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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

In accordance with the regulatory timetable set for the above referenced proceeding, we enclose for filing the Reply Argument of FortisBC Energy Inc. on the Fort Nelson Service Area 2022 Revenue Requirements, dated February 10, 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

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

February 10, 2022

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PART ONE: INTRODUCTION

1. FortisBC Energy Inc. (FEI) provides this reply submission regarding the portion of this proceeding related to the 2022 revenue requirements for the Fort Nelson Service Area (FEFN). FEI filed its final argument regarding FEFN's 2022 revenue requirements on January 13, 2021. The Fort Nelson and District Chamber of Commerce (FNDCC) and Northern Rockies Regional Municipality (NRRM) (together, FNDCC-NRRM) are the only interveners that filed a final argument regarding FEFN's 2022 revenue requirements. FNDCC-NRRM does not take issue with FEI's proposed 2022 revenue requirements for FEFN, but makes arguments related to the disposition of certain deferred costs. FEI submits that none of the issues raised by FNDCC-NRRM should in fact be determined as part of the 2022 revenue requirements portion of this proceeding. Rather, all the issues are most appropriately dealt with by the BCUC when it considers common rates for FEFN.

2. FEI responds in detail to FNDCC-NRRM's submissions below. Silence on any particular point should not be taken as agreement.

PART TWO: REPLY TO FNDCC-NRRM

A. The Disposition of FEFN's Revenue Stabilization Adjustment Mechanism (RSAM) Balance at the end of 2022 is a Common Rates Issue

3. FNDCC-NRRM argues that, if FEI's common rates application is approved, then "any over-collection from FEFN's ratepayers (as reflected in FEFN's RSAM at December 31, 2022) should be maintained in a separate deferral account following the move to common rates and refunded to FEFN's customers only."[1] FNDCC-NRRM states that it "takes no position on how such a refund should be implemented, but submit it should be refunded within two years as is the case with the present RSAM account."[2] FEI first notes that FNDCC-NRRM's assumption that the balance in the RSAM account at the end of 2022 will be a credit to ratepayers is incorrect. The 2022 balance shown in Table 8-14 of the Application is the remaining half of the 2021 ending balance and not

[1] FNDCC-NRRM Final Argument, p. 3.

[2] FNDCC-NRRM Final Argument, p. 3.

a forecast for 2022. The ending 2022 balance in the RSAM will be driven by weather and other uncontrollable factors and may be either positive or negative.

4. FEI submits that the disposition of the RSAM balance as of the end of 2022 is not related to setting 2022 delivery rates; it is related to 2023 rates, and should therefore be addressed by the BCUC as part of the common rates portion of this proceeding. If common rates are approved, FEI proposes to consolidate FEFN and FEI's RSAM accounts, as described in the section of the Application regarding implementation of common rates.[3] If common rates are not approved, then the disposition of the 2022 RSAM balance would be addressed as part of FEFN's 2023 rate setting process.

B. BCUC Should Determine the Use of the Revenue Surplus in the Common Rates Portion of this Proceeding

5. FNDCC-NRRM argues that the after-tax credit in the FEFN 2021 Revenue Surplus deferral account should be returned to FEFN customers over two years beginning in 2022.[4] FEI agrees that the surplus should be returned to FEFN customers, but has proposed to use the balance to mitigate the impacts to FEFN residential customers due to common rates.[5]

6. The question before the BCUC in this portion of the proceeding is whether the surplus should be used to reduce FEFN's revenue requirements in 2022. FEI submits that using the surplus in 2022 is not the best use of the funds, and that the BCUC should wait until the common rates portion of this proceeding to determine the use of the surplus, in order to leave more rate mitigation options available to the Panel in its decision on common rates. FEI explains each of these two points below.

7. First, FEI explained why the 2021 FEFN revenue surplus should not be used to mitigate the forecast delivery rate increase of 3.41 percent in 2022, as follows:[6]

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3 Exhibit B-1, Application, p. 79.

4 FNDCC-NRRM Final Argument, para. 18.

5 Exhibit B-1, Application, pp. 81-82.

6 Exhibit B-4, BCUC IR1 10.1.

(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 which has already been implemented on an interim basis.

(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 to 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.

8. Second, FEI submits that the BCUC should not use the surplus to reduce revenue requirements in 2022, so that the surplus remains available for consideration as a mitigation alternative in the common rates portion of the proceeding. If the BCUC determines in this 2022 revenue requirements portion of the proceeding to use the surplus in 2022, this will foreclose the opportunity to use it to mitigate the impact of common rates in 2023 and future years. FEI submits that the BCUC should leave open all options for the mitigation of common rates for consideration in the common rates portion of the proceeding. As submitted above, if the BCUC ultimately does not approve common rates, the surplus can then be used to mitigate the 2023 increase to FEFN's rates, which is forecast to be larger than the 2022 increase.

9. FNDCC-NRRM claims that FEFN ratepayer money should not be used to mitigate the impact of common rates.[7] FEI fundamentally disagrees with this proposition and submits that there is no reasonable foundation for FNDCC-NRRM's position. However, this again is clearly an issue for the common rates portion of the proceeding as it relates to the implementation of common rates. Therefore, FEI will not address this issue further.

C. Recovery of Costs of Common Rates Application Should be Addressed in Common Rates Portion of Proceeding

10. FNDCC-NRRM submits that, if common rates are not approved, FEI should not be able to recover the costs of the common rates portion of this proceeding.[8] FEI submits there is no merit to this suggestion. FEI has acted prudently in bringing forward the present Application before the BCUC and has clearly presented why common rates are just and reasonable, and beneficial for FEFN customers. Common rates are supported by government policy,[9] past BCUC decisions,[10] and are revenue neutral for FEI,[11] and not related to any "corporate or shareholder interest" as implied by FNDCC-NRRM. As FEI explains in the Application, FEFN's rates are an anomaly, with the rest of FEI's over one million customers all receiving the same service as FEFN under common rates. The time to consider the implementation of common rates for FEFN is now, given FEFN's rising costs and sinking demand. This was recognized by the BCUC in its Decision on FEI's Application for 2019-2020 Revenue Requirements and Rates for the Fort Nelson Service Area:[12]

> **Postage Stamp Rates**
>
> As for the CEC's recommendation for FEI to more aggressively pursue the implementation of postage stamp rates for FEFN, the Panel makes the following observations. As discussed by FEI and demonstrated in Table 1 above, currently only residential customers (Rate Schedule 1) would experience a rate increase if FEFN were to amalgamate or postage stamp its rates with the rest of FEI's service

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7 FNDCC-NRRM Final Argument, p. 3.

8 FNDCC-NRRM Final Argument, pp. 4-5.

9 Exhibit B-1, Application, p. 13.

10 Exhibit B-1, Application, p. 14.

11 Exhibit B-1, Application, Appendix C-4, p. 2.

12 FortisBC Energy Inc., Application for Approval of 2019-2020 Revenue Requirements and Rates for the Fort Nelson Service Area, Reasons for Decision, March 5, 2019, pp. 10-11. Online: https://docs.bcuc.com/Documents/Proceedings/2019/DOC_53520_G-48-19-FEI-FtNelson-2019-2020-RRA-ReasonsforDecision.pdf

areas. The Panel recognizes FEI's concerns regarding the rate impact that would be experienced by the residential customers in FEFN. However, the Panel also notes that FEFN's commercial and industrial customers currently would experience rate decreases if FEFN and FEI were to postage stamp their rates. Furthermore, the potential for reduced administrative and regulatory costs resulting from postage stamp rates should at least partially offset the negative rate impact on FEFN's residential customers.

Based on the magnitude of the rate increases requested and the continuing downward trend of the total energy demand in FEFN, in the Panel's view, unless some significant changes in circumstances were to occur, it is likely that FEFN's residential customers would not experience a significant rate increase from moving to postage stamp rates in the near future. The Panel agrees with the CEC that it is not necessary for there to be no rate impacts in order to transition to postage stamp rates, and that transitional impacts can be minimized and managed with sufficient planning and fore-thought.

The Panel recognizes that FEI has not yet filed its RRA to set 2020 rates for FEI, and as such it is not yet in the position to forecast the rate impact of postage stamp rates in 2020. Additionally, as referred to earlier, FEI has indicated in its reply argument that it is prepared to continue to update the BCUC in future FEFN RRAs regarding its plans, if any, for implementation of postage stamp rates, and the Panel agrees that this is a reasonable approach.

Accordingly, the Panel directs FEI to include in the next RRA for FEFN, a discussion of the potential for postage stamping rates in FEFN along with the rest of FEI, including the following information:

- **The forecast rate impact of moving to postage stamp rates for each of FEFN's rate schedules for 2021 and 2022 (or the applicable test period, if different from the two years referenced);**
- **FEI's assessment of the pros and cons of moving to postage stamp rates in the near future;**
- **FEI's assessment of the likelihood of the occurrence of factors and circumstances that could result in a reduced or increased rate impact in the near future;**
- **Proposed mechanisms to reduce or mitigate negative rate impacts to an acceptable level; and**
- **A proposed time period to implement postage stamp rates.**

11. The case of *ATCO Gas and Pipelines Ltd v Alberta (Utilities Commission)*, 2014 ABCA 397 cited by FNDCC-NRRM has limited applicability here. In that case, the Court found that the Alberta Utilities Commission decision had the jurisdiction to disallow a portion of the Atco utilities' legal costs related to two proceedings that were said not to "fall within the scope of regulatory costs incurred in rate-setting hearings."[13] In contrast, FNDCC-NRRM is calling for the BCUC to deny FEI's ability to recover any of its regulatory costs in a proceeding squarely related to rate setting. Moreover, FNDCC-NRRM has not identified any principled reason why FEI should be denied an opportunity to recover its prudently incurred regulatory costs for this proceeding.

12. However, this is again clearly an issue for the common rates portion of the proceeding. Moreover, many of the reasons given by FNDCC-NRRM for its position involve speculation about the reasons the BCUC would deny common rates, and its views about the interest of FEFN customers under a common rates scenario, which have yet to be determined by the BCUC. It would, therefore, be speculative and premature for the BCUC to consider this issue in the 2022 revenue requirements portion of the proceeding prior to determining whether to approve common rates. As such, FEI submits that the BCUC should not address this question as part of the 2022 revenue requirements portion of this proceeding.

PART THREE: CONCLUSION

13. FEI submits that FNDCC-NRRM has not identified any issues with FEI's proposed 2022 revenue requirements for FEFN or any of the approvals sought by FEI in this portion of the proceeding. For the reasons discussed above, FEI submits that the issues raised by FNDCC-NRRM should be addressed in the common rates portion of this proceeding.

14. Therefore, 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

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[13] *ATCO Gas and Pipelines Ltd v Alberta (Utilities Commission)*, 2014 ABCA 397, para. 113. Online: [2014 ABCA 397 (CanLII) | ATCO Gas and Pipelines Ltd v Alberta (Utilities Commission) | CanLII]().

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:	February 10, 2022	***[original signed by Chris Bystrom]***
		Chris Bystrom Counsel for FortisBC Energy Inc.