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January 19, 2022

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Energy Inc. (FEI)

FEI Application for Approval of Rates and Agreement for a CNG Fueling Station under the Greenhouse Gas Reduction (Clean Energy) Regulation for GFL Environmental Inc. and for Amendments to Rate Schedule 6P (Application)

Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1

On October 27, 2021, FEI filed the Application referenced above. In accordance with the regulatory timetable established in BCUC Order G-320-21 for the review of the Application, FEI respectfully submits the attached response to CEC IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

1. Reference: Exhibit B-1, page 2-3

2. APPROVAL SOUGHT

FEI hereby applies to the BCUC, pursuant to sections 59 to 61 and 89 of the UCA, for the following:

1. Approval of the rates established in the GFL Agreement, on an interim refundable/recoverable basis, effective November 15, 2021, which is the date the GFL Abbotsford Fueling Station is expected to be operational; and
2. Approval to amend the RS 6P tariff and rates, on an interim non-refundable/non-recoverable basis, to accommodate point-of-sale public fueling at the GFL Abbotsford Fueling Station, effective November 30, 2021, the date by which FEI expects the station will be ready to accommodate public fueling.

FEI requests approval of the rates on an interim and refundable/recoverable basis, pending the finalization of actual capital costs, and the determination of the resulting final rates. Once final capital costs are known, FEI and the GFL may enter into amending agreements, if required, based on the final costs of the GFL Abbotsford Fueling Station. Once final capital costs are known, FEI will file with the BCUC for approval of rates on a permanent basis. Any variance between interim and permanent rates will be refunded to or recovered from GFL following the approval of permanent rates.

FEI requests approval of the RS 6P tariff and rates on an interim and non-refundable/non-recoverable basis, given that public fueling will occur through transactions at the point of sale terminals at the fueling stations, it will not be possible to refund or recover any differences between interim and permanent rates for public users. Once final permanent rates for the GFL Abbotsford Fueling Station are determined by the BCUC following a permanent rates application by FEI, FEI will file for permanent approval of the GFL Abbotsford Fueling Station public fueling rates in RS 6P.

3. PROJECT DESCRIPTION

The GFL Abbotsford Fueling Station is designed as a fast-fill station to provide fuel to GFL, future third-party and public fueling customers. The station will consist of one two hose fast fill dispenser, a single compressor and point of sales system. FEI expects the GFL Abbotsford Fueling Station to be operational by November 15, 2021.

The GFL Abbotsford Fueling Station is located in Abbotsford near Highway 1, which is a major transportation route for medium and heavy-duty trucks. The GFL Abbotsford Fueling Station is strategically located to allow CNG fleets to fuel their CNG vehicles on a third-party and public fueling basis.

1.1 Please provide the status of the GFL Abbotsford Fueling Station.

<u>Response:</u>

FEI and GFL executed a confidential Amending Agreement, which extended the project completion deadline to December 31, 2021, to allow for equipment delivery and contractor delays that occurred in November 2021 due to a significant weather event causing major flooding, mudslides, and landslides in Southern British Columbia. Similarly, FEI and NRCan executed an Amending Agreement which extends the project completion deadline to March 31, 2022 for the same reasons.

On December 16, 2021, the GFL station was operational. Public fueling will be available prior to the NRCan deadline of March 31, 2022.

1.2 What actions need to occur, and why are rates required between November 15, 2021 and November 30, 2021, when the station appears to be operational but not able to accommodate public fueling?

Response:

At the time of filing, FEI expected the station to be operational on November 15, 2021 which was the commencement that GFL was expected to take fuel at the station. November 30, 2021 was the deadline for public fueling to be available. However, equipment delivery and contractor delays that occurred in November 2021 due to a significant weather event causing major flooding, mudslides, and landslides in southern British Columbia resulted in the in-service date of the station being delayed to December 16, 2021, as described in the response to CEC IR1 1.1. FEI's next step is to set up public fueling at the station which includes setting up the credit card service management with the service provider to manage, track, and process the credit card transactions at the point of sale dispenser. Once all project deficiencies, if any, are completed and final capital costs are known, FEI will develop and file a permanent rate application.

1.3 If the station is not yet operating, please explain why not and when FEI expects the station to operate.

Response:

The station is operational. Please refer to the response to CEC IR1 1.1.

1.4 When does FEI expect to know its final capital costs?

Response:

FEI expects that it will take approximately six to twelve months to finalize all capital costs. FEI expects that the final capital costs will be determined, and the permanent rate application filed, by the end of 2022.

1.5 Under what conditions would FEI expect to enter into amending agreements? Does FEI have a threshold at which it would or would not agree to amend the GFL Agreement? Please explain.

Response:

While the GFL Agreement does not specify a requirement or threshold which would trigger an amending agreement, FEI typically enters into amending agreements due to:

1. Delays in station completion requiring date extensions;
2. Increases or decreases in the station rates as a result of final capital costs being higher or lower than expected, typically if varying more than 2 percent above or below; or
3. Changes in the volume commitments by the anchor customer which also can have an impact on the station rates.

1.6 Please describe the difference between a fast-fill and a non-fast-fill station.

Response:

A fast-fill station uses a CNG compressor(s) and/or gas storage to directly fill one or more vehicles connected to fast-fill dispenser(s). Vehicles take on average 5-30 minutes to fill depending on the size of the compressors, if station fuel storage is available, the number of vehicles that are refueling at the station, and the fuel capacity of the vehicle. Fast-fill stations operate similarly to a typical gasoline or diesel fueling station.

A non-fast-fill station, also known as a time-fill station, uses CNG compressor(s) to simultaneously fill multiple vehicles parked for an extended period that are connected to time-fill posts. A time-fill system will usually have significantly more vehicles refueling at a given time and may have upwards of 100 vehicles connected. Vehicles take on average 1-8 hours to fill depending on compression capacity, the number vehicles that are refueling, and the fuel capacity of the vehicles.

1.7 Does FEI have experience working with both fast-fill and non-fast-fill stations? Please explain.

Response:

FEI has experience working with fast-fill, time-fill and combination fast-fill/time-fill stations. FEI currently operates six fast-fill, three time-fill, and eight combination fast-fill/time-fill CNG stations, totaling 17 CNG stations. FEI has been operating CNG stations since 1986.

2. Reference: Exhibit B-1, page 6 and page 7

Minimum term and minimum energy use	• 80 percent of the forecast total operating costs of the asset for the first five years of operation; or 60 percent of the forecast total operating costs of the asset for the first seven years of operation.	Section 2(2).(c)(ii)	The proposed rates in the GFL Agreement are projected to recover at least 60% of the forecast operating costs of the GFL Abbotsford Fueling Station over the Initial Term of the first ten years.	Part I,Term, and; Minimum Annual Quantity of the Fueling Service Agreement

5.1 *Terms and Conditions*

Table 2 below shows the key terms and conditions of the GFL Agreement.

Table 2: Summary of Key Terms and Conditions of the GFL Agreement

Term	Notes/Description	Section of GFL Agreement
Ownership of the fueling station	• The fueling station shall at all times remain the property of FEI.	Part II, Section A (B) of the Fueling Services Agreements
Minimum Quantity	• Minimum annual volume of 7,500 GJs in Year 1, 11,500 GJs in Year 2, and 15,500 GJs in Year 3 to Year 10 at the GFL Abbotsford Fueling Station represents recovery of 60 percent of the forecast operating cost over the ten year Initial Term of the GFL Agreement.	Part I, Term and Minimum Annual Quantity of the Fueling Services Agreements
Expiry of Term	• The Initial Term will commence on the Rate Change Date of January 1, 2022 and expire on December 31, 2031	Part I, Term of the Fueling Services Agreements

2.1 Please provide a sensitivity analysis assuming a 5% and 10% increase in operating costs.

Response:

The following table sets out the forecast O&M Rate ($/GJ) assuming operating and maintenance costs are 5 percent and 10 percent greater than the forecast FEI has provided in this Application.

Scenario	O&M Rate ($/GJ)
As filed	$2.014
5% increase in O&M expense	$2.115
10% increase in O&M expense	$2.215

Section 2(2)(c)(ii) of the GGRR requires that 60 percent of the station's <u>forecast</u> total operating costs for the first 7 years of operation are recovered from one or more persons under take-or-pay agreement with a minimum of term of 7 years. If actual O&M costs are greater than or less than those forecast in this Application, the difference (deficiency or surplus) will fall to FEI's non-bypass customers.

As described in the response to CEC IR1 1.7, FEI has been operating CNG stations since 1986 with 17 in operation at this time. Consequently, FEI has substantial experience informing the forecasted operating and maintenance costs in this Application.

2.2 Does FEI undertake any effort to maximize the cost recovery, or does FEI utilize 60% as its target when negotiating? Please explain.

<u>Response:</u>

FEI prudently negotiates rates to maximize cost recovery. The proposed rate in the GFL Agreement is a rate that was agreed and negotiated between FEI and GFL to provide a competitive rate with their competing fuel option, namely, diesel. Although section 18 of the *Clean Energy Act* ensures FEI's ability to recover its costs, FEI seeks to maximize station revenue from users of a station and minimize the costs recovered from other non-bypass customers.

3. Reference: Exhibit B-1, page 8 and page 9, and page 9

Table 3: Cost of Service Model - Inputs and Outputs

Input	Notes	Amount
Term	• Initial Term commencing on the Rate Change Date of January 1, 2022 and continuing for a period of ten years	10 years
Volume	• Annual take-or-pay minimum of 7,500 GJs in Year 1, 11,500 GJs in Year 2, and 15,500 GJs in Year 3 to Year 10 represents 60 percent of the forecast operating cost for the GFL Abbotsford Fueling Station	7,500 GJs in Year 1, 11,500 GJs in Year 2, and 15,500 GJs in Year 3 to Year 10
Fueling station capital	• Expenditures for dispensing equipment, civil work, engineering, project management and commissioning, branding costs, and AFUDC. Total capital expenditure is \$2.121 million (including AFUDC) comprised of: • FEI forecast net expenditure of \$1.253 million • NRCan funding contribution of \$0.868 million (treated as contributions in aid of construction (CIAC) under BCUC Uniform System of Account for Gas Utilities).	\$2.121 million (including AFUDC)
Annual O&M	• Annual amount for regular and preventive maintenance and ongoing training as required of GFL Abbotsford Fueling Station • Average annual repair and maintenance of approximately \$16,000 in Year 1, \$25,000 in Year 2, and \$34,000 in Year 3 to Year 10. • Electricity cost of approximately \$9,000 in Year 1, \$14,000 in Year 2, and \$20,000 in Year 3 to Year 10.	\$25,000 in Year 1, \$39,000 in Year 2, and \$54,000 in Year 3 to Year 10
Lease Costs	• Lease costs payable under the Host Agreement of \$35,463 per year, escalates by 2% per annum. Year 1 lease costs also include \$23,642 of lease costs paid during the construction of the fueling station[2].	\$35,463 per year
Allowance for overhead and marketing costs	• Applicable pursuant to Order G-78-13 and Compliance Filing pursuant to Order G-105-15	\$0.520 per GJ
Application costs	• Deferred charge over Initial Term	\$10,000

Output	Notes	Proposed Interim Rates
Capital Rate	• Escalates at 2% per year beginning on January 1, 2023	\$6.656 per GJ
O&M Rate	• Escalates annually by British Columbia Consumer Price Index (BC CPI) beginning on January 1, 2023	\$2.014 per GJ
OH&M Rate	• Not inflated by BC CPI	\$0.520 per GJ
Total Base Rate	• **Sum of Capital, O&M and OH&M Rates**	**\$9.190 per GJ**

The O&M Rate is based on an approximate budget of \$25 thousand in year 1, \$39 thousand in year 2, \$54 thousand in year 3 and escalated by two percent inflation for years 4 to 10 (year 10 escalated forecast of approximately \$62 thousand). This forecast increase in O&M is due to the increase in annual minimum take or pay commitments from year 1 to year 3. The forecast takes into consideration scheduled maintenance, electricity costs, and the volume commitment over the ten year period.

3.1 Please provide the details of the basis upon which FEI assumes average annual repair and maintenance costs of \$16,000 in Year 1, \$25,000 in Year 2, and \$34,000 in Years 3-10. For example, what analysis was undertaken for each estimate, including inflation rates? How many years of historical experience was relied upon? Was a third-party expert used to arrive at the figures? Please describe.

Response:

The average annual repair and maintenance costs were based on a station specific forecast that takes into consideration factors such as the design and construction of the station, the preventative maintenance schedule, and the expected usage and throughput volume of the station. FEI also relies on its experience of operating other similarly sized CNG stations to validate the forecast. FEI has over 35 years of experience operating CNG stations, and does not require the use of a third party expert to forecast repair and maintenance costs.

The forecast repair and maintenance costs include inflation. FEI uses a two percent forecast inflation rate for modeling and rate setting purposes, which is based on the target inflation rate of the Bank of Canada.[1] This approach is consistent with all of FEI's other CNG and LNG station rates approved by the BCUC.

3.2 Please provide the basis upon which FEI assumes electricity costs of $9,000 in Year 1, $14,000 in Year 2, and $20,000 in Years 3-10. Did FEI request assistance from BC Hydro? What level of inflation was included?

Response:

The electricity cost forecast is based on the expected electrical consumption to operate the station for 7,500 GJs in Year 1, 11,500 GJs in Year 2, and 15,000 GJs in Years 3 to 10. The costs were based on BC Hydro's Large General Service rate, the specifications of the equipment, runtime of the compressors, and demand throughput of the fueling station. Similar to the repair and maintenance forecast, FEI applies a 2 percent forecast inflation rate for modeling and rate setting purposes, which is based on the target inflation rate of the Bank of Canada.[2]

FEI has extensive knowledge with respect to electricity consumption for the operation of CNG stations and did not require assistance from BC Hydro in preparing the forecast. FEI notes that the estimate is a forecast and actual expense will vary depend on the actual usage of the station and any rate changes approved by the BCUC to BC Hydro's Large General Service rate.

[1] https://www.bankofcanada.ca/2021/12/monetary-policy-framework-continuity-clarity-and-commitment/
[2] https://www.bankofcanada.ca/2021/12/monetary-policy-framework-continuity-clarity-and-commitment/

4. Reference: Exhibit B-1, page 9

> The total capital expenditure for the GFL Abbotsford Fueling Station is estimated to be $2.121 including AFUDC. The capital contribution from NRCan is $0.868 million, as discussed in Section 5.3, and therefore FEI's capital investment for the station is expected to be $1.253 million (including AFUDC). FEI expects the GFL Abbotsford Fueling Station to be commissioned and ready for service on November 15, 2021.
>
> The Capital Rate for the GFL Abbotsford Fueling Station is determined in part by using the net projected FEI capital expenditure of $1.253 million and includes the property access and use cost identified in the Host Agreement. The property access and use cost is recovered from customers through the Capital Rate outlined in the GFL Agreement and will be directly remitted to Kartar. Once the total capital expenditure is known and finalized, FEI will file for permanent rate approval with the BCUC.

4.1 Please provide a breakdown of the capital cost estimate.

Response:

The following table provides a breakdown of the capital cost estimate.

Stage	Estimate ($ million)
Design	0.332
Equipment and Construction	1.767
Commissioning	0.022
Total	**2.121**

4.2 Please provide the AACE class level of the capital expenditures estimate, and identify any third party that was used in arriving at the estimate.

Response:

The capital expenditures estimate is an AACE Class 3. No third parties were used in the preparation of the estimate.

5. Reference: Exhibit B-1, page 10

5.3 NRCan Funding

NRCan is providing FEI with a funding contribution of $0.868 million towards the development and construction of the GFL Abbotsford Fueling Station. In accordance with the Contribution Agreement and amending agreement executed between FEI and NRCan (collectively, NRCan Contribution Agreement), FEI is required to provide NRCan a portion of the annual profit equivalent to the percentage of the NRCan contribution from the overall project budget, up to the funding amount of $0.868 million over the ten year term of the NRCan Contribution Agreement. In addition, the NRCan funding contribution is contingent on the GFL Abbotsford Fueling Station being available for fueling service to the general public by December 31, 2021.

FEI has prepared a sample of the NRCan repayment model, provided in Appendix E, showing a forecast of the expected revenue and expenses arising from the GFL Abbotsford Fueling Station. This model is based on the minimum annual take or pay volume commitment provided by GFL,[3] and does not consider any third-party or public fueling volumes. The actual profit will include revenue from third-party and public fueling customers. FEI is not projecting to earn a profit on this station for the entirety of the initial ten year term. If the GFL Abbotsford Fueling Station does earn a profit during the term, a portion of the annual profit will be required to be remitted back to NRCan.

5.1 Did FEI seek additional funding from any sources other than NRCan?

5.1.1 If no, why not?

5.1.2 If yes, please identify all the different sources of funding FEI sought to assist in the capital or O&M costs, and FEI's understanding of why each was unsuccessful.

<u>Response:</u>

FEI did not apply for additional funding for the GFL Fueling Station other than from NRCan. FEI is not aware of any other funding sources available to support the construction of new CNG fueling stations.