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February 28, 2022

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. 2 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-20-22 for the review of the Application, FEI respectfully submits the attached response to FNDCC-NRRM IR No. 2 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 FEI's Future Rates

Reference: BCUC 2022 Generic Cost of Capital Proceeding, Exhibits B1-8 and B1-8-1, Evidence of FEI and FBC

In Exhibit B1-8, FEI discusses its increased business risk due to the energy transition and electrification. For example, at p. 3 (PDF p. 8), FEI states:

> FEI's business risk has significantly increased since the 2016 Proceeding.
>
> …
>
> Most notably, the increasing pace of the Energy Transition from fossil fuels to cleaner sources of energy through electrification of the economy, and increased recognition of the effect of this transition on natural gas utilities by utility analysts and investors, represent what Concentric refers to as a "transformation of long-term risk environment" for natural gas utilities across North America since the time of the 2016 Proceeding. …
>
> This is apparent in the provincial government's recently updated CleanBC Roadmap to 2030 (Roadmap) which won an award at the United Nations COP26 climate conference at Glasgow, Scotland and is anticipated to have a significant impact on FEI's competitive and operational landscape with implications for FEI's customer rates and throughput. FEI has characterized the policy developments associated with the Energy Transition as political risk, but these developments also impact other risk categories. For instance, increasing carbon tax and adding more costly Renewable Gas to FEI's supply portfolio along with increases in natural gas commodity prices and the impact of sectoral emission reduction targets and Greenhouse Gas Reduction Standard (GHGRS) and related Roadmap policies on FEI's throughput will continue to erode FEI's price competitiveness versus electricity, leading to overall higher energy price risk.
>
> [Footnotes omitted.]

At pp. 14-15 (PDF pp. 19-20), FEI highlights that it faces increased competition from electricity:

> FEI's risk is further compounded by the fast pace of legislation and policies on electrification initiatives and BC Hydro's Electrification Plan, which increases competition from electricity.

> In terms of competitiveness, the current price advantage of natural gas versus electricity is not expected to be maintained, especially with recent rate announcements from BC Hydro which will see electricity rates held fairly flat over the next several years. Current and planned carbon tax rates will continue to negatively affect natural gas price competitiveness relative to electricity. Further, the increasing share of higher cost Renewable Gas in FEI's gas supply portfolio further contributes to FEI's higher price competitiveness risk. The upfront and installation costs of natural gas-fired equipment have increased relative to the cost data available in 2015 for that same equipment. Moreover, new technology which supports the use of electricity, such as electric heat pumps, that have a higher upfront and installation cost than natural gas-fired equipment, are more cost competitive when government-provided incentives and rebates are considered.
>
> [Footnotes omitted.]

At pp. 15-16 (PDF pp. 20-21), FEI highlights pressures on its customer demand and use per customer:

> Customers' energy choices are increasingly influenced by a desire to minimize negative environmental impacts. While Renewable Gas can be a relatively affordable option to achieve this goal, the electric options such as high-efficiency heat pumps are gaining faster and more widespread traction among customers and policy makers. FEI is already experiencing the effects of this shift in its net customer additions, particularly in the residential sector, where due to BC's high turnover rate, a large segment of its existing customers homes may be torn down and rebuilt with electric- only options to meet more stringent code requirements. Further, the gradual decline in the single-family dwelling segment, where FEI has higher capture rates, in favour of multi-family dwellings and the downward trend in the share of natural gas in space heating and water heating applications continue to impact FEI's risk profile. FEI's new residential customers continue to have lower use per customer (UPC) than average residential customers do. This is somewhat offset by load growth in the more volatile and economically sensitive transportation and industrial sectors.

At pp. 83-84 (PDF p. 91-92) of Exhibit B1-8-1, FEI indicates:

> The residential customer segment is the largest portion of FEI’s total customer additions and dictates the trend for the total net additions. This can lead to large decreases to total net customer additions (and possibly negative customer additions) since most government initiatives to advance GHG reduction policies in the residential building sector are focused on electrification. …
>
> Residential customer additions are influenced by a number of factors, including technological changes (shift to electric heat pumps), the construction market in BC

> (growing MFD segment where FEI has relatively lower capture rates), declining price competitiveness of natural gas versus electricity due to the factors discussed in Section 4.2.2, government policies and incentives, such as carbon pricing or electrification rebates which can significantly impact the cost to customers. This market sector is also heavily influenced by municipal government policy where GHGi targets are being imposed as part of the building permitting process as is discussed in Section 4.2.2.1.4. In situations where these targets are applied, the implications range from a dramatic reduction in throughput due to gas heating and hot water equipment not meeting the imposed GHGi targets, to elimination of gas service all together. In addition, and as discussed in various sections of this appendix, FEI expects that the policies under the Roadmap, such as new high efficiency standards requiring space and water heating equipment to meet or exceed 100 percent efficiency by 2030, will significantly impact FEI's ability to add new customers and retain existing ones. This in turn, will negatively impact FEI's net additions, possibly leading to negative net residential additions in the coming years.

At p. 87 (PDF p. 95), FEI discusses the implication of increasing proportions of multi-family dwellings in the housing mix as follows:

> First, the annual consumption for natural gas is greater in SFDs than in MFDs. All else equal, an increase in the percentage of MFDs in FEI's residential customer mix will lead to a decline in residential UPC and overall residential throughput which, all else equal, results in higher rates for all residential customers.

At pp. 92-93 (PDF pp. 100-101), FEI indicates that:

> Excluding 2020-2021, the residential UPC trendline would show a downward trajectory since 2016, while including the last two years indicates an almost flat UPC line around 85 GJs.

> FEI's analysis indicates that new customers have significantly lower UPC and, therefore, with the passage of time, and as these customers with lower consumption represent a larger percentage of the overall residential customer base, the residential UPC is expected to decline further.

FNDCC and NRRM seek to better understand how these risks were considered as part of FEI's common rates proposal.

1.1 Please confirm that as set out on p. 87 of Exhibit B1-8-1, all else being equal, declining residential UPC results in higher rates for all residential customers. If not confirmed, please explain your response.

<u>Response:</u>

The following response also addresses FNDCC-NRRM IR2 1.2 and 1.3.

FEI confirms that, all else being equal:

- Declining residential UPC will result in higher rates for all customers;
- Reducing natural gas price competitiveness relative to electricity will reduce demand for natural gas; and
- Reducing (or declining) natural gas demand will result in higher rates for FEI's customers.

The risks highlighted above are some of the risks currently faced by FEI as identified in the FEI and FBC evidence submitted in the BCUC 2022 Generic Cost of Capital (GCOC) proceeding.[1] However, FEI's delivery rates, including the delivery rates of residential customers, are set based on various factors and are not limited to the risks identified above. Furthermore, FEI is actively developing initiatives, including offsetting revenues from LNG services and other clean growth technologies such as renewable natural gas, to mitigate these risks. These developments are either not available to FEFN or will be highly cost prohibitive to FEFN alone.

If FEFN remains separate from FEI, without a large customer base and other offsetting revenue, the risks identified above will certainly result in higher rates for FEFN, which is the trend that FEFN's customers have been experiencing since 2014 as discussed in Section 4.3.2 of the Application. As discussed in the response to BCUC IR1 3.2, FEI is more capable of attracting offsetting revenues from alternative markets as well as developing clean growth initiatives which would not be available to FEFN if FEFN remains separate from FEI. For example, FEI is expecting continued growth in LNG demand both within BC and internationally to replace other higher carbon fuels, which will result in increased revenue from FEI's existing LNG service under Rate Schedule (RS) 46. This increased revenue would offset the impact of declining demand from traditional natural gas customers. Without common rates, FEFN would not have access to these offsetting revenues.

1.2 Please confirm that, all else being equal, reduced natural gas price competitiveness relative to electricity will reduce demand for natural gas. If not confirmed, please explain your response.

Response:

Please refer to the response to FNDCC-NRRM IR2 1.1.

1 Exhibit B1-8 of BCUC 2022 GCOC Proceeding, dated January 31, 2022.

1.3 Please confirm that, all else being equal, reduced (or declining) natural gas demand will result in higher rates for FEI's customers. If not confirmed, please explain your response.

Response:

Please refer to the response to FNDCC-NRRM IR2 1.1.

1.4 Please confirm that FEI's common rates Application does not consider (1) whether the following factors differ between FEFN and FEI's other service areas and (2) if so, the extent to which any differences may affect future rates for FEFN's ratepayers under the status quo versus common rates:

(a) incentives for electrification;

(b) opportunities to switch to electricity should the price competitiveness of natural gas erode;

(c) the extent to which newly built or rebuilt homes continue to rely on natural gas rather than electricity for space and water heating;

(d) the mix between new construction of single family and multi-family dwellings; and

(e) municipal requirements for residential units (whether existing or newly built) to shift from natural gas to electricity.

To the extent any of the foregoing are not confirmed, please explain your response.

Response:

Not confirmed. The factors identified in this information request do not differ between FEFN and FEI's other service areas. FEI's service area outside of FEFN includes many communities across the Province, including those in Vancouver Island, the Lower Mainland, and the Interior, and includes communities such as Williams Lake, Prince George, Mackenzie, Chetwynd and Hudson's Hope. All of these communities, from Vancouver to Hudson's Hope, are served under common rates.

The factors listed are discussed below:

(a) **Incentives for electrification:** To the extent incentives for electrification are from the Province of BC, these are the same for all of FEI's customers, including those in FEFN. To the extent incentives for electrification are from BC Hydro, those available to FEFN are equally available to FEI's customers that are within BC Hydro's service territory.

(b) **Opportunities to switch to electricity should the price competitiveness of natural gas erode:** All of FEI's customers that have access to service from an electric utility, such as BC Hydro or FortisBC Inc., have this opportunity.

(c) **The extent to which newly built or rebuilt homes continue to rely on natural gas rather than electricity for space and water heating:** This factor likely varies from community to community across FEI's service territory, including FEFN. FEFN is likely similar to many other communities served by FEI under common rates.

(d) **The mix between new construction of single family and multi-family dwellings**: This factor likely varies from municipality to municipality across FEI's service territory. FEFN is likely similar to many other communities served by FEI under common rates.

(e) **Municipal requirements for residential units (whether existing or newly built) to shift from natural gas to electricity:** This factor varies from municipality to municipality across FEI's service territory. While the local municipal government in Fort Nelson does not currently have requirements for residential units to switch to electricity, other communities served by FEI also do not currently have such requirements and any municipality may adopt such requirements in the future.

All of the factors identified will generally result in a declining demand for natural gas for both FEFN and FEI. The impact of declining demand on FEFN's delivery rates was discussed in Section 4.3.2 of the Application. The Application demonstrates that the resulting decrease in FEFN demand would impact FEFN's delivery rates under the status quo more significantly than FEI's delivery rates, thereby supporting the move to common rates.

In addition, as discussed in the responses to BCUC IR1 3.2 and FNDCC-NRRM IR2 1.1, FEFN will be better served under common rates as compared to the status quo, as BC is currently transitioning toward a decarbonized environment and FEI is already developing and implementing strategies to support decarbonization.