.

Response:

Confirmed. The $319 thousand is the delivery margin impact for all FEFN’s residential (RS 1) customers due to the transition to common rates. For the average FEFN residential customer, without the rate rider, the forecast 2023 bill impact due to common rates would be $157, as shown in Table 5-14 of the Application.

15.2 Please provide a similar calculation showing the delivery charge revenue changes for the RS2 and RS3 rate classes using the same methodology.

Response:

Please refer to the table below for the incremental delivery margin impact for RS 2 and RS 3 customers. FEI included the same calculation for RS 1 for comparison.

Line	Particular	Reference	2023
1	**FEFN Residential (RS 1)**		
2	FEI Basic Charge ($/day)	Table 5-13 of Application	0.4216
3	FEFN Basic Charge ($/day)	Table 5-13 of Application	0.3701
4			
5	FEI Delivery Charge ($/GJ)	Table 5-13 of Application	6.038
6	FEFN Delivery Charge ($/GJ)	Table 5-13 of Application	4.798
7			
8	2023 Average Customers (RS 1)	Appendix A2; Table A2-2	1,841
9	2023 Demand Forecast (RS 1) - TJ	Appendix A2; Table A2-2	230
10			
11	**Incremental Delivery Margin Impact to FEFN RS 1 ($000s)**	**(Line 2 - Line 3) x 365.25 days x Line 8 / 1000 + (Line 5 - Line 6) x Line 9**	**319**
12			
13	**FEFN Small Commerical (RS 2)**		
14	FEI Basic Charge ($/day)	Table 5-13 of Application	0.9616
15	FEFN Basic Charge ($/day)	Table 5-13 of Application	1.2151
16			
17	FEI Delivery Charge ($/GJ)	Table 5-13 of Application	4.588
18	FEFN Delivery Charge ($/GJ)	Table 5-13 of Application	5.223
19			
20	2023 Average Customers (RS 1)	Appendix A2; Table A2-2	442
21	2023 Demand Forecast (RS 1) - TJ	Appendix A2; Table A2-2	143
22			
23	**Incremental Delivery Margin Impact to FEFN RS 2 ($000s)**	**(Line 14 - Line 15) x 365.25 days x Line 20 / 1000 + (Line 17 - Line 18) x Line 21**	**(132)**
24			
25	**FEFN Large Commercial (RS 3)**		
26	FEI Basic Charge ($/day)	Table 5-13 of Application	4.8026
27	FEFN Basic Charge ($/day)	Table 5-13 of Application	3.6845
28			
29	FEI Delivery Charge ($/GJ)	Table 5-13 of Application	3.910
30	FEFN Delivery Charge ($/GJ)	Table 5-13 of Application	4.360
31			
32	2023 Average Customers (RS 1)	Appendix A2; Table A2-2	12
33	2023 Demand Forecast (RS 1) - TJ	Appendix A2; Table A2-2	78
34			
35	**Incremental Delivery Margin Impact to FEFN RS 3 ($000s)**	**(Line 26 - Line 27) x 365.25 days x Line 32 / 1000 + (Line 29 - Line 30) x Line 33**	**(30)**

15.3 Please provide sensitivity analyses for each of RS1, RS2, and RS3 for these revenue calculations using the assumptions in requests 14.2 and 14.3, above.

Response:

Please refer to the table below for the requested sensitivity analyses.

Line	Particular	As-filed	14.2 a) Customer +1%	14.2 b) Customer +2%	14.2 c) Customer +5%	14.3 a) UPC +1%	14.3 b) UPC +2%	14.3 c) UPC +5%
1	**FEFN Residential (RS 1)**							
2	FEI Basic Charge ($/day)	0.4216	0.4216	0.4216	0.4216	0.4216	0.4216	0.4216
3	FEFN Basic Charge ($/day)	0.3701	0.3701	0.3701	0.3701	0.3701	0.3701	0.3701
4								
5	FEI Delivery Charge ($/GJ)	6.038	6.038	6.038	6.038	6.038	6.038	6.038
6	FEFN Delivery Charge ($/GJ)	4.798	4.739	4.683	4.517	4.750	4.703	4.569
7								
8	2023 Average Customers (RS 1)	1,841	1,859	1,877	1,933	1,841	1,841	1,841
9	2023 Demand Forecast (RS 1) - TJ	230	232	234	241	232	234	241
10								
11	**Incremental Delivery Margin Impact to FEFN RS 1 ($000s)**	**319**	**336**	**353**	**403**	**333**	**347**	**389**
12								
13	**FEFN Small Commerical (RS 2)**							
14	FEI Basic Charge ($/day)	0.9616	0.9616	0.9616	0.9616	0.9616	0.9616	0.9616
15	FEFN Basic Charge ($/day)	1.2151	1.2151	1.2151	1.2151	1.2151	1.2151	1.2151
16								
17	FEI Delivery Charge ($/GJ)	4.588	4.588	4.588	4.588	4.588	4.588	4.588
18	FEFN Delivery Charge ($/GJ)	5.223	5.157	5.091	4.907	5.169	5.118	4.972
19								
20	2023 Average Customers (RS 1)	442	446	451	464	442	442	442
21	2023 Demand Forecast (RS 1) - TJ	143	144	146	150	144	146	150
22								
23	**Incremental Delivery Margin Impact to FEFN RS 2 ($000s)**	**(132)**	**(123)**	**(115)**	**(91)**	**(125)**	**(118)**	**(99)**
24								
25	**FEFN Large Commercial (RS 3)**							
26	FEI Basic Charge ($/day)	4.8026	4.8026	4.8026	4.8026	4.8026	4.8026	4.8026
27	FEFN Basic Charge ($/day)	3.6845	3.6845	3.6845	3.6845	3.6845	3.6845	3.6845
28								
29	FEI Delivery Charge ($/GJ)	3.910	3.910	3.910	3.910	3.910	3.910	3.910
30	FEFN Delivery Charge ($/GJ)	4.360	4.319	4.277	4.138	4.319	4.277	4.154
31								
32	2023 Average Customers (RS 1)	12	12	12	13	12	12	12
33	2023 Demand Forecast (RS 1) - TJ	78	79	80	82	79	80	82
34								
35	**Incremental Delivery Margin Impact to FEFN RS 3 ($000s)**	**(30)**	**(27)**	**(24)**	**(13)**	**(27)**	**(24)**	**(15)**

16.0 Phase-in Credit Rate Rider

Reference: Exhibit B-1, Application, pp. 58-59, 81

At p. 58, FEI indicates that "[t]he table below also provides the continuity of the FEFN Residential Common Rate Phase-in deferral account (Line 12 to 19) used to administer the proposed credit rate rider, with the amortization of this deferral account to FEI's non-bypass customers through delivery rates over the 10-year period (Line 18).

16.1 Please confirm that the amortization of this deferral account will occur annually, and will be to the account of all of FEI's non-bypass customers.

Response:

Confirmed. The amortization of the FEFN Residential Common Rate Phase-in deferral account will occur annually and will be recovered from all of FEI's non-bypass customers. This annual amortization is shown on Line 18 of Table 5-17 of the Application.

At p. 58, FEI states: "FEI also proposes to include the approved 2021 FEFN surplus, which is forecast to be $94 thousand at December 31, 202234, to further reduce the annual bill impact to

FEFN residential customers by increasing the phase-in credit rate rider over the same 10-year period (Line 6)."

At p. 81, FEI states:

> … By combining the revenue deficiency created by phasing in residential delivery rates with the revenue surplus in the already approved FEFN 2021 Revenue Surplus deferral account, the annual credit amount of the FEFN Residential Common Rate Phase-in Rate Rider will be higher, and will thus serve to further reduce the annual bill impact that will be experienced by FEFN's residential customers resulting from the transition to common rates.

In Table 5-17, FEFN presents the $94,000 credit as an amount to be amortized in its delivery rates (Line 13, 2023 □ Line 19, 2023/Line 18, 2024).

16.2 Please explain why the $94,000 credit arising from the FEFN revenue surplus is added to, rather than subtracted from, the phase-in rider amortization in Table 5-17.

Response:

The $94 thousand should have been shown as a credit (i.e., negative value) in Table 5-17. Please refer to the revised Table 5-17 below with the $94 thousand showing correctly as a credit in the opening balance of the deferral account (i.e., Line 13, year 2023). The error has no impact on the calculation of the proposed FEFN phase-in rate rider (i.e., Line 6) and it reduces the cumulative delivery rate impact to FEI from 0.15 percent to 0.12 percent.

Line	Particular	Reference	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1	Incremental Delivery Margin for FEFN RS 1 ($000s)	Section 5.5	319									
2	Effective Incremental Delivery Rate ($/GJ)	Line 1 / Line 9 (2023)	1.391									
3	Annual Incremental of Phase-In ($/GJ)	Line 2 / 10 Years	0.139									
4												
5	Residential Phase-in Common Rates Rider ($/GJ)	Yr 1 = -(Line 2 - Line 3); Yr 2 to 10 = Prev Yr + Line 3	(1.252)	(1.113)	(0.974)	(0.835)	(0.695)	(0.556)	(0.417)	(0.278)	(0.139)	-
6	2021 FEFN Surplus Revenue Rider ($/GJ)	-$94 thousand / (10 yrs - 1) / Line 9	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	-
7	Total FEFN Residential Phase-in Rider ($/GJ)	Line 5 + Line 6	(1.297)	(1.158)	(1.019)	(0.880)	(0.741)	(0.602)	(0.463)	(0.324)	(0.185)	-
8												
9	FEFN Residential Demand Forecast (TJ)	Section 4.3.2.1	230	230	230	230	230	230	230	230	230	230
10	Total FEFN Phase-in Rider Costs ($000s)	- Line 7 x Line 9	298	266	234	202	170	138	106	74	42	-
11												
12	FEFN Phase-in Rider Deferral ($000s)											
13	Opening Balance	Preceeding Year, Line 19	(94)	124	203	181	157	132	107	83	58	33
14	Additions	Line 10	298	266	234	202	170	138	106	74	42	-
15	Less Tax	- Line 14 x 27%	(80)	(72)	(63)	(55)	(46)	(37)	(29)	(20)	(11)	-
16	AFUDC	(Line 13 + (Line 14 + 15 + 18)/2) x 5.47%	1	9	10	9	8	6	5	4	2	-
17	Net Additions	Sum of Line 14 to 16	218	203	181	157	132	107	83	58	33	-
18	Amortization to FEI's Delivery Rates	- Line 13	-	(124)	(203)	(181)	(157)	(132)	(107)	(83)	(58)	(33)
19	Closing Balance	Line 13 + Line 17 + Line 18	124	203	181	157	132	107	83	58	33	-
20												
21	2021 FEI Approved Delivery Margin ($000s)	G-319-20	879,479									
22	Cumulative Amortization to FEI ($000s)	- Sum of Line 18	1,078									
23	% Cumulative Delivery Rate Impact to 2021	Line 22 / Line 21	0.12%									

17.0 Bonbright Principles

Reference: Exhibit B-1, Application, pp. 61-63.

At pp. 61-63, FEI explains the rate design principles relevant to its Option 4 proposal.

At, p. 61, FEI cites “Principle 2” which FEI describes as “Appropriate cost recovery should be reflected in rates and should be based on cost causation”, 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.

17.1 Please confirm that for the 76% of FEFN’s revenue not derived from shared services, the status quo better reflects cost causation than common rates would.

Response:

Not confirmed. The purpose of Table 4-3 of the Application is to highlight that 24 percent of FEFN’s revenue requirement is related to allocated costs from shared services; however, it does not imply that the remaining 76 percent of FEFN’s revenue requirement are all direct costs incurred by FEFN (and therefore that the status quo better reflects cost causation than common rates would).

Please refer to the response to BCUC IR1 10.1 which explains that a large portion of FEFN’s revenue requirement is essentially calculated costs based on studies and rates flowing from and dependent on FEI. The allocated costs and calculated costs from FEI have contributed up to an average of 76 percent of FEFN’s revenue requirement between 2011 and 2022.

At p. 61, FEI describes the role of FEI’s shared services to this criteria:

> As a result, the majority of FEFN’s annual O&M expenses are comprised of a shared services fee allocated from FEI. The shared services fee is a calculation based on an allocation of customer counts rather than the true cost. If FEFN were required to operate as a standalone utility, significantly more direct employees for FEFN would be needed and it is reasonable to assume that the resulting O&M costs would be higher.

17.2 Please confirm that Application does not provide data to show that FEI's other customers are subsidizing FEFN's through the shared services allocation.

Response:

FEI did not provide specific data in the Application as FEI has not undertaken a shared services or shared services cost allocation study for FEFN. However, FEI has conducted a high level review of the current shared services cost allocation approach which is based on using the number of customers between FEI and FEFN as the cost driver. For the most part, the current cost driver-based approach, which simplifies the administration of the cost allocation process, provides reasonable and representative cost allocations. However, some exceptions were noted for the shared services to FEFN provided by the departments of Regulatory, Finance and Energy Supply. Please refer to the responses to BCUC IR1 8.2 and 8.3 for further discussion of the appropriateness of the current shared services cost allocation and for a high level analysis of the incremental gross O&M expense allocated to FEFN which would result if FEI applied a time-based approach to allocating costs to FEFN from the three departments previously mentioned.

As discussed in Section 5.2.1 of the Application, implementing common delivery and cost of gas rates will eliminate the regulatory cost and burden associated with preparing and reviewing the separate regulatory filings and reduce some of the finance-related costs (i.e., financial reporting) required for FEFN. Furthermore, as discussed in Section 5.2.3, common rates achieve greater fairness amongst all customers as all costs are shared by all customers equally, including FEFN customers.

17.3 Please confirm that to the extent FEI is able to generate economies of scale (i.e. spread certain fixed costs over more users), those economies of scale may lower rates for all of FEI's customers even where FEFN remains on separate rates. If not confirmed, please explain your response.

Response:

Confirmed.

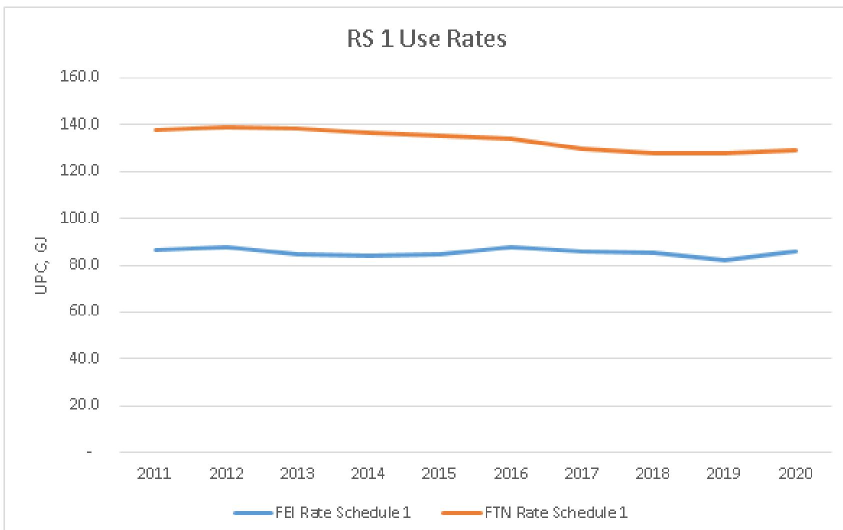
17.4 Please provide a table comparing the usage per RS1 customer in FEFN's service area against usage per customer for FEI's other RS1 customers over the past ten years.

Response:

The following table shows the actual use per customer (UPC) rates for FEFN (please note that "FTN" refers to FEFN in the below table) and FEI RS 1 customers for the past ten years.

UPC, GJ	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
FEI Rate Schedule 1	86.3	87.6	84.7	84.2	84.4	87.5	85.8	85.1	82.4	86.2
FTN Rate Schedule 1	137.8	138.8	138.6	136.5	135.5	134.2	129.9	127.6	128.1	128.9

The following chart is provided to show the results graphically. FEI notes that the RS 1 UPC in FEFN (i.e., "FTN" in the below chart) is declining at a rate of approximately 1.4 GJ/year while the FEI average annual decline is approximately 0.2 GJ/year.



17.5 Please provide any support (case law or otherwise) that FEI has indicating that the standalone principle allows a utility to charge certain customers more than their cost of service because their cost of service would be even higher on a standalone basis.

Response:

FEI is not proposing to have rates set for FEFN based on an estimate of standalone costs. The statement referenced in the preamble above is referring to the fact that FEFN currently only has two direct employees and that the majority of FEFN's operations are provided by FEI's resources. As a result, if FEFN were a standalone utility, it would require more direct employees and its costs would be higher as a result. This is simply highlighting the fact that FEFN is, except for the two direct employees, already fully integrated with FEI. In other words, given that the majority of FEFN's operations are already provided by FEI's resources, there is no compelling operational justification for FEI to treat customers of the same classes in FEFN differently with separate rates.

However, if the Proposed Common Rate Option is not approved and FEFN continues under the status quo, FEI would continue to set FEFN's revenue requirement and delivery rates based on FEFN's approved rate design and cost of service methodology.

18.0 Cons of Proposed Common Rate Option

Reference: Exhibit B-1, Application, p. 64

At p. 64, FEI presents Table 5-19, which sets outs its view on the pros and cons of its proposed common rate option.

Regarding Bill Impacts, FEI indicates the following as the cons: The total estimated impact for FEFN's residential customers will be an incremental bill increase of $157 due to adoption of common rates. However, with the proposed 10-year phase-in rate rider for FEFN's residential customers, the average bill impact is reduced to approximately $17 per year over a 10-year period.

18.1 Please explain what percentage increase a $157 bill increase reflects for FEFN's RS1 customers.

Response:

The percentage increase associated with the $157 bill increase (no phase-in) for FEFN's residential customers is 14.9 percent. Please refer to the response to BCUC IR1 11.3 for additional details.

18.2 Please confirm that the $17 per year increase described does not include any incremental increases in rates that FEFN's customers may face due to being on common rates rather than remaining under the status quo. If not confirmed, please explain your response.

Response:

Confirmed. However, FEFN would still experience general delivery rate increases under the status quo, and these general delivery rate increases are expected to be higher than FEI's rate increases in the future. As shown in Figure 4-9 of the Application, FEFN has historically had higher rate increases as well as higher volatility in delivery rates than FEI. Given the expected continuation of decline in energy demand in FEFN, FEFN is expected to continue to have, on average, higher delivery rate increases than FEI. Further, common rates for FEFN will result in immediate savings for commercial customers.

19.0 Public Consultation

Reference: Exhibit B-1, Application, p. 75

Concerning the proposal in the present application, FEI states:

> In the virtual town hall presentation, attached as Appendix C1 to this Application, FEI presented two options for common rates – moving to common delivery rates and cost of gas and moving to full common rates (i.e., common delivery, cost of gas, and midstream rates). Based on the feedback received, it became clear that moving to full common rates, similar to what FEI had proposed in past common rates applications, is not supported by Fort Nelson customers. FEI therefore developed and has proposed an alternative common rate proposal that maintains FEFN's midstream rates at a level consistent with existing rates and provides rate mitigation measures specifically targeted to residential customers.

19.1 When was the preferred option (Option 4) developed?

Response:

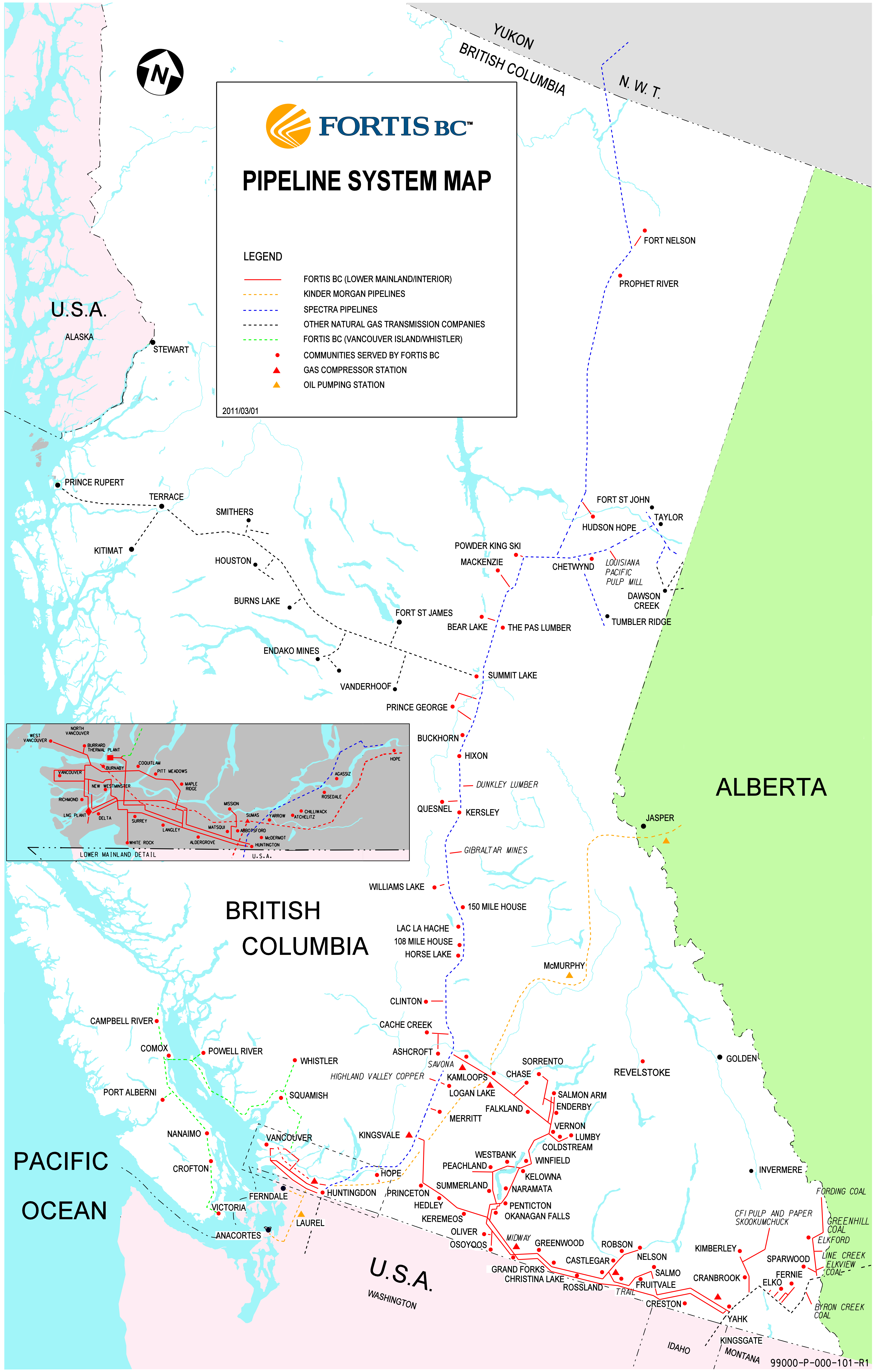
FEI began developing Option 4 after the virtual town hall on April 27, 2021 in response to the feedback received at the virtual town hall, and as part of FEI's ongoing efforts at that time to develop a common rate option that achieved the goal of moving to common rates as fully as possible without creating significant negative bill impacts to FEFN customers. Option 4 was sufficiently advanced by the time of the Fort Nelson Regional Council meeting on June 14, 2021 that FEI representatives were able to confirm that FEI would not be proposing a full move to common rates (i.e., Option 3) as the recommended option in the Application (please see page 69 of the Application which provides a YouTube link to the June 14, 2021 Special Regional Council Meeting). However, due to FEI still developing the specifics of Option 4 with its gas supply department, FEI was not able to provide specifics on this option at the time of the Regional Council meeting. The finalization of Option 4 and the analysis of the rate and bill impacts to FEFN and FEI customers occurred in the weeks leading up to the filing of the Application, as is typical with any large regulatory application.

19.2 Please explain in detail what consultation occurred with respect to the preferred option (Option 4).

Response:

FEI did not consult with Indigenous groups or stakeholders on the specifics of Option 4; however, FEI did consider stakeholders' feedback regarding concerns over rate increases and concerns over paying the same midstream (i.e., storage and transport) rates as FEI customers, given FEFN's proximity to the Fort Nelson gas plant. These concerns were a key driver in FEI seeking a common rate option that maintained FEFN's storage and transport rates at a level consistent with what FEFN customers are currently paying. Further, as explained in the response to FNDCC-NRRM IR1 19.1, while FEI representatives were not able to discuss the specifics of Option 4 at the Regional Council meeting on June 14, 2021, FEI representatives did confirm that FEI would not be proposing a full move to common rates in the Application. As FEI has presented a range of options in this Application, informed by the feedback received from its consultation activities, FEI considered that the best and most transparent forum for answering detailed questions on the common rates options, and in particular the Proposed Common Rate Option 4, would be within the BCUC's public hearing process.

Attachment 1.2


FORTIS BC™
PIPELINE SYSTEM MAP
LEGEND
FORTIS BC (LOWER MAINLAND/INTERIOR)
KINDER MORGAN PIPELINES
SPECTRA PIPELINES
OTHER NATURAL GAS TRANSMISSION COMPANIES
FORTIS BC (VANCOUVER ISLAND/WHISTLER)
COMMUNITIES SERVED BY FORTIS BC
GAS COMPRESSOR STATION
OIL PUMPING STATION
2011/03/01
N
YUKON
BRITISH COLUMBIA
N. W. T.
U.S.A.
ALASKA
STEWART
FORT NELSON
PROPHET RIVER
PRINCE RUPERT
TERRACE
SMITHERS
KITIMAT
HOUSTON
BURNS LAKE
ENDAKO MINES
VANDERHOOF
FORT ST JAMES
FORT ST JOHN
TAYLOR
HUDSON HOPE
POWDER KING SKI
MACKENZIE
CHETWYND
LOUISIANA PACIFIC PULP MILL
DAWSON CREEK
TUMBLER RIDGE
BEAR LAKE
THE PAS LUMBER
SUMMIT LAKE
PRINCE GEORGE
BUCKHORN
HIXON
DUNKLEY LUMBER
QUESNEL
KERSLEY
ALBERTA
JASPER
GIBRALTAR MINES
WILLIAMS LAKE
150 MILE HOUSE
LAC LA HACHE
108 MILE HOUSE
HORSE LAKE
BRITISH COLUMBIA
McMURPHY
CLINTON
CACHE CREEK
ASHCROFT
SAVONA
KAMLOOPS
HIGHLAND VALLEY COPPER
LOGAN LAKE
SORRENTO
CHASE
REVELSTOKE
GOLDEN
SALMON ARM
ENDERBY
FALKLAND
MERRITT
VERNON
LUMBY
COLDSTREAM
CAMPBELL RIVER
COMOX
POWELL RIVER
WHISTLER
SQUAMISH
PORT ALBERNI
NANAIMO
CROFTON
VICTORIA
VANCOUVER
KINGSVALE
HOPE
HUNTINGDON
PRINCETON
FERNDALE
LAUREL
ANACORTES
WESTBANK
PEACHLAND
WINFIELD
KELOWNA
SUMMERLAND
NARAMATA
HEDLEY
PENTICTON
OKANAGAN FALLS
KEREMEOS
OLIVER
OSOYOOS
MIDWAY
GREENWOOD
GRAND FORKS
CHRISTINA LAKE
CASTLEGAR
ROBSON
NELSON
SALMO
ROSSLAND
TRAIL
FRUITVALE
CRESTON
YAHK
KINGSGATE
KIMBERLEY
CRANBROOK
INVERMERE
CFI PULP AND PAPER SKOOKUMCHUCK
FORDING COAL
GREENHILL COAL
ELKFORD
LINE CREEK
ELKVIEW COAL
SPARWOOD
FERNIE
ELKO
BYRON CREEK COAL
PACIFIC OCEAN
U.S.A.
WASHINGTON
IDAHO
MONTANA
NORTH VANCOUVER
WEST VANCOUVER
BURRARD THERMAL PLANT
COQUITLAM
PITT MEADOWS
BURNABY
VANCOUVER
NEW WESTMINSTER
MAPLE RIDGE
RICHMOND
LNG PLANT
DELTA
SURREY
LANGLEY
MISSION
MATSQUI
SUMAS
ARROW
CHILLIWACK
ATCHELITZ
ROSEDALE
AGASSIZ
HOPE
ABBOTSFORD
McDERMOT
HUNTINGTON
WHITE ROCK
ALDERGROVE
U.S.A.
LOWER MAINLAND DETAIL
99000-P-000-101-R1

Attachment 8.2

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)

Attachment 14.1

REFER TO LIVE SPREADSHEET MODEL

Provided in electronic format only

(accessible by opening the Attachments Tab in Adobe)