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British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Mr. Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc.
Project No. 1599246
Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area

We enclose for filing in the above proceeding the Final Argument of FortisBC Energy Inc. on the Fort Nelson Service Area 2022 Revenue Requirements, dated January 13, 2022.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom

Encl.

British Columbia Utilities Commission

FortisBC Energy Inc.

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

Final Argument of FortisBC Energy Inc. on the Fort Nelson Service Area 2022 Revenue Requirements

January 13, 2022

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PART ONE: INTRODUCTION

1. The 2022 revenue requirements for the Fort Nelson Service Area (FEFN) are set out in Section 8 of FEI's Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application) and reflect the reasonable costs to serve FEFN customers. To recover its reasonable costs, FortisBC Energy Inc. (FEI) requests final approval of an effective delivery rate increase of 3.41 percent effective January 1, 2022, as well as approval to set the Revenue Stabilization Adjustment Mechanism (RSAM) rate rider at a credit of $0.416 per GJ effective January 1, 2022. The increase is necessary to recover FEI's forecast revenue deficiency of $83 thousand for the 2022 test period. The largest driver of the revenue deficiency is the decrease in energy demand, due to a declining customer count and use per customer.

2. As part of determining FEFN's revenue requirements, FEI is seeking approval to adopt the following updated accounting policies that were approved for FEI as part of the 2020-2024 Multi-Year Ratemaking Plan (MRP) Decision and Order G-165-20:

(a) Capitalized overhead rate of 16 percent;

(b) Depreciation and net salvage rates as determined in FEI's most recent depreciation study; and

(c) The lead/lag days, as set out in FEI's most recent lead/lag study, for calculation of FEFN's cash working capital.

3. FEI is also seeking approval of the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account to capture the regulatory costs associated with the Application and associated regulatory process. The remainder of FEI's approvals sought in the Application relate to common rates, and will be addressed in the common rates phase of this proceeding.

4. In its submissions below, FEI focusses on the components of FEFN's 2022 revenue requirements that were subject to information requests (IRs) from the British Columbia Utilities Commission (BCUC) or the Fort Nelson and District Chamber of Commerce (FNDCC) and Northern Rockies Regional Municipality (NRRM) (together, FNDCC-NRRM). FEI submits that its forecast

revenue requirements for 2022 are reasonable and that the proposed 2022 delivery rates for FEFN should be approved as filed.

PART TWO: FEFN'S 2022 FORECAST REVENUE REQUIREMENTS

5. In this Part, FEI describes the components of FEFN's 2022 revenue requirements and topics raised in the IRs.

A. Capitalized Overhead Rate, Depreciation and Net Salvage Rates, and Lead/Lag Days Are Reasonable and Appropriate for FEFN

6. FEI's proposed capitalized overhead rate, depreciation and net salvage rates, and lead/lag days are reasonable and appropriate for calculating FEFN's 2022 revenue requirements, and should be approved consistent with past practice.

7. FEI has appropriately calculated FEFN's 2022 revenue requirements using a capitalized overhead rate of 16 percent, which is the capitalized overhead rate approved for FEI in the MRP Decision and Order G-165-20.[1] This approach is consistent with past FEFN revenue requirements, and provides a reasonable and appropriate approximation of FEFN's capitalized overhead rate for FEFN's revenue requirements.[2] The BCUC-approved FEI capitalized overhead rate was determined in part by reviewing FEI's various departmental O&M costs for the estimated associated capitalized overhead activities. As FEFN's direct O&M (i.e., field system operations) costs are similar to FEI's field activities and practices, and the Shared Services fee reflects an allocation of O&M costs from those FEI departments that provide functional support to FEFN, adopting FEI's approved capitalized overhead rate for FEFN's revenue requirements is logical and reasonable.[3]

8. Similarly, FEI has calculated FEFN's cash working capital using the lead/lag days approved for FEI in the MRP Decision and Order G-165-20 based on FEI's Lead/Lag Study.[4] This approach is again consistent with past FEFN revenue requirements, and provides a reasonable measure of

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[1] Exhibit B-1, Application, p. 104.

[2] Exhibit B-4, BCUC IR1 1.1.

[3] Exhibit B-4, BCUC IR1 1.1.

[4] Exhibit B-1, Application, p. 116.

FEFN's cash working capital needs. The timing differences for FEFN's revenues and expenses are similar to FEI's, as they are the result of similar billing and payment policies. Therefore, adopting FEI's approved lead/lag days for FEFN's revenue requirements is logical and reasonable.[5]

9. Also consistent with past FEFN revenue requirement applications (RRAs), FEI has used the depreciation and net salvage rates in FEI's most recent deprecation study, which was approved as part of the MRP Decision and Order G-165-20.[6] FEI's approved depreciation and net salvage rates provide a reasonable representation of the useful life of, and net salvage on, the assets in the FEFN service area as (i) FEFN's assets were included in the study, (ii) the nature, and the useful life of, FEFN's assets are similar to FEI's assets, and (iii) FEFN's operating assets are subject to the same operating and maintenance standards as FEI's. Therefore, adopting FEI's approved depreciation and net salvage rates for FEFN's revenue requirements is logical and reasonable.[7]

10. The approach of adopting FEI's approved accounting policies for FEFN is efficient and beneficial for FEFN customers as it eliminates the costs of performing separate studies specifically for FEFN and the costs of the regulatory process to review those studies, which would be allocated entirely to FEFN customers.[8] Given the small customer base of FEFN, the costs of such studies and their regulatory review could have significant rate impacts to FEFN customers.

B. FEI's 2022 Forecast Demand for FEFN is Reasonable

11. FEI has calculated FEFN's 2022 delivery rates based on its forecast demand for FEFN in 2022, using methods consistent with past applications approved by the BCUC. FEI describes the 2022 forecast demand for FEFN in Section 8.3 of the Application and provides detailed information on FEI's forecast methods in Appendix A3 of the Application.

12. Notably, FEI's demand forecast methods are consistent with the recommendations in the FEI Forecasting Method Study filed as Appendix B2 in FortisBC's MRP Application. The

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5 Exhibit B-4, BCUC IR1 1.1.

6 Exhibit B-1, Application, p. 110.

7 Exhibit B-5, FNDCC-NRRM IR1 4.1 and 4.2.

8 Exhibit B-4, BCUC IR1 1.1.

Forecasting Method Study represented the culmination of a number of years of research and testing of alternative forecasting methods in response to the forecasting directives in Order G-86-15 and accompanying Decision related to FEI's Annual Review for 2015 Delivery Rates. As a result of this study, FEI adopted the Exponential Smoothing (ETS) method for the purpose of forecasting residential and commercial use rates, as ETS proved to be the most accurate method for this purpose.[9]

13. In the sections below, FEI responds to the topics raised in IRs. FEI submits that its forecast demand is reasonable and appropriate for calculating FEFN's 2022 revenue requirements.

(a) Forecast Methods Remain Reasonable Despite COVID-19 Pandemic

14. FEI's forecast methods remain reasonable despite the COVID-19 pandemic and, in any case, there is no reasonable basis on which to predict the trajectory of the COVID-19 pandemic and its impacts.[10]

15. For the residential forecast:[11]

- The COVID-19 pandemic has had no apparent effect on residential customer additions. As shown in Figure 8-2 in Section 8.3.3.1 of the Application, the residential customer additions have been consistent since 2016 at an average of -17 customers per year, and the decline in customer additions for 2020 was -18. As a result, FEI considers that using the 2020 data, consistent with the current residential forecasting method, is reasonable. No 2021 data was used to prepare the forecast for 2022.
- The FEFN residential customer forecast utilizes the Conference Board of Canada (CBOC) housing starts growth rates from the CBOC's Provincial Long Term Economic Forecast published in April 2021. The CBOC forecast provides the best guidance available about pandemic impacts on housing starts.

16. For the commercial forecast:[12]

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9 Exhibit B-1, Application, Appendix A3, p. 1.

10 Exhibit B-4, BCUC IR1 2.1.

11 Exhibit B-4, BCUC IR1 2.1.

12 Exhibit B-4, BCUC IR1 3.2.

- The commercial customer additions forecast method uses the most recent three-year average of actual customer additions by rate class and, by reforecasting each year, the actual impacts from the COVID-19 pandemic will be accounted for.
- As shown in Figure 8-3 of the Application, commercial additions have been negative since 2017. While the decline in 2020 was larger than other years, the impact is minimized through the use of the three-year average forecast method.

17. Generally, FEI is not aware of any forecast methods that would be capable of accurately forecasting the trajectory of the COVID-19 pandemic and its impact. As load forecasting variances are recorded in the RSAM deferral account, customers will be kept whole from any variances in load that might be caused by factors such as the COVID-19 pandemic.

(b) Forecast Continued Decline in Customer Additions is Reasonable

18. FEI's forecast continued decline in customer additions is reasonable. FEI assumes the decline in residential customer accounts is connected to reduced economic activity in the region, which is also reflected in declining population trends in Fort Nelson. For example, Fort Nelson's population was 3,561 in the 2011 Census but declined to 3,366 in the 2016 Census.[13] Based on current data, there is no indication that the current trend will change. Therefore, FEI is forecasting a decline of 13 customers in 2022, which is consistent with Statistics Canada's assessment of the region.[14]

(c) Forecast Decline in UPC is Reasonable

19. FEI's forecast decline in use per customer (UPC) is also reasonable. FEI relies on the ETS method to forecast UPC. The ETS method considers 10 years of historical data and is based on objective, statistical methods. Based on the statistical forecast methods, the historical decline in UPC is expected to continue in 2022.[15]

20. Historical variances do not indicate any need to adjust the forecast. The large variances in UPC recorded in 2015, 2016, 2019 and 2020 were the result of a significant number of

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[13] Exhibit B-4, BCUC IR1 2.1.

[14] Exhibit B-4, BCUC IR1 2.2.

[15] Exhibit B-4, BCUC IR1 4.1.

customers switching rate classes between RS 2.1/2 and RS 2.2/3, which is not expected in 2022.[16] For the years between 2011 and 2014, the forecast variances in both commercial classes were relatively small, and all negative, indicating that the use rate decreased more quickly than forecast.[17] For years 2017 and 2018, which were not affected by any significant rate switching between the two commercial rate classes, the absolute variances were at a level comparable to the years prior to 2015.[18]

21. Any variance in UPC between actual and forecast is captured in the RSAM deferral account, which will be recovered from or returned to customers over a two-year period starting the following year.[19]

C. Forecast O&M is Reasonable

22. FEI's forecast for FEFN's 2022 O&M expense set out in Section 8.4.2 of the Application is reasonable and appropriate for calculating FEFN's 2022 delivery rates. The majority of FEFN's O&M expenses are comprised of the Shared Services fee allocated to FEFN from FEI. As shown in Table 8-6 of the Application, FEFN's 2022 net O&M expenses are forecast to decrease by approximately $3 thousand or 0.4 percent from 2021 Approved, primarily due to a reduction in the Shared Services fee and an increase in capitalized overhead. These reductions are offset by increases in vehicle costs, materials and supplies expenses, and contractor costs. The reasons for the offsetting increasing costs are discussed below.

(a) Vehicle Costs

23. FEI's 2021 Projected and 2022 Forecast vehicle costs of $45 thousand and $46 thousand, respectively, are estimated to be higher than the 2021 Approved of $26 thousand primarily due to an increase in repair costs for the vehicles used by the FEFN staff.[20] The increased level of repair costs is primarily due to the aging fleet of vehicles used in FEFN. Most FEFN vehicles are

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[16] Exhibit B-4, BCUC IR1 5.1 and 5.2.

[17] Exhibit B-4, BCUC IR1 5.1 and 5.2.

[18] Exhibit B-4, BCUC IR1 5.1 and 5.2.

[19] Exhibit B-5, FNDCC-NRRM IR1 1.2.

[20] Exhibit B-1, Application, pp. 102-103.

model years 2011, 2013 and 2015 and, as the vehicles age, the number of repairs increases and the types of repairs can be more costly. For example, recent repair costs include the repair of a backhoe and a F350 pickup truck totaling to over $30 thousand. In addition to higher repair costs, an increase in the number of industrial-sized meter exchanges is expected in 2022 and 2023, thereby increasing the travelling required, which contributes to the higher vehicle costs.[21]

(b) Materials and Supplies, and Contractor Costs

24. The 2022 Forecast costs of $19 thousand for material and supplies and $36 thousand for contractor costs are estimated to be higher than 2021 Approved by approximately $17 thousand and $21 thousand, respectively. The increase is primarily due to the increased service required for the distribution system.[22] FEI expects the recent trend in higher contractor and materials costs to continue into 2022 and 2023:[23]

- With an aging distribution system originally installed in 1970, FEI expects overall maintenance costs to increase in order to keep the FEFN system operating reliably and safely.
- Due to the downturn in the Fort Nelson economy, it is difficult to find local qualified contractors. As a result, FEI now often needs to hire contractors from the Fort St. John area, leading to higher costs.
- Higher materials costs are expected due to an increase in the number of industrial-sized meter exchanges. Typically, fittings, meters and regulators for this type of work are significantly more expensive than for residential meter exchanges.
- General pricing pressure on materials costs, due to the current challenges with world-wide supply and pricing of commodities and finished products, may add to the costs experienced.

D. Forecast Rate Base and Capital Additions are Reasonable

25. FEFN's forecast 2022 mid-year average rate base amount is $13,186 thousand, as shown in Table 8-9 of the Application, reflecting the investment in utility assets necessary to provide service to FEFN customers. The growth in rate base for 2022 is largely attributable to distribution

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[21] Exhibit B-4, BCUC IR1 7.1.

[22] Exhibit B-1, Application, pp. 103-103.

[23] Exhibit B-4, BCUC IR1 7.2.

plant capital additions and, in particular, the capital additions forecast for the completion of the Recreation Centre District Station project in 2022. This project is needed for safety and reliability upgrades to FEFN's Recreation Centre District Station to address deficiencies with respect to pipe, valve, filter, and meter rating and/or capacity.[24]

26. The Recreation Centre District Station project will be completed in 2022.[25] FEI does not foresee any significant risks to the timeline for completion of the Recreation Centre District Station project in 2022:[26]

- The required permits from the BC Oil and Gas Commission and road allowance from the Ministry of Transportation and Infrastructure have been obtained. FEI is considering whether an amendment to its BC Oil and Gas Commission permit is required to ensure the scope of work is accurately reflected based on updated engineering and development work on the project. However, it is not anticipated that a request for an amendment, if needed, will result in any concerns in terms of the project timeline.
- The mechanical drawings were completed in 2021 and the electrical and instrumentation drawings will be completed before the end of January 2022. With the progress made on these drawings, the long lead (delivery) items will be ordered in December 2021 and January 2022 which will allow fabrication to be completed well before the end of Q2 of 2022.
- As a result of the work done to date, installation of the station upgrades is planned for Q3 of 2022 which will provide good system and weather conditions for successful installation and completion of the project.

27. FEI submits that its forecast rate base and capital additions are reasonable and appropriate for calculating FEFN's 2022 delivery rates.

E. Deferral Account Topics Related to 2022 Delivery Rates

(a) FEFN Common Rates and 2022 Revenue Requirement Application Costs Deferral Account

28. FEI requests approval of the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account to capture the regulatory costs associated with this

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[24] Exhibit B-1, Application, pp. 108-109.

[25] Exhibit B-4, BCUC IR1 8.1.

[26] Exhibit B-4, BCUC IR1 8.1.

Application and regulatory review process. Table 8-15 in Section 8.6.4.1 of the Application addresses the considerations identified in the BCUC's Regulatory Account Filing Checklist.

29. FEI is not proposing that the BCUC determine the amortization period for this account as part of setting FEFN's 2022 delivery rates. However, FEI's plan for the amortization of this account is as follows:[27]

(a) If common rates are approved for FEFN, the Application costs captured in the deferral account will be recovered through FEI's delivery rates from both FEI and FEFN customers (i.e., there will be no distinction in recovery of the Application costs between FEI and FEFN customers as they are under common rates); or

(b) If common rates are not approved for FEFN, the Application costs captured in the deferral account will be recovered through FEFN's delivery rates from FEFN customers only.

30. If common rates are approved, FEI considers that recovery from all FEI and FEFN customers results in fair and consistent treatment between FEI and FEFN customers, as the costs of FEI's regulatory applications will also be recovered from all customers.[28] Further, the impact to the combined FEI and FEFN customers is minimal at approximately $0.001 per GJ when compared to FEI's approved 2022 delivery rates.[29]

31. FEI does not see any material advantage to tracking the costs associated with the 2022 revenue requirements component of the proceeding for recovery from FEFN customers only in 2022. While this approach is possible, the rate impacts would be relatively material for FEFN customers. For example, if the forecast 2022 RRA component of the Application costs (i.e., $41 thousand) is included in FEFN's 2022 delivery rates, it would increase the delivery rates from the proposed 3.41 percent to 5.05 percent.[30] This approach is also less administratively efficient, as FEI would need to track costs separately and track and account for two deferral accounts instead of one, and the BCUC and interveners would also need to separately track and invoice FEI their

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[27] Exhibit B-4, BCUC IR1 9.3.

[28] Exhibit B-4, BCUC IR1 9.3.

[29] Exhibit B-4, BCUC IR1 9.4.

[30] Exhibit B-4, BCUC IR1 9.5.

own time and costs for each component of the Application. Given the small difference between the two components, the higher delivery rate increase for FEFN in 2022 and the reduced administrative efficiency, FEI does not recommend this approach.[31]

(b) FEFN 2021 Revenue Surplus Deferral Account

32. As part of its proposed common rates for FEFN, FEI proposes to use the balance in the 2021 FEFN Revenue Surplus deferral account to mitigate the impacts to FEFN residential customers due to common rates. As it relates to FEFN's 2022 delivery rates, FEI submits that the 2021 FEFN revenue surplus should not be used to mitigate the forecast delivery rate increase of 3.41 percent in 2022. FEI explained as follows:[32]

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

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[31] Exhibit B-4, BCUC IR1 9.5.

[32] Exhibit B-4, BCUC IR1 10.1.

PART THREE: CONCLUSION

33. FEI submits that its forecast revenue requirements for FEFN are reasonable and that its requested approvals to set FEFN's 2022 delivery rates should be approved as filed, including approval of an effective delivery rate increase of 3.41 percent effective January 1, 2022, the RSAM rate rider at a credit of $0.416 per GJ effective January 1, 2022, the adoption of FEI's accounting policies as described in the Application, and the creation of the FEFN Common Rates and 2022 Revenue Requirement Application Costs deferral account.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: January 13, 2022

[original signed by Chris Bystrom]

Chris Bystrom
Counsel for FortisBC Energy Inc.