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June 10, 2022
File No.: 240148.01044/15275

Electronic Filing

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 Final Argument of FortisBC Energy Inc. on common rates for the Fort Nelson Service Area, dated June 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

Final Argument of FortisBC Energy Inc.
on the
Common Rates for the Fort Nelson Service Area

June 10, 2022

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PART ONE: INTRODUCTION

1. This Final Argument addresses the common rates portion of FEI's Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application). As described in detail in the Application, FEI is proposing to move the FEI Fort Nelson Service Area (FEFN) to a common delivery and cost of gas rate, and calculate FEFN's midstream rates in a manner that reflects FEFN's current midstream rate. This will result in a reduction in commercial delivery rates, but an increase in residential delivery rates. To mitigate the impacts to residential customers, FEI is proposing to phase-in common rates over a 10-year period. FEI's approvals sought to amalgamate FEFN's gas supply portfolio costs with FEI's Midstream Cost Reconciliation Account (MCRA) and implement common delivery rates for FEFN with FEI are set out on pages 4 to 6 of the Application. A draft final order is included as Appendix F-3 of the Application.

2. FEI submits that this proceeding has provided a full and extensive review of all issues relevant to FEI's proposal to move FEFN to common rates along with the rest of the Province served by FEI. FEI filed its Application in August 2021.[1] The 2022 delivery rates portion of the Application was considered first, with a round of information requests (IRs) and written argument. This provided an important backdrop for the common rates portion of the proceeding, illustrating how FEFN's delivery rates are set, including adoption of FEI's accounting policies for capitalized overhead, depreciation, and cash working capital, which the BCUC concluded was "desirable because of the degree of operational and administrative integration that already exists between FEI and FEFN".[2] The second part of the proceeding consisted of two further rounds of IRs to FEI on common rates, the filing of evidence by the Fort Nelson and District Chamber of Commerce (FNDCC) and Northern Rockies Regional Municipality (NRRM) (together, FNDCC-NRRM), IRs on that evidence, the filing of Rebuttal Evidence by FEI, and IRs on that Rebuttal Evidence. Since the filing of the Application in August 2021, members of the public have had the opportunity to register as interveners and fully participate in this proceeding, or register as interested parties, or file letters of comment. This proceeding has therefore provided multiple

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[1] Exhibit B-1.

[2] Decision and Order G-114-22 dated April 29, 2022, p. 9.

opportunities for stakeholders to participate, comment and have their voices heard in the manner that best suits their needs.

3. FEI submits that the evidentiary record in this proceeding supports FEI's proposal to move FEFN to common rates. FEI's proposed common rates will achieve greater fairness and consistency amongst FEI's customers, who, from Victoria to Hudson's Hope, are all served by FEI under common rates. FEFN customers are provided the same service by the same utility, with the same resources and similar assets, as all of FEI's other customers. Common or postage stamp rates have been endorsed by the BCUC, have long been government policy and have been repeatedly approved by the BCUC or government despite regional differences. Notably, FEFN customers are served by BC Hydro under common rates despite being served by a different transmission system. Implementing the proposed common rates will also eliminate the regulatory cost and effort associated with preparing and reviewing separate regulatory filings for FEFN and the current cross-subsidization from FEI to FEFN for these regulatory costs. FEI's proposed common rates will provide immediate rate relief to commercial customers through reduced delivery rates, and will benefit all FEFN customers in the long term due to increased rate stability resulting from the much larger customer base of FEI as a whole. FEI submits that its proposed common rates for FEFN are just and reasonable and should be approved as filed.

4. FEI's submissions below are organized around the following points:

(a) The evidence in this proceeding demonstrates that it is just and reasonable for FEFN to move to common rates.

(b) FEI considered and analyzed the options for FEFN rates, and has proposed a common rates option tailored to FEFN's context, including a 5 percent midstream rate and a 10-year phase-in period for residential customers, and supported by Bonbright's rate design principles.

(c) FEI's proposed implementation of common rates, including deferral account requests, are reasonable and appropriate.

(d) FEI's consultation on the Application was reasonable and the regulatory process has provided multiple opportunities for public participation.

PART TWO: MOVING FEFN TO COMMON RATES IS JUST AND REASONABLE

5. In this part, FEI addresses the key factors which support the integration of FEFN into FEI's common rates as being just and reasonable and the appropriate step at this time. These are:

(a) There is little real difference in the cost to serve FEFN customers, as FEFN customers receive the same service from the same utility using the same resources and similar assets as the rest of FEI's other customers.

(b) Common rates have been endorsed by the BCUC, are provincial policy and the *de facto* approach to pricing services by utilities in this province and many other jurisdictions.

(c) All of FEI's other service areas have moved to common rates despite regional differences, including pre-existing differences in delivery rates.

(d) Maintaining a separate rate base and revenue requirements requires regulatory costs and resources that are material to FEFN delivery rates and subsidized by FEI.

(e) FEFN is and will remain subject to higher rate volatility due to its small customer base, unless it moves to common rates.

(f) FEI secured a unique supply arrangement for FEFN, which FEI is accounting for in FEFN's proposed midstream rate.

(g) Common rates will reduce delivery rates for FEFN commercial customers, and FEI proposes to mitigate the rate increases to FEFN residential customers.

A. Little Real Difference in Cost to Serve, as FEFN Customers Receive the Same Service from the Same Utility using the Same Resources and Similar Assets as the Rest of FEI

6. Common rates are appropriate for FEFN because FEFN customers receive the same service from the same utility using the same resources and similar assets as the rest of FEI's other customers in the 136 other communities served by FEI in the Province. As such, the current rates for FEFN are not representative of the true regional differences in the costs to serve between FEFN and FEI. It is difficult to justify the continuing rate disparity between FEFN and other FEI customers for essentially the same service of delivering energy when other customers pay the same rates regardless of location. Under common rates, all FEI customers within the same rate

class, including those in FEFN, will pay the same rate for the same level of service regardless of their location.[3]

7. First, while FEFN has a separate rate base and revenue requirements, FEFN is a service area served by FEI, the same utility that serves over 1 million customers in 136 other communities in the Province under common rates. No corporate amalgamation is required to implement common rates.[4]

8. Second, FEFN is fully integrated with FEI from both an operations and management perspective. FEFN is operated and managed by FEI in the same way that FEI operates the other parts of its system. In fact, other than two direct full-time field employees, FEFN's management, operational and administrative activities are provided by FEI resources through shared services.[5] For FEFN's Operations and Maintenance (O&M) costs over the three most recent years, the amount that has been allocated from FEI has been 60 percent or higher, while the 10-year average has been 54 percent.[6] Further, 76 percent of FEFN's annual revenue requirement (from 2011 to 2020 actuals, 2021 approved and 2022 forecast) are either allocated costs or calculated costs based upon studies and rates flowing from FEI.[7] In the three most recent years, the average of allocated costs is 82 percent, with direct costs accounting for only 18 percent.[8]

9. Third, FEFN receives the same service as other FEI customers, as service to FEFN is already fully centralized within FEI. Thus, service to FEFN will remain the same under common rates. The field employees in Fort Nelson will continue to serve FEFN, and the supporting operations management and administrative activities will continue to be provided by other departments within FEI.[9]

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[3] Exhibit B-6, BCUC IR1 18.3.

[4] Exhibit B-15, Rebuttal Evidence, p. 16, A30.

[5] Exhibit B-1, Application, pp. 20-21.

[6] Exhibit B-6, BCUC IR1 10.1

[7] Exhibit B-6, BCUC IR1 10.1.

[8] Exhibit B-6, BCUC IR1 10.1.

[9] Exhibit B-6, BCUC IR1 22.1; Exhibit B-15, Rebuttal Evidence, p. 16, A30 and A31.

10. Fourth, there are no significant differences between FEI's and FEFN's infrastructure. FEI's and FEFN's infrastructure have been installed over the same period of time, and the design philosophy, standards and materials used in both the FEI and FEFN systems were and are essentially the same. FEI applies the same operating and maintenance practices in FEFN as the rest of FEI. As recognized by the BCUC in Decision and Order G-114-22 (at page 9), "the nature, and the useful life of, FEFN's assets are similar to FEI's assets, and … FEFN's operating assets are subject to the same operating and maintenance standards as FEI's."[10]

11. Fifth, FEFN's rate structure, rate schedules and General Terms and Conditions (GT&Cs) are all aligned with those of the rest of FEI.[11] The adoption of common rates for FEFN will not require changes to FEI's GT&Cs, as they are currently applicable to FEFN.[12] Nor will common rates require any changes to the rates for chargeable services provided by FEI.[13]

12. Sixth, FEFN 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. FEI contracts for gas supply resources based on the regional needs across its entire diverse system. FEI's pool of gas supply resources and contracts with counterparties are designed to provide security of supply and diversity in the portfolio, including FEFN, while minimizing the costs of the total portfolio. The total pool of gas supply resources is used collectively to manage the total daily load for FEI that includes FEFN.[14]

13. FEFN's full integration with FEI provides numerous material benefits to FEFN, including:[15]

(a) access to resources, expertise and training in all areas affecting gas distribution utilities at lower costs than obtaining the same resources and expertise by FEFN alone;

(b) access to low-cost capital funding, which reduces the carrying costs of capital;

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[10] Exhibit B-17, BCUC IR1 1.1 on FEI's Rebuttal Evidence.

[11] Exhibit B-1, Application, pp. 16 and 37.

[12] Exhibit B-8, RCIA IR1 4.1.

[13] Exhibit B-8, RCIA IR1 4.2.

[14] Exhibit B-1, Application, pp. 23-24.

[15] Exhibit B-1, Application, p. 21.

(c) reduced costs of pipe and other materials and supplies through the buying power of a larger company; and

(d) access to commodity-related benefits, including FEI's long-term relationships with producers and FEI's position as a large regional buyer of natural gas.[16]

14. In summary, FEFN is receiving the same service from the same utility using the same resources and similar assets, and benefits significantly from its full integration with FEI. As such, there is very little true difference in the cost to deliver energy between FEFN and FEI. FEFN customers should therefore be served under common rates consistent with how all of FEI's other customers are treated.

B. Common Rates Have been Endorsed by the BCUC, are Provincial Policy and the *De Facto* Approach in this Province and Multiple Other Jurisdictions

15. Common or postage stamp rates have been endorsed by the BCUC as a fair and appropriate means of allocating costs amongst customers, are consistently supported by government policy, and are the *de facto* approach to utility ratemaking in this Province. It is the fundamental principle of common rates that costs are fairly and appropriately allocated to customer groups without regard to the cost to serve by location. This principle is fairly and appropriately applied to FEFN, just as it has been to all of the 136 other communities served by FEI and virtually all other utility customers in this Province.

16. Government policy has been to promote access to energy services on a postage stamp rate basis so that all British Columbians benefit from access to services at the lowest average cost.[17] On July 9, 2013, the BC Ministry of Energy and Mines issued a letter to the BCUC in support of FEI's application for common rates at that time, stating:[18]

> From a public policy perspective, the Ministry is of the opinion that a common rate resulting from the proposed amalgamation of Fortis BC Energy Utilities will have benefits for all FortisBC Energy customers in British Columbia.[19]

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[16] Exhibit B-1, Application, p. 23.

[17] FEU Common Rates, Amalgamation Rate Design Reconsideration Phase 2, Exhibit C3-1.

[18] Exhibit B-1, Application, p. 37.

[19] FEU Common Rates, Amalgamation Rate Design Reconsideration Phase 2, Exhibit C3-1.

17. The BC Ministry of Energy and Mines also issued a letter to the BCUC, dated September 17, 2015, stating that postage stamp ratemaking continues to be provincial government policy:[20]

> Postage stamp rates provide access to services at the lowest average cost, promote investment equality across BC Hydro's service area, streamline regulatory requirements and effective utility management, and minimize potential regional rate impacts as BC Hydro invests in its infrastructure.[21]

18. Consistent with the above statements from government, the vast majority of energy consumers in British Columbia, whether electricity or natural gas, are charged postage stamp rates by their specific utility provider.[22]

19. The BCUC has recently confirmed that the application of common or postage stamp rates is appropriate. In 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 the province, and as an appropriate means of allocating costs to various customer groups."[23] This year, in the BCUC's Decision and Order G-18-22 regarding the BC Hydro Public EV Fast Charging Service Rates Application, the BCUC stated: "Postage stamp rates have long been the *de facto* approach for services provided by monopolistic utilities in BC and many other jurisdictions."[24]

20. Therefore, FEI's application to move FEFN to common rates reflects an appropriate means of allocating costs amongst FEI's customers as confirmed by the BCUC, is supported by government policy, and reflects the *de facto* approach to utility ratemaking in BC and many other jurisdictions.

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[20] Exhibit B-1, Application, p. 37.

[21] BC Hydro 2015 Rate Design Application, Appendix C-1C.

[22] Exhibit B-7, FNDCC-NRRM IR1 11.1.

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

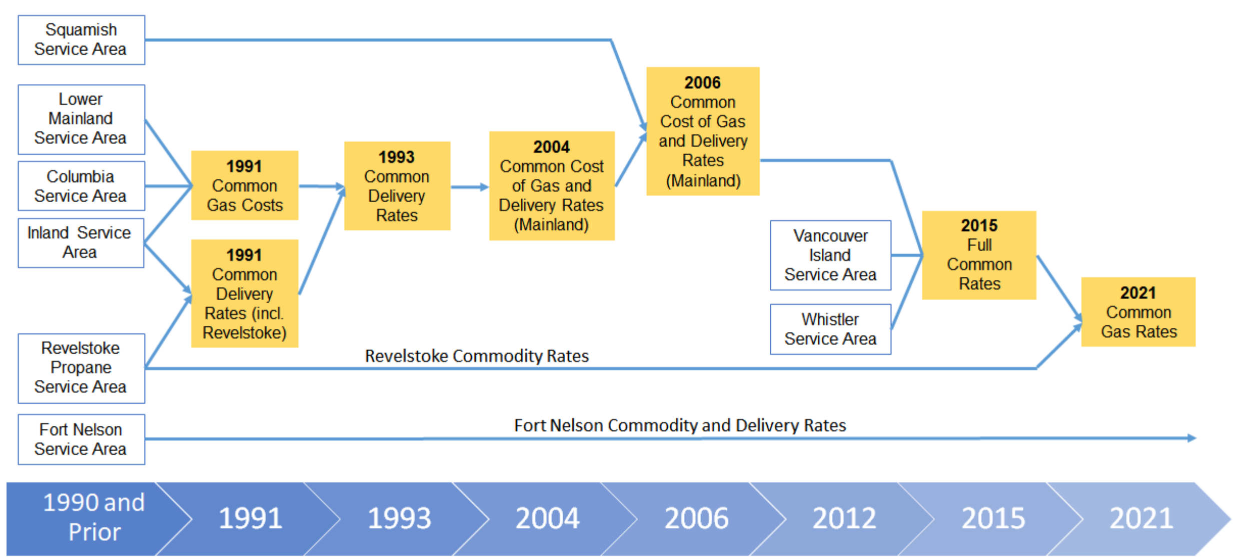
[24] Order G-18-22, pages 37 to 38.

C. All of FEI's Other Services Areas Have Moved to Common Rates Despite Regional Differences

21. Consistent with the above, common or postage stamp rates have been approved by government or the BCUC across all of FEI's service areas, despite regional differences. Section 3.3 of the Application describes FEI's corporate history and how all of its service areas have come under common rates, with the sole exception of FEFN. This history demonstrates that the application of postage stamp rates does not require that the entities or service areas to be combined have the same cost of service. To the contrary, as noted above, the principle of postage stamp rates is that it is fair and appropriate to allocate costs to customer groups without regard to regional differences in the cost to serve.

22. Figure 3-1 of the Application, below, illustrates the evolution of FEI's common rates from 1991 to 2021.

Figure 3-1: Timeline of Common Rates



23. The above evolution of common rates has occurred despite various regional differences between the entities and service areas that have come under common rates. As shown in Figure 3-1 of the Application, over the past 30 years, there have been four key instances of regulatory amalgamation and subsequent postage stamp/common rates for FEI and predecessor companies. These instances, and the regional differences that existed, are described below:[25]

[25] Exhibit B-8, RCIA IR1 1.1.

- **The amalgamation and implementation of common rates for BC Gas Inc. (Lower Mainland Region), Inland Natural Gas Co. Ltd. (Inland Region), and Columbia Natural Gas Limited (Columbia Region), which became divisions within BC Gas Inc.** At the time of the amalgamation and implementation of common rates, the Columbia Region was the smallest in terms of customer counts with approximately 15,000 customers, with the Inland Region at about 100,000 customers and the Lower Mainland Region at about 500,000 customers. Before the various offsets to mitigate the impact of common rates, the bills for residential customers in the Lower Mainland and Columbia Regions were increased by 6.42 percent and 9.01 percent, respectively, while the residential customers in the Inland Region were decreased by 0.68 percent.[26] For small commercial customers, the postage stamp rates resulted in an increase that ranged between 5 percent and 41 percent for the Lower Mainland Region, an increase that ranged between 7 percent and 24 percent for the Columbia Region, but a decrease that ranged between 11 percent and 14 percent for the Inland Region.[27] In summary, the Columbia Region, which was the smallest out of the three regions in terms of customer counts, experienced a bill increase due to postage stamp rates.

- **The amalgamation of Squamish Gas into Terasen Gas Utility Ltd. (now FEI), with Squamish Gas included into the Lower Mainland service area effective January 1, 2007.** Prior to the amalgamation on January 1, 2007, the rates for gas service in Squamish were based on the competitive price of heating oil and the trailing rates of BC Hydro's tariff. Squamish Gas at that time had 3,352 customers compared to FEI with over 800,000 customers. With the amalgamation and common rates, Squamish Gas' residential customers' bills were increased by approximately 10 percent, depending on consumption; however, large commercial customers served under RS 3 saw a slight drop in their bills.[28]

[26] BC Gas Inc. Application of Rate Design Phase B, Volume 1, April 15, 1993; Tab 6, Page 22, Technical Appendix Residential Class.

[27] Order G-101-93, page 18.

[28] Terasen Gas Inc. (TGI) 2006 Annual Review, 2004-2007 MRP Rate Plan, Section B-6 TGS and TGI Amalgamation, page 2.

- **The amalgamation of FortisBC Energy Inc. (FEI), FortisBC Energy Vancouver Island Inc. (FEVI) and FortisBC Energy Whistler Inc. (FEW), with common rates implemented on January 1, 2015.** At the time of implementing common rates, FEI had an average of 845,493 customers, FEVI had 103,906 customers, and FEW had 2,680 customers. In terms of bill impact, both FEVI and FEW experienced bill decreases ranging from 15.5 percent to 63.2 percent, depending on the rate classes, while FEI's customers experienced a bill increase ranging from 1.6 percent to 9.1 percent due to common rates with FEVI and FEW.[29]

- **The implementation of common cost of gas rates for Revelstoke propane customers, which was effective on January 1, 2021.** At the time of implementation of common gas cost rates, Revelstoke had approximately 1,500 customers while FEI had over 1 million customers. The common gas rates resulted in bill reductions for Revelstoke customers in the range of 45 percent to 56 percent, depending on the rate class, while there was virtually no impact to FEI's customers.[30]

24. As described above, similar to FEI's current proposal, there has been implementation of common rates where smaller regions have experienced an increase to their bill, e.g., the Columbia Region in 1993 and Squamish Gas in 2007. In the case of Squamish Gas, the situation was also similar to FEI's current proposal for FEFN, as the residential customers in Squamish saw an increase in their bills but commercial customers saw a decrease in their bills.[31]

25. The electric utility rates for Fort Nelson further demonstrate that regional differences are not a barrier to the application of common rates. Fort Nelson is served under BC Hydro's postage stamp rates for its integrated system despite significant regional differences. As FNDCC's Evidence and their response to FEI IR1 4.1 indicate, Fort Nelson is served by BC Hydro's local gas fired generator and back up transmission service from Alberta, which is not physically connected to the electric system of BC Hydro's integrated service area. Nevertheless, the costs to serve Fort

[29] FEI Common Delivery Rates Methodology Application, July 16, 2014, Table 4-18, page 39.
[30] FEI Revelstoke Propane Portfolio Cost Amalgamation Application, Table 5-1, page 20.
[31] Exhibit B-8, RCIA IR1 1.1.

Nelson are borne by all of BC Hydro's customers in the integrated service area, including BC Hydro's capital additions, O&M in the Fort Nelson area, and the carbon tax associated with the Fort Nelson generation facilities. Similarly, Fort Nelson customers are also paying for capital additions, O&M as well as all other costs of BC Hydro's integrated service area through their common electricity rates.[32]

26. Finally, the BCUC has explicitly recognized that it is not necessary for there to be no rate impacts for common rates to be implemented for FEFN. In its Decision and Order G-48-19 (2019-2020 RRA Decision), the BCUC observed:

> 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. <u>The Panel agrees with the CEC [Commercial Energy Consumers of BC] 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. [Emphasis added.]</u>

27. Therefore, any regional differences in delivery rates that may exist between FEFN and the rest of FEI are not a barrier to the just and reasonable implementation of common rates. Rather, the principle of common rates is that it is fair and appropriate for utilities to allocate costs amongst their customers without regard to differences in costs of service due to location. As described above, this principle has been confirmed by the BCUC has a fair and appropriate way to allocate costs, is supported by government policy, and has already been applied across FEI's service territory, such that FEFN is now the only region not served under common rates, even though other regions have different costs to serve based on their location.

D. Regulatory Cost and Burden of Maintaining FEFN separately is Material to FEFN and Subsidized by FEI

28. The regulatory burden and costs associated with regulatory filings for FEFN has a material impact on FEFN's delivery rates and FEFN is not currently allocated all of the internal costs of

[32] Exhibit B-15, Rebuttal Evidence, p. 7, A13.

these regulatory filings and associated proceedings. Moving to common rates would eliminate these costs, reduce cross-subsidization from FEI to FEFN, and free up FEI's resources for other regulatory priorities.

29. As discussed in Section 5.2.1 of the Application, setting FEFN's delivery, cost of gas and midstream rates separately requires a variety of regulatory proceedings. The external costs of these regulatory proceedings are borne solely by FEFN customers. In the context of FEFN's 10-year average delivery rate increase of 5.59 percent, the external regulatory proceeding costs for FEFN have been one of the main contributing factors to the delivery rate increases, contributing an average of 1.78 percent to the average delivery rate increases.[33] This 1.78 percent is approximately 31.8 percent of FEFN's average delivery rate increase from 2012 to 2021. As such, external regulatory costs have a material impact on FEFN's delivery rates.[34]

30. Further, FEFN's regulatory filings and proceedings require the internal costs of FEI employees which is subsidized by FEI. While FEI does not track internal regulatory costs, FEI estimates that internal regulatory costs between 2018 and 2022 range from approximately $65 thousand to $181 thousand.[35] Although a small amount of costs for the work of these employees is allocated to FEFN through the Shared Services fee, in recent years it has not been representative of the effort required. The difference between the currently allocated regulatory costs as part of the Shared Services fee and the high-level estimate of time described above ranges from $32 thousand to $146 thousand (before capitalized overhead), with an equivalent delivery rate impact to FEFN in the range of 1.14 percent to 4.84 percent.[36] This analysis shows that internal regulatory costs are material to FEFN's delivery rates, and that the cost allocation from FEI to the Fort Nelson Service Area does not fully reflect the cost to serve Fort Nelson customers.

[33] Exhibit B-1, Application, p. 40.

[34] Exhibit B-15, Rebuttal Evidence, p. 15, A26.

[35] Exhibit B-6, BCUC IR1 8.3.

[36] Exhibit B-6, BCUC IR1 8.3.

31. In summary, the external and internal regulatory cost for FEFN-specific filings can have a material impact on FEFN customers, even with the cross-subsidization from FEI that is currently occurring.[37] The potential for these material impacts makes maintaining a separate rate base and revenue requirements for FEFN challenging, as FEFN is not large enough to bear the full costs of modern rate regulation without material annual rate increases. As shown above, the annual costs of regulation could easily result in a 5 percent rate increase, independent of any other factors. Moreover, the estimated external cost of the current proceeding alone is the equivalent of a 10.3 percent delivery rate impact to FEFN customers if amortized over one year.[38]

32. Moving FEFN to common rates will eliminate the costs of regulatory filings for FEFN and the cross-subsidization from FEI to FEFN for regulatory costs, and will allow FEI resources to focus on other regulatory priorities.

E. FEFN Will Continue to Experience Rate Volatility Due to Small Customer Base

33. FEFN has historically experienced greater rate volatility than the rest of FEI due to its small customer base and will continue to experience this rate volatility in the future, which will likely be exacerbated by a continuing decline in the number of customers and overall demand, and other factors such as decarbonization policies. By transitioning to common rates, FEFN will experience less rate volatility due to the much larger customer base of FEI to absorb costs and changes in demand.

34. As discussed in detail in Sections 4.3.2 and 4.3.3 of the Application, FEFN has been experiencing a decline in energy demand since 2015, coinciding with capital projects entering rate base over the same period, including the Muskwa River Crossing CPCN and the distribution mains renewal program. Overall, since 2012, FEFN has experienced a 22 percent decrease in natural gas demand, while over the same 10-year period, the approved revenue requirement has increased by 35 percent, primarily driven by the required sustainment capital additions.[39]

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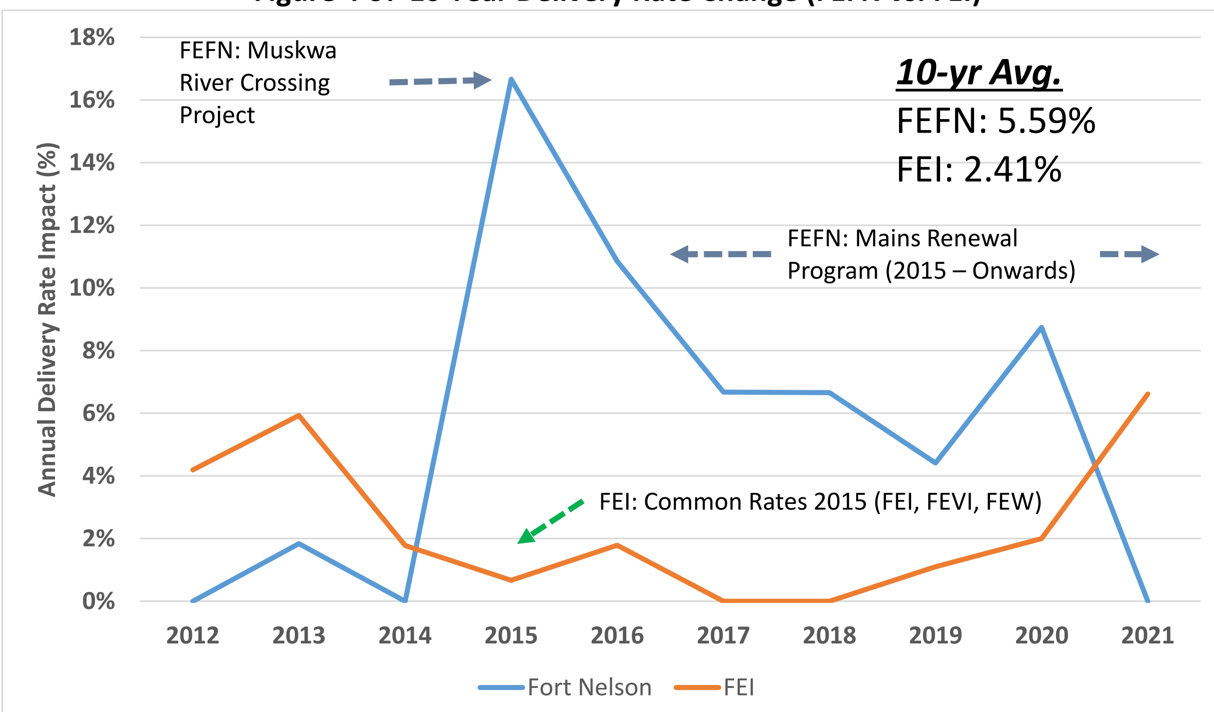
[37] Exhibit B-6, BCUC IR1 8.6.

[38] Exhibit B-17, BCUC IR1 9.2 on FEI's Rebuttal Evidence.

[39] Exhibit B-1, Application, p. 36.

35. As a result, FEFN has experienced relatively higher delivery rate increases since 2015 and much greater delivery rate volatility compared to FEI. Figure 4-9 of the Application, below, shows the annual delivery rate increase for FEFN customers is 5.59 percent compared to an increase of only 2.41 percent for FEI customers, and that FEI had 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).[40]

Figure 4-9: 10 Year Delivery Rate Change (FEFN vs. FEI)



36. Furthermore, even though FEFN's residential delivery rates are currently lower than FEI, FEFN's overall effective rate is higher than FEI's. FEI and FEFN rates are made up of three components (delivery, cost of gas, and midstream charges) and are applied across different customer groups (residential, commercial, and, for FEI, industrial). Overall, using the 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

[40] Exhibit B-1, Application, p. 35.

rate classes.[41] Over the 12-year period from 2011 to 2022, FEI's effective delivery rate is on average $0.032 per GJ less than FEFN's effective delivery rate.[42] This again shows the value of FEI's much larger customer base.

37. FEI discusses below how FEFN's forecast demand is reasonably forecast to continue to decline and how FEFN will continue to require capital expenditures that will contribute to rate volatility. However, the fundamental reason that FEFN has higher rate volatility compared to FEI is due to the small number of customers in FEFN compared to FEI. The large difference in number of customers significantly outweighs other potential factors that may impact rates, such as capital costs or the impact of provincial policies. While the risks of relatively large capital expenditures and decarbonization policies apply to both FEI and FEFN, without a large customer base and no or limited opportunity to attract offsetting revenue within FEFN, the risks of rate volatility and higher rates will certainly be significantly worse for FEFN if FEFN remains separate from FEI.[43]

(a) FEFN's Demand has been Declining and is Forecast to Continue to Decline

38. In recent years, FEFN has experienced declines in demand from approximately 645 TJ in 2014 to 518 TJ by 2020, a decline of approximately 21.2 TJ per year.[44] FEFN's decline in energy demand has contributed to increases in delivery rates, ranging from 3.6 percent to 7 percent between 2014 and 2020. This has resulted in a delivery rate impact of approximately 3.2 percent per year over the same time period.[45] This decline is illustrated in Figure 4-7 of the Application.

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[41] Exhibit B-7, FNDCC-NRRM IR1 8.1.

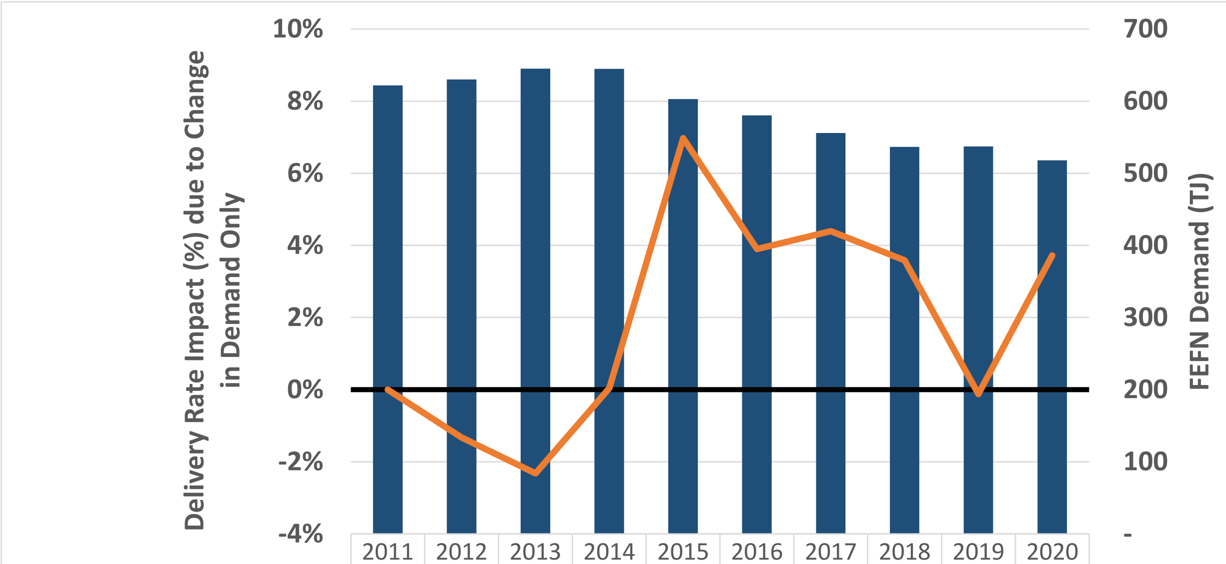
[42] Exhibit B-17, BCUC IR 1.1 and 1.1.1 on FEI's Rebuttal Evidence.

[43] Exhibit B-15, Rebuttal Evidence, p. 5, A6; Exhibit B-6, BCUC IR1 3.2; Exhibit B-7, FNDCC-NRRM IR1 8.1; Exhibit B-10, FNDCC-NRRM IR2 1.1.

[44] Exhibit B-1, Application, Figure 4-1.

[45] Exhibit B-1, Application, p. 30.

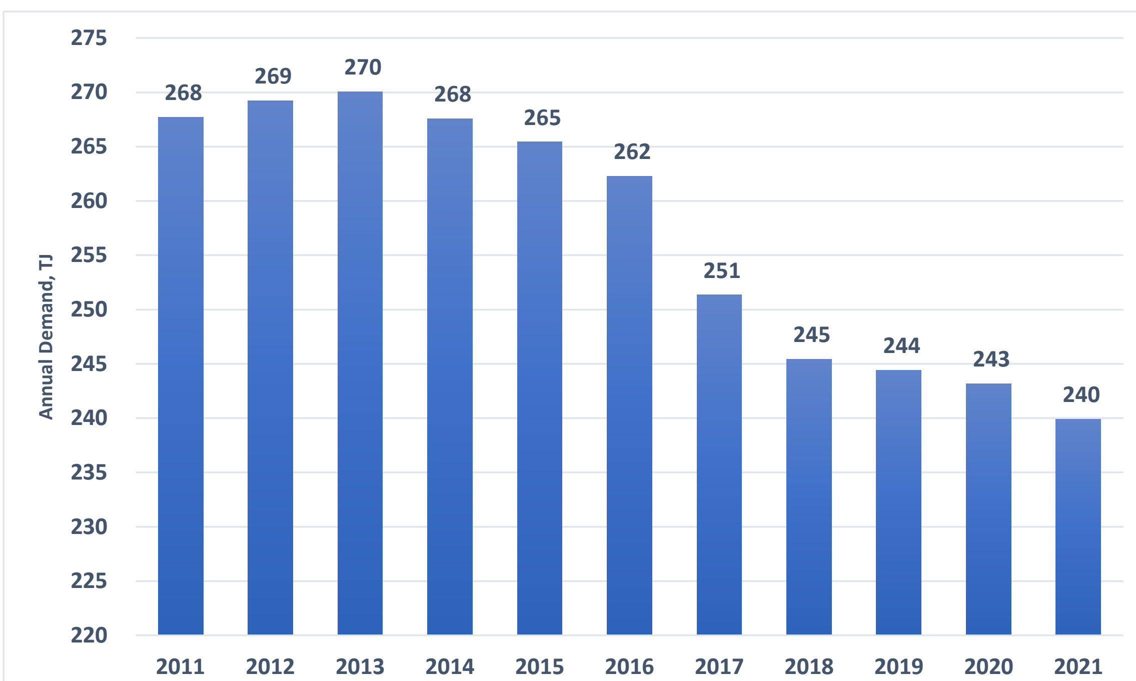
Figure 4-7: FEFN's Delivery Rate Impacts due to Decline in Demand from 2011 to 2020



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Demand (TJ)	622	630	645	645	603	580	556	537	537	518
Effective Rate Change (%)	0.0%	-1.3%	-2.3%	0.0%	7.0%	3.9%	4.4%	3.6%	-0.1%	3.7%

39. Figure 1 from FEI's Rebuttal Evidence below shows FEFN's residential demand since 2011 and demonstrates that FEFN's residential demand has been on a continuous decline since 2013.[46] The decline in demand from 2018 to 2021 is relatively consistent, ranging from 1 to 3 TJ per year.

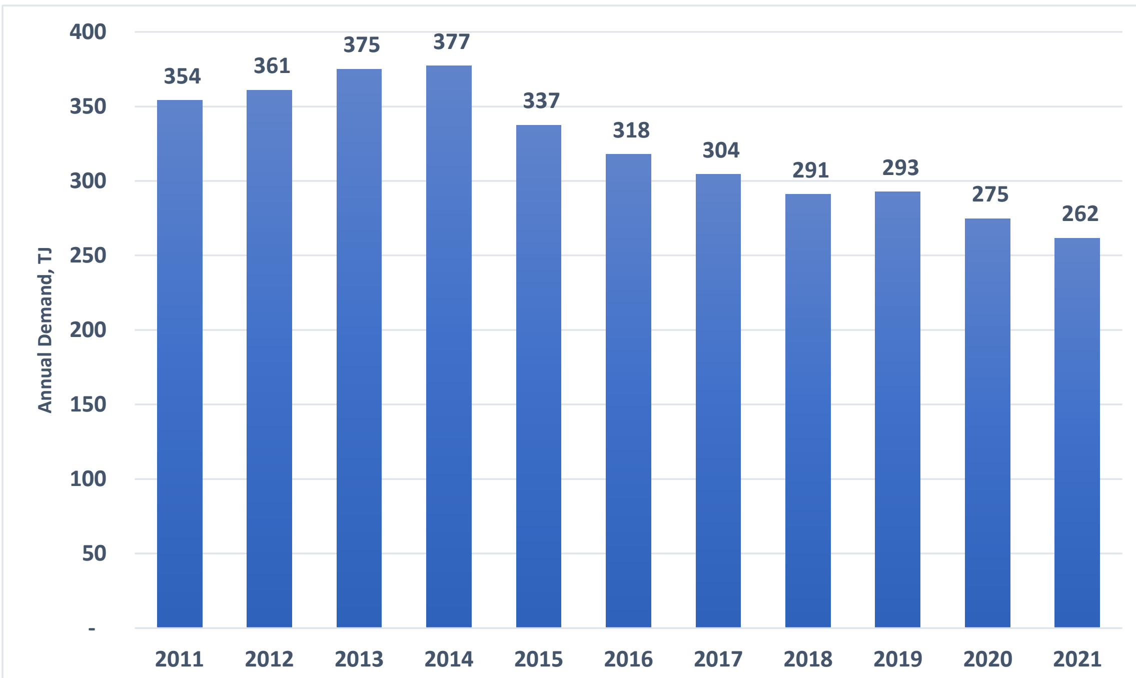
Figure 1: FEFN's Actual Residential Demand (2011 to 2021)



[46] Exhibit B-15, Rebuttal Evidence, p. 20, A36.

40. Figure 2 from FEI's Rebuttal Evidence, below, shows that, except for the small increase of 2 TJ in 2019, the average decline in commercial demand from 2014 to 2021 was approximately 17 TJ.[47]

Figure 2: FEFN's Actual Commercial Demand (2011 to 2021)



41. FEI's 10-year forecast for FEFN shows a similar decline continuing.[48] As shown in the table below, FEI's forecast predicts a continued slow decline of residential customers in FEFN and no foreseeable addition of any industrial customers.[49]

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[47] Exhibit B-15, Rebuttal Evidence, p. 21, A36.

[48] Exhibit B-6, BCUC IR1 3.3.1.

[49] Exhibit B-6, BCUC IR1 3.3.1, 3.8.

Fort Nelson										
Customers	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
RS 1	1,866	1,853	1,841	1,829	1,819	1,809	1,799	1,790	1,781	1,773
RS 2	449	445	442	439	435	432	429	425	422	419
RS 3	15	13	12	11	9	8	7	5	4	3
Customer Total	**2,329**	**2,311**	**2,295**	**2,279**	**2,263**	**2,249**	**2,235**	**2,221**	**2,207**	**2,194**
Demand (TJ)										
RS 1	238	234	230	226	222	218	214	211	207	204
RS 2	157	150	143	136	129	122	115	108	101	95
RS 3	96	87	78	70	61	53	44	36	27	19
Demand Total	**491**	**471**	**451**	**431**	**412**	**392**	**373**	**354**	**336**	**317**

42. This forecast is consistent with the general economic decline of the FEFN region.[50] For example, there has been no substantial development in terms of further supply development in the Horn River Basin since 2015. Horn River gas is “dry” and uneconomic to develop given the low commodity prices experienced before 2015 and since. The current run-up in commodity prices will need to be longer lived and viewed as sustainable before producers commit capital to develop anything further. Based on the current outlook, FEI does not expect the Horn River Basin development to impact energy demand in FEFN in the next 15 years. FEFN also faces the risk that the Fort Nelson gas plant may shut down because the plant is fed by dry gas, and volumes processed at the plant have fallen off significantly, which has made operating the plant less economical.[51]

43. With respect to the potential developments noted by NRRM in their evidence, FEI’s understanding is that none of these developments will add industrial gas demand to FEFN’s system. None of the project proponents have contacted FEI for new or substantially increased natural gas service. Since these developments would have significant industrial load if they chose to use natural gas from FEI, they would have to request the service or the change to their current service at least six months to a year or longer in advance of commencing industrial-scale natural gas consumption. This is because there is significant lead-time required for meter setup and/or new service line construction as well as contract negotiation. Since none of these project proponents have contacted FEI thus far, FEI concludes that at this time the

[50] Exhibit B-1, Application, Section 4.3.2.

[51] Exhibit B-6, BCUC IR1 3.9.

projects/developments identified by NRRM are unlikely to add industrial gas demand to FEFN's system.

44. NRRM's responses to IRs confirm FEI's conclusion, as follows:

(a) In NRRM's response to FEI IR1 2.2 regarding the LNG development of Cryopeak and Ferus, NRRM stated that it has no reason to believe either Cryopeak or Ferus intend to purchase natural gas from FEI: "Neither proponent has given NRRM reason to believe that they intend to purchase natural gas from FEI". This confirms FEI's conclusion that there is no reason to believe that Cryopeak and Ferus intend to purchase natural gas from FEI;

(b) In NRRM's response to FEI IR1 3.2 regarding the Tu-Deh-Kah Geothermal Project, NRRM stated it is "highly unlikely" that this project would add industrial demand to FEFN's system: "The NRRM is not aware of any information that the proponent intends to be an FEI user. Given that the design of the project is to produce Geothermal electricity and exploit the potential of surplus heat from the process, however, the prospect is highly unlikely". FEI agrees that it is highly unlikely that this project would add industrial gas demand to FEFN's system; and

(c) In NRRM's response to FEI IR1 4.3 regarding the Peak Renewables facility, NRRM stated: "NRRM would expect that FEI would be more aware of any such decision given its current engagement with the proponent as a supplier of natural gas to its facility". FEI agrees. As discussed in Section 4.3.2.1 of the Application, FEI's understanding based on conversations with Peak Renewables is that they currently intend to continue to use natural gas for space heating only. Therefore, NRRM's IR response confirms FEI's conclusion that the project will not add any industrial gas demand to FEFN's system.

45. FEI's current demand forecasting method is reasonable, and the only suitable method for the purposes of this Application:

(a) FEI's method has been well-tested and has been frequently reviewed by the BCUC in revenue requirement applications (RRA) for FEFN and the RRAs for the rest of FEI's service area.[52]

(b) 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 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

[52] Exhibit B-17, BCUC IR1 7.1 on FEI's Rebuttal Evidence.

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.[53]

(c) This method has consistently produced strong results with acceptable variances when compared to actuals and when compared to industry results from the annual ITRON survey report. For FEFN, the Mean Absolute Percentage Error (MAPE) for the total demand forecast is 4.4 percent over the period from 2011 to 2021. This level of MAPE is comparable to other utilities and is very good considering the relatively small customer base of approximately 2,400 customers.[54]

(d) Is an objective method that is fully repeatable.[55]

(e) Is comprised of multiple methods for each element of the forecast (i.e., different forecasting methods for residential additions, commercial additions, use rates, and industrial survey). Therefore, it is possible to isolate any error (if one existed) in a specific element of the forecast rather than over the aggregate result. For example, a 5 percent variance in the customer additions will only contribute to a small portion of the overall result.[56]

(i) FEI's forecasting method for residential customer additions is not based on historical trends. FEI uses the CBOC 20-year forecast of housing starts growth rates to develop its residential customer additions forecast. This forecast is future-looking and it is used because it provides unique trajectories for both single- and multi-family dwellings. In 2021, FEFN had a total of four residential customers added with two single-family dwellings and two multi-family dwellings. This supports the use of the CBOC forecast as the forecast provides the split between single- and multi-family dwellings. The CBOC 20-year forecast for housing starts has a negative growth rate.[57]

(ii) For commercial customers, FEI uses the average of the three most recent years of actual additions. This time series method (i.e., three-year average) would propagate any trends present in the actual data going forward; however, given the steady decline in commercial customer

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[53] Exhibit B-1, Application, Appendix A3, p. 1.

[54] Exhibit B-15, Rebuttal Evidence, p. 21, A37.

[55] Exhibit B-17, BCUC IR1 7.1 on FEI's Rebuttal Evidence.

[56] Exhibit B-17, BCUC IR1 7.1 on FEI's Rebuttal Evidence.

[57] Exhibit B-17, BCUC IR1 7.3 on FEI's Rebuttal Evidence.

additions since 2016, the current forecast of a continuing decline is reasonable for FEFN.[58]

(iii) For the use rate forecasts, FEI uses the ETS method which dynamically places more emphasis on the long-term trend, if one exists, or the most recent levels if a trend does not exist. The ETS method establishes a unique balance based on the historical data used. In the case where declining consumption per customer was followed by increasing consumption, the ETS method could forecast a continuing trend of increased usage if the historical trend was significant enough. Depending on the inherent trend of the data over the long-term versus the most recent trend, the ETS method might forecast an increasing trend in all cases.[59]

(f) There were not any changes in the consumption pattern in FEFN that would be attributable to the COVID-19 pandemic. The declining trend of FEFN's residential and commercial demand since 2013/2014 has continued through to 2021 (in actual results). There does not appear to be any material difference in trends during the COVID-19 pandemic in 2020 and 2021 compared to the prior years.[60]

(g) Applying the End Use Annual method used in FEI's 2022 Long Term Gas Resource Plan (LTGRP) under FEI's Diversified Energy (Planning) Scenario to FEFN would show a similar declining trend as FEI's FEFN demand forecasts from 2021 to 2030. Considering FEFN does not have any industrial customers, nor anticipated growth in low carbon transportation and global LNG, the End Use Annual method would show a downward trend for the future demand in FEFN given the increasing demand-side management activities and electrification in FEI's Diversified Energy (Planning) Scenario impacting residential and commercial demand.[61] Even if the Province-wide growth rates are applied to FEFN, FEFN's demand is forecast to decline on a similar trend level as FEI's traditional forecast method.[62]

46. In contrast, the forecast of NRRM's expert, CSCW, based on BC Stats data is not supported and cannot be relied on:

(a) The forecasting method used by CSCW relies on only BC Stats household data to project the total demand of FEFN that includes residential, small commercial and large commercial customers. Using only the household numbers to forecast different types of customers that have vastly different consumption patterns is problematic, considering the large commercial rate classes include large facilities

[58] Exhibit B-17, BCUC IR1 7.3 on FEI's Rebuttal Evidence.

[59] Exhibit B-17, BCUC IR1 7.3.1 on FEI's Rebuttal Evidence.

[60] Exhibit B-17, BCUC IR1 7.3.2 on FEI's Rebuttal Evidence.

[61] Exhibit B-17, BCUC IR1 8.2 on FEI's Rebuttal Evidence.

[62] Exhibit B-17, BCUC IR1 8.4 on FEI's Rebuttal Evidence.

such as hospitals, community centres, schools, hotels, as well as the former Canfor Polarboard facility that switched from Rate Schedule 25 to Rate Schedule 3 in November 2020. In contrast, as described above, FEI's forecasting method recognizes the differences between different types of customers and forecasts for residential and commercial rate classes separately.[63]

(b) As shown in Figure 5 of FEI's Rebuttal Evidence, CSCW's forecast produces a V-shaped curve which is inexplicable statistically.[64] Nor is there any evidence to support an expectation of such a dramatic recovery in FEFN's demand.

(c) BC Stats has advised FEI to refrain from using their current population and household projection for NRRM and Fort Nelson. BC Stats confirmed that their projection is currently based on the 2016 Census of Population, uses a method that was developed in 1999, and the forecast assumptions may not reflect the current circumstances in Fort Nelson.[65]

(d) As shown in Table 7 of FEI's Rebuttal Evidence, the MAPE of CSCW's forecasting method, based on the linear regression between the BC Stats household numbers and FEFN's total demand, is 9.1 percent, which is double the MAPE of FEI's forecast method of 4.5 percent. CSCW's method also always over-forecasts FEFN's total demand from 2011 to 2020.[66]

47. While no forecast can perfectly predict the future of demand in FEFN, the evidence in this proceeding is that FEI's forecasting methods are well-tested and have proven to exhibit a high level of accuracy and that, based on historical actual demand in FEFN, there is no indication that the declining trend in demand is expected to significantly reverse.

48. However, to be clear, the justification for common rates does not depend on a continued decline in FEFN's demand or that FEFN's residential delivery rates reach parity with FEI. As noted above, the primary driver of FEFN's rate volatility is its small customer base, and the move to common rates will provide increased rate stability due to FEI's larger and more diverse customer base. Further, and as also discussed above, there is little real difference in the cost to serve between FEFN and the rest of FEI, and common rates are justly and reasonably applied despite

[63] Exhibit B-15, Rebuttal Evidence, p. 25.

[64] Exhibit B-15, Rebuttal Evidence, p. 24.

[65] Exhibit B-15, Rebuttal Evidence, p. 24.

[66] Exhibit B-15, Rebuttal Evidence, pp. 25-26.

any regional differences that may exist, as has been demonstrated in the history of FEI's other service areas moving to common rates.

(b) FEFN Will Continue to Require a Similar Level of Capital Expenditures

49. As stated in the Application, the FEFN system will continue to require capital investment in the future in order to maintain continuous, safe and reliable service.[67] The Application provides an overview of the capital expenditures FEI forecasts for FEFN to 2023 and a description of the capital projects that are likely to arise in the years beyond 2023. FEI has also provided a 10-year high and low capital expenditure forecast for FEFN.[68] 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.[69]

50. With respect to the likelihood of another project as large as the Muskwa River Crossing, FEI commented as follows:[70]

> While FEI currently does not have plans in the next 10 years for a capital project within the FEFN service area that would be of similar cost as the Muskwa River Crossing CPCN, FEI is not able to foresee the need for all projects over a 10-year period and it is reasonable to expect that a project of similar cost as the Muskwa River Crossing CPCN could be necessary in the future, especially when considering the advancing age of the system and the increased frequency of extreme weather events as experienced recently in BC. For example, the Muskwa River Crossing CPCN was necessary due to erosion caused by high water flows which put the pipeline at risk of damage from debris. For similar reasons related to integrity and safety, and to ensure continuous and reliable service to FEFN's customers, projects the size of the Muskwa River Crossing CPCN could occur in the future.

51. FEI further stated in its Rebuttal Evidence:[71]

> Based on FEI's knowledge and experience as an operator of the natural gas distribution system, including knowledge of the condition of its assets and the potential issues that can arise over time due to environmental and other impacts,

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[67] Exhibit B-1, Application, p. 33.

[68] Exhibit B-6, BCUC IR1 5.1 and 5.2.

[69] Exhibit B-1, Application, pp. 34-35.

[70] Exhibit B-6, BCUC IR1 4.2.

[71] Exhibit B-15, Rebuttal Evidence, p. 6, A10.

> there is the potential that a major infrastructure replacement similar in size to the Muskaw River Crossing will be needed in the future, and could even be required within the next 10 years.

52. Moreover, even regular capital projects that are not considered major infrastructure replacements have a significant impact on FEFN delivery rates given the small customer base. For instance, the currently in-progress Recreation Centre District Station project has a capital cost of approximately $655 thousand. While this project is relatively modest in size, the delivery rate impact is approximately 2.32 percent compared to the proposed 2022 delivery rates.[72] Even with the capital additions associated with the Muskwa River Crossing CPCN excluded, the cumulative capital additions between 2011 and 2020 were approximately $4.95 million, which resulted in a cumulative delivery rate impact to FEFN from capital additions alone of 22.8 percent or an average of 2.3 percent per year.[73]

53. FEI will of course also require capital expenditures. FEFN's capital infrastructure is the same as FEI's, and the risk of increasing capital expenditures will be similar for both FEI and FEFN.[74] However, unlike FEFN, FEI has a much larger customer base, steadily increasing demand, a large industrial class of customers, and opportunities to increase demand, such as through low carbon transportation and global LNG.[75] Given FEFN's much smaller customer base and little opportunity for offsetting revenues, FEFN's rate volatility will continue to be greater than FEI's.

F. FEI Secured a Unique Supply Arrangement for FEFN, which FEI is Accounting for in FEFN's Proposed Midstream Rate

54. As FEI has secured for FEFN a unique gas supply arrangement, FEI is proposing a midstream rate that will allow FEFN customers to continue to benefit from the low cost of this gas supply. FEFN's midstream rates are less than FEI's midstream rates because FEI's natural gas purchases for FEFN from the Fort Nelson gas plant are shaped to the relative level of seasonal consumption in FEFN.[76] Given the relatively small volume required to serve FEFN, the gas

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[72] Exhibit B-6, BCUC IR1 4.1 and 4.2; Exhibit B-15, Rebuttal Evidence, p. 6, A10.

[73] Exhibit B-6, BCUC IR1 4.2.

[74] Exhibit B-17, BCUC IR1 3.1 on FEI's Rebuttal Evidence.

[75] Exhibit B-6, BCUC IR1 3.2; Exhibit B-7, FNDCC-NRRM IR1 6.6, 7.5, 8.1; Exhibit B-15, Rebuttal Evidence, p. 5.

[76] Exhibit B-1, Application, Section 4.3.1.2.

producers agreed to a unique arrangement that allowed FEI to take only what it requires based on the next day's load forecast for Fort Nelson rather than taking 100 percent of the contracted quantity each day.[77] This shaping in the natural gas supply reduces the need for midstream resources. FEI is therefore proposing to maintain FEFN's lower midstream rate by charging FEFN customers only 5 percent of FEI's midstream rate.[78]

G. Under Common Rates, Commercial Customers will see Savings, while Impacts to Residential Rates Will be Mitigated

55. The implementation of common rates will provide bill savings to FEFN's commercial customers. Upon the transition to common delivery rates, small and large commercial customers will experience estimated savings of $350 and $3,327, respectively, in that year.[79]

56. The implementation of common delivery rates will result in bill increases to FEFN's residential customers. Without mitigation, upon the transition to common rates, the average residential customer in FEFN will have an incremental bill impact estimated to be $157 in that year due to common rates ($174 for the delivery portion, offset by savings of $17 from the cost of gas and midstream portion).[80]

57. FEI proposes to mitigate the negative impact to FEFN's residential customers through a 10-year phase-in mechanism for FEFN's residential customers.[81] The negative impact to FEFN's residential customers in year 1 of common rates could be virtually eliminated with the proposed phase-in rate rider,[82] and the incremental each year is relatively small at an average of $17 per year.[83] The phase-in could be extended to as long as 20 years to increase the amount of mitigation.[84] Extending the timeframe over a longer period of time will keep FEFN residential

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[77] Exhibit B-1, Application, p. 22.
[78] Exhibit B-1, Application, Section 5.3.5.1.
[79] Exhibit B-1, Application, p. 55.
[80] Exhibit B-1, Application, p. 55.
[81] Exhibit B-1, Application, pp. 58-59.
[82] Exhibit B-6, BCUC IR1 11.3.
[83] Exhibit B-6, BCUC IR1 15.5.
[84] Exhibit B-17, BCUC IR1 3.3 on FEI's Rebuttal Evidence.

delivery rates similar to FEFN's current delivery rates over a longer period of time.[85] The bill impacts to residential customers can therefore be substantially mitigated through a phase-in of common delivery rates.

[85] Exhibit B-17, BCUC IR1 3.3 on FEI's Rebuttal Evidence.

PART THREE: OPTIONS AND ANALYSIS SUPPORTING FEI'S PROPOSED COMMON RATES OPTION

58. In this part, FEI describes how it evaluated the status quo against three common rates options based on four key objectives, and how FEI's proposed common rates option best meets the objectives and is aligned with Bonbright's rate design principles. FEI's proposal, which includes common delivery and cost of gas rates, a 5 percent midstream rate to reflect FEFN's unique gas supply arrangement, and a 10-year phase-in period to mitigate rate impacts to FEFN residential customers, is the most fair and reasonable rate option for FEFN taking into account all considerations.

59. This part is organized around the following key points:

(a) FEI developed four key objectives to evaluate the common rates options that reflect the most important rate design principles and impacts of common rates.

(b) FEI quantitatively and qualitatively evaluated four feasible options, including the status quo and three common rates options.

(c) FEI's proposed common rates option best meets the key objectives.

(d) FEI proposes to phase-in the impacts of common delivery rates for FEFN residential customers so that the estimated bill impact in year 1 of common rates is virtually nil and the estimated bill impact in subsequent years is $17 per year.[86]

(e) FEI's proposed common rates option is supported by Bonbright's rate design principles.

A. Key Objectives Reflect Relevant Rate Design Principles and Most Significant Impacts of Common Rates

60. FEI developed four key objectives for evaluating common rate options which represent the most relevant rate design principles and the most significant impacts of moving to common rates.[87] These four objectives are as follows:

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[86] Exhibit B-1, Application, p. 44; Exhibit B-6, BCUC IR1 15.5.

[87] Exhibit B-1, Application, p. 39; Exhibit B-6, BCUC IR1 7.3.

(a) **Elimination of Regulatory Burden and Costs:** As discussed in Part Two, Section D of this Final Argument, maintaining a separate rate base and revenue requirements for FEFN requires regulatory applications, which entails internal costs and external proceeding costs, have a material impact on FEFN's delivery rates and are not fully reflected in the Shared Services charges to FEFN. Moving FEFN to common rates will eliminate the costs of regulatory filings for FEFN and the cross-subsidization from FEI to FEFN for regulatory costs, and allow FEI resources to focus on other regulatory priorities.[88]

(b) **Long-term Rate Stability:** As discussed in Part Two, Section E of this Final Argument, FEFN has and will continue to experience greater rate volatility than FEI due to its much smaller customer base. Achieving long-term rate stability will provide substantial benefit to all FEFN customers in the long-term. When considering the principle of rate stability in the development of the common rate proposals, FEI has weighed the goal of achieving long-term rate stability for FEFN customers with the goal of minimizing short-term rate pressures.[89]

(c) **Fairness and Consistency of Rates across FEI Service Areas:** Fairness is a core rate design principle, and the main principle behind common rates is one of fairness amongst all of FEI's customers: under common rates, all customers within a rate class would pay the same rate, regardless of their geographic or service area location. As discussed in Part Two, Section A of this Final Argument, the current regional rates for FEFN are not a true representation of the regional difference in costs between FEFN and FEI. They are more the result of corporate history rather than a careful consideration of equities amongst all of FEI's customers combined. As discussed in Part Two, Sections B and C of this Final Argument, common rates have been endorsed by the BCUC as a fair way to allocate costs, are supported by government policy, have been applied to all of FEI's other service areas despite

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[88] Exhibit B-1, Application, pp. 39-41; Exhibit B-6, BCUC IR1 7.1 and BCUC IR1 8 series.

[89] Exhibit B-1, Application, p. 91; Exhibit B-6, BCUC IR1 1.1, 1.2 and 7.1.

regional differences, and are the *de facto* approach to utility ratemaking in this Province and many other jurisdictions. Therefore, it is difficult to justify continuing rate disparity amongst customers for essentially the same service of delivering energy when most customers pay the same rates regardless of location.[90]

(d) **Mitigation of Rate Impacts from Moving to Common Rates:** While a number of the common rate options result in rate decreases for commercial customers, under all common rate options residential customers would experience a rate increase. The rate impact to FEI for all options is negligible. The first three objectives above are therefore balanced against this fourth objective of mitigating adverse rate impacts for FEFN customers.[91]

B. Evaluation of Common Rates Options

61. FEI qualitatively and quantitively assessed the status quo and three common rate options against the four objectives described above.[92] The three common rate options are (1) common delivery rates only; (2) full transition to common delivery, cost of gas, and storage and transport rates; and (3) common delivery and cost of gas rates, and amalgamation of FEFN's gas cost portfolios (a 5 percent midstream rate). FEI's evaluation of the status quo and these three common rate options is summarized below, followed by a discussion of how FEI's proposed common rates option best meets the objectives and is supported by Bonbright's rate design principles. FEI notes that the estimated rate impact analysis presented in the Application is based on rates and forecasts at the time of the Application.

(a) Status Quo

62. Under the status quo option, FEFN would continue to have a separate rate base and set delivery, cost of gas and midstream rates separately from FEI. This option is not recommended for the following reasons.[93]

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[90] Exhibit B-1, Application, p. 42.

[91] Exhibit B-1, Application, pp. 42-43; Exhibit B-6, BCUC IR1 7.1, 11.1 and 11.2.

[92] Exhibit B-1, Application, Section 5.3.

[93] Exhibit B-1, Application, pp. 45-47.

- FEI will continue to incur the costs associated with FEFN regulatory filings.
- FEFN will continue to experience volatility in rates due to its small customer base, with continued decline in demand and continued requirements for sustainment capital, as discussed in Part Two, Section E of this Final Argument.
- There will continue to be disparity in rate treatment between FEFN and the remainder of FEI's customers.
- Bill impacts estimated for all rate classes in 2023 are $63 for RS 1, $191 for RS 2 and $2,486 for RS 3 customers.

(b) Common Delivery Rates Only

63. Under the option of common delivery rates only, FEFN would no longer have a separate rate base, which would eliminate the requirement to file separate revenue requirement applications as well as annual reports for FEFN. However, FEFN would maintain its own cost of gas and midstream charges which are reviewed quarterly by the BCUC through FEFN's quarterly gas cost reports. Thus, this option partially achieves the objective of eliminating regulatory costs and burden. This option achieves the objectives of long-term rate stability and avoids the rate impact of moving to common midstream rates, but only partially addresses the objective of fairness amongst all customers. If FEFN transitions to common delivery rates with FEI in 2023, the average FEFN residential customer will see an estimated incremental bill impact of $174 in that year, while small and large commercial customers will experience estimated savings of approximately $305 and $2,460, respectively, in that year.[94]

(c) Full Transition to Common Rates (i.e., Common Delivery, Cost of Gas, and Midstream Rates)

64. Under the option of full common rates, FEFN would fully transition to FEI's delivery, cost of gas, and midstream rates. This option fully achieves the first three objectives, including eliminating regulatory costs and burden, providing long-term rate stability, and achieving fairness amongst all customers. However, the rate impact for FEFN customers associated with this option is high, primarily due to the current disparity in FEFN's midstream rates compared to FEI's midstream rates. The unitized costs related to FEFN's current gas supply portfolio are

[94] Exhibit B-1, Application, p. 47-49.

significantly lower than those for FEI's current gas supply portfolio, as FEFN's natural gas supply and load balancing requirements are currently met through the use of a unique commodity supply arrangement and a relatively low-cost, short-haul transportation service. The incremental bill increases in 2023 are forecast to be $329 for RS 1, $118 for RS 2, and $4,131 for RS 3.[95]

(d) Common Delivery and Cost of Gas Rates, and Amalgamation of FEFN's Gas Cost Portfolios

65. Under this option, FEI proposes to move FEFN to common delivery and cost of gas rates while maintaining FEFN's midstream (storage & transport) rates at a level consistent with what FEFN is currently being charged, at 5 percent of FEI's midstream rate. This approach will achieve the benefits of common delivery rates, and transition FEFN customers to a common cost of gas rate with FEI, without the significant negative bill impact to FEFN customers of Full Common Rates.[96] The complex accounting treatment of FEFN's gas costs portfolio to achieve the midstream rate tailored to FEFN, and the rationale for the 5 percent midstream rate, is described in detail in Section 5.3.5.1 of the Application.[97] The 5 percent midstream rate is a reasonable exception to the postage stamp rate approach given the significant difference between FEFN's and FEI's midstream resources.[98]

66. Under this option, the average residential customer in FEFN will have an incremental bill impact estimated to be $157 that year due to common rates ($174 for the delivery portion, offset by savings of $17 from the commodity and midstream portion). For small and large commercial customers, the transition will result in estimated savings of $350 and $3,327, respectively, in that year. Although there is a small increase in FEFN's midstream rate, it represents an approximate annual increase of only $2.71 for the average residential customer in FEFN.[99]

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[95] Exhibit B-1, Application, pp. 49-51.

[96] Exhibit B-1, Application, p. 51.

[97] Exhibit B-1, Application, Section 5.3.5.1. Also see Exhibit B-6, BCUC IR1 13 series.

[98] Exhibit B-1, Section 4.3.1.2; Exhibit B-6, BCUC IR1 13.1 and 14.1.

[99] Exhibit B-1, Application, p. 55.

67. In summary, this option will eliminate regulatory filings and costs, provide long-term rate stability, and achieve fairness across all of FEI's service areas to the greatest extent possible without causing significant negative bill impacts to FEFN's customers.

C. FEI's Proposed Common Rates Option Best Meets Key Objectives

68. Based on the evaluation as summarized above, the option of common delivery and cost of gas rates, with the midstream rates set at 5 percent of FEI's midstream rates (Option 4 in the Table below) best meets the four key objectives and is FEI's recommended common rate option for FEFN. Table 5-16 from the Application below summarizes the results of the alternatives analysis.

Table 5-16: Evaluation of All 4 Options of Common Rates for FEFN

Objectives	Option 1 – Status Quo	Option 2 – Common Delivery Only	Option 3 – Full Common Rates	Option 4 – Common Delivery and Cost of Gas with Midstream @ 5% of FEI
1) **Eliminate regulatory filings and costs**	• No. There is no reduction in regulatory filings per year – stays at: 5.5 • FEFN will continue to bear the full cost of regulatory proceedings.	• Partial. Number of regulatory filings per year reduced to: 4 • Elimination of regulatory costs for RRA and CPCN proceedings.	• Yes. Number of Regulatory filings per year: 0	• Yes. Number of regulatory filings per year: 0
2) **Provide long-term rate stability for FEFN customers**	• No	• Yes	• Yes	• Yes
3) **Achieve fairness across all FEI service areas, including FEFN**	• No	• Partial. Fairness achieved for delivery rates only.	• Yes	• Most components. Fairness achieved for delivery and cost of gas, and accounting of midstream costs is now aligned with FEI (though FEFN is only paying 5% of the midstream costs).

Objectives	Option 1 – Status Quo	Option 2 – Common Delivery Only	Option 3 – Full Common Rates	Option 4 – Common Delivery and Cost of Gas with Midstream @ 5% of FEI
4) Mitigating rate impact to FEFN customers	• Bill Impact in 2023: RS 1 = $63 RS 2 = $191 RS 3 = $2,486	• Bill Impact in 2023: RS 1 = $237 RS 2 = ($115) RS 3 = $26 • Incremental to Status Quo: RS 1 = $174 RS 2 = ($305) RS 3 = ($2,460)	• Bill Impact in 2023: RS 1 = $392 RS 2 = $309 RS 3 = $6,618 • Incremental to Status Quo: RS 1 = $329 RS 2 = $118 RS 3 = $4,131	• Bill Impact in 2023: RS 1 = $220 RS 2 = ($159) RS 3 = ($841) • Incremental to Status Quo: RS 1 = $157 RS 2 = ($350) RS 3 = ($3,327)
Total Score (2 for Green, 1 for Yellow, 0 for Red)	**1**	**6**	**6**	**8**

D. Phase-In Will Mitigate Impacts of Residential Common Delivery Rates

69. FEI submits that its proposed 10-year phase-in of common delivery rates for residential customers[100] is just and reasonable as it will materially mitigate the bill impacts to FEFN residential customers. While the total incremental bill impact due to common rates for the average FEFN residential customer is estimated to be $157, with FEI's proposed phase-in, the annual bill impact for the average residential customer due to common rates is forecast to be a reduction in 2023 and an approximately $17 increase per year thereafter.[101]

70. FEI proposes to phase-in FEFN's residential common delivery rates through the FEFN Residential Common Rate Phase-In Rate Rider. There are two components to the proposed phase in. First, FEI proposes to phase in FEFN residential common delivery rates over a 10-year period, calculated based on the initial difference of delivery margin in 2023 for FEFN residential customers, estimated at the timing of the Application to be $319 thousand, and decreasing each

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[100] FEI proposes that the phase-in be only applicable to delivery rates and not the cost of gas rates since FEI expects there will be a minimal bill impact (positive or negative) associated with the move to common cost of gas rates. Exhibit B-1, Application, p. 58.

[101] Exhibit B-6, BCUC IR1 11.3 and 15.5.

year until it reaches zero. Second, FEI proposes to further reduce the annual bill impact to FEFN residential customers by increasing the FEFN Residential Common Rate Phase-In Rate Rider with the balance in the FEFN 2021 Revenue Surplus Deferral Account, which is forecast to be $94 thousand at December 31, 2022.[102] FEI proposes to update the actual phase-in rate rider each year in FEI's annual review with updated forecasts of FEFN residential customer demand and the actual-to-date balance of the FEFN 2021 Revenue Surplus Deferral Account each year.[103]

71. Compared to the status quo, all FEFN customers are forecast to have lower rates in the first year of the phase-in, as shown in the table below.[104] The incremental impact in years thereafter is forecast to be relatively small, at an average of $17 per year.[105]

Table 4: Estimated FEFN 2023 Average Bill Impact under Option 4 (with FEFN's Residential Phase-in Credit Rider) Compared to Status Quo

	Avg. UPC (GJ)	FEFN Option 1 - Status Quo Bill Impact in 2023 ($)	FEFN Option 4 - Common Delivery and Cost of Gas Rate with Midstream @ 5% of FEI Bill Impact in 2023 ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only ($) - With RS 1 Phase-in	FEFN Incremental Bill Impact in 2023 due to Common Rates Only (%) - With RS 1 Phase-in
Residential RS 1	125	63	58	(5)	-0.5%
Small Commerical RS 2	335	191	(159)	(350)	-11.6%
Large Commerical RS 3	6,375	2,486	(841)	(3,327)	-7.2%

72. FEI views a 10-year phase-in period as the appropriate timeframe to smooth bill impacts to residential customers as it substantially mitigates the rate impact due to common delivery rates. However, if the BCUC considers that further mitigation is required, common rates could be phased in over a 15 or even 20-year period. Extending the timeframe over a longer period of time will mitigate the impact to FEFN's residential customers further and keep their delivery rates similar to FEFN's status quo scenario over a longer period of time.[106]

[102] Exhibit B-1, Application, p, 58.

[103] Exhibit B-1, Application, p. 82.

[104] Exhibit B-6, BCUC IR1 11.3.

[105] Exhibit B-6, BCUC IR1 15.5.

[106] Exhibit B-17, BCUC IR1 3.3 on Rebuttal Evidence.

73. Regardless of the length of the phase-in, the delivery rate impact to FEI as a result of the FEFN residential customer phase-in is negligible. The only impact to FEI is the need to create and track the phase-in rate rider through a deferral account, which is applicable across all phase-in periods. The delivery rate impact for FEI's customers in all scenarios is negligible, due to the small number of FEFN residential customers compared to FEI's overall customer base.[107]

74. FEI also submits that there should be no phasing in of the commercial rates and, instead, these benefits should be realized immediately by FEFN's commercial customers. Any potential phasing in of the savings to commercial customers results in no impact to the overall bill impact of residential customers or to the phase-in of residential rates, and a negligible delivery rate impact to FEI's customers.[108] The phasing in of savings to commercial customers would take away the immediate savings available to them, without any meaningful benefit.[109] Further, savings to commercial customers may be passed on to residential customers in lower prices, or directly to residential customers who are also sole proprietor business owners.[110]

75. Finally, FEI submits that the use of the 2021 revenue surplus balance to provide additional mitigation to FEFN's residential customers is just and reasonable. The savings to commercial customers from the move to common delivery rates are already significant ($350 for RS 2 and $4,327 for RS 3). FEI submits that it is important to minimize the negative bill impact to FEFN's residential customers, who are the only ratepayers who will experience an overall increase in delivery rates.[111] As discussed further below, this approach is supported by Bonbright's principle of customer understanding and acceptance. The impact to FEFN residential customers is the only negative impact of common rates and barrier to customer understanding and acceptance of common rates. Therefore, mitigating this impact is of primary importance and justifies the application of the 2021 revenue surplus balance to mitigate impacts to FEFN residential customers.

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[107] Exhibit B-6, BCUC IR1 30.1.

[108] Exhibit B-9, BCUC IR2 36.1, 36.2 and 36.3.

[109] Exhibit B-6, BCUC IR1 15.3; Exhibit B-9, BCUC IR2 36.1, 36.2 and 36.3.

[110] Exhibit B-15, Rebuttal Evidence, p. 3, A5.

[111] Exhibit B-6, BCUC IR1 15.3.

E. Proposed Common Rates Are Supported by Bonbright Principles

76. The application of Bonbright's eight rate design principles supports FEI's proposed common rate option.

77. Of the eight Bonbright principles, three are not applicable when considering common rates options, including Principles 1 (recovering the cost of service), 3 (price signals that encourage efficient use and discourage inefficient use) and 7 (revenue stability). Below, FEI discusses how the five rate design principles that are applicable in this context support its proposed common rates option.

(a) Principle 2 – Common Rates Result in Fair Apportionment of Costs Among Customers

78. This principle 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.[112]

79. As detailed in Part Two, Section A of this Final Argument, FEFN's 3,400 customers receive the same service from the same utility using the same resources and similar assets as all of FEI's other more than 1 million customers. Moreover, the current disparity in delivery rates between FEFN and the remainder of FEI's customers is not reflective of true regional differences. As amongst other relevant facts, FEFN currently has only two direct employees serving Fort Nelson while the majority of FEFN's operations are performed by FEI resources. 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. Similarly, FEFN's natural gas cost portfolio is managed by FEI and optimized for FEFN; thus, FEFN benefits from FEI's long-term relationships as a large regional buyer of natural gas.[113] In short, FEFN is already integrated with FEI and has been benefiting from this integration by receiving the full support of FEI's resources at a relatively low cost, including through an

[112] Exhibit B-1, Application, p. 61.

[113] Exhibit B-1, Application, Section 4.3.1.2.

optimized gas supply portfolio due to negotiations with suppliers being undertaken by a utility as large as FEI.[114]

80. As detailed in Part Two, Sections B and C of this Final Argument, common rates have been repeatedly endorsed by the BCUC as a fair and appropriate means of allocating costs amongst customers, are supported by government policy, have been applied to all of FEI's other service areas despite regional differences, and are the *de facto* approach to utility ratemaking in this Province and many other jurisdictions. Therefore, common rates are a fair method of apportioning costs amongst all customers of a utility receiving the same service, which includes FEFN.

81. Thus, moving FEFN to common rates with the rest of FEI would be fair and appropriate and supported by Bonbright's principle 2 regarding the fair apportionment of costs among customers.

(b) Principle 4 – Customer Understanding and Acceptance

82. The principle of ease of understandability, administration and rate continuity (i.e., Principle 4), refers to rates that are both easily understood by customers and easily administered by the Company.[115] FEI's proposed common rates option meets this principle.

83. First, FEI's proposed common rates option will require no corporate amalgamation, no change in service, and no change to FEFN's rate structures. The fact that there are no changes of this nature will assist with customers' understanding of the proposed common rates.[116]

84. Second, having a single common rate for both delivery and cost of gas across all of FEI's service areas will improve the ease of understanding for all FEI customers through more consistent rate treatment.[117]

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[114] Exhibit B-1, Application, pp. 22 and 61.

[115] Exhibit B-1, Application, p. 62; Exhibit B-6, BCUC IR1 7.2.

[116] Exhibit B-1, Application, p. 62.

[117] Exhibit B-1, Application, p. 62.

85. Third, FEI's proposal to implement a midstream rate for FEFN customers at 5 percent of FEI's midstream rate, which is a reasonable approximation of FEFN's historical midstream rate, will help with ease of acceptance for FEFN customers. Due to the manner in which FEFN physically receives gas and its proximity to the Fort Nelson plant, FEFN's midstream rates have historically been lower than FEI. This has historically been a key point of FEFN customers' opposition to moving to common rates. FEI's proposal to set FEFN's midstream rates at 5 percent of FEI's midstream rates results in a negligible rate impact to FEFN customers from moving to common commodity rates.[118]

86. Fourth, while bill impacts to FEFN residential customers are a source of opposition to common rates in this proceeding, FEI's proposal to phase-in the impact to FEFN's residential customers ensures that the changes will be gradual and small over a 10-year period, which aligns with the principle of ease of acceptance.[119] The BCUC may choose to lengthen the phase-in period to the extent necessary to achieve any necessary level of mitigation.

(c) Principle 5 – Practical and Cost-effective to Implement

87. FEI's proposed common rate option is practical and efficient to implement and results in reduced regulatory burden. It is also easy to administer and there will be no incremental costs required to implement.[120]

(d) Principle 6 – Rate Stability

88. FEI's proposed common rates option will increase rate stability for FEFN customers. As discussed in Part Two, Section E of this Final Argument, FEFN customers have experienced greater rate volatility compared to FEI. Common delivery rates will help address this rate volatility issue given FEI's much broader customer base to absorb pressures on the revenue requirement, and opportunities within FEI to increase demand, such as through low carbon transportation and global LNG, to offset the impact of decarbonization policies. The proposed phase-in rate rider

[118] Exhibit B-1, Application, p. 62.

[119] Exhibit B-1, Application, p. 62.

[120] Exhibit B-1, Application, p. 62.

also ensures there is no sudden and adverse impact to FEFN residential customers due to the transition to common rates.[121]

(e) Principle 8 – Avoidance of Undue Discrimination

89. FEI's proposed common rates option is not unduly discriminatory or unduly preferential to any customer classes.[122] As detailed in Part Two, Sections B and C of this Final Argument, common rates are supported by government policy, have been repeatedly endorsed by the BCUC as a fair and appropriate means of allocating costs amongst customers, have been applied to all of FEI's other past service areas despite regional differences, and are the *de facto* approach to utility ratemaking in this Province and many other jurisdictions. As such, implementing common rates has been widely accepted as a means of setting rates that does not amount to undue discrimination.

90. FEI's proposed common rates option will result in savings for FEFN's commercial customers, but will cause a rate increase for FEFN's residential customers. However, FEI's proposed phase-in rate rider for FEFN's residential customers mitigates this impact as detailed above.[123]

91. FEI's proposal to set FEFN's midstream rates at 5 percent of FEI's midstream rates maintains FEFN's midstream rates at similar levels to what FEFN customers are paying now, based on the unique gas supply arrangement for FEFN, while having no material impact to FEI's existing non-bypass customers. Setting FEFN's midstream rates at 5 percent of FEI has a cumulative impact of only 15 cents to FEI's average residential customer over a 10-year period if the proposed rate-setting mechanism was implemented in 2011.[124]

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[121] Exhibit B-1, Application, p. 63 and Exhibit B-6, BCUC IR1 15.5.

[122] Exhibit B-1, Application, p. 63.

[123] Exhibit B-1, Application, p. 63.

[124] Exhibit B-1, Application, p. 63.

F. Conclusion on Proposed Common Rates Options

92. FEI submits that its proposed common rates option, including a midstream rate based on 5 percent of FEI's midstream rate for FEFN customers and a 10-year phase-in for residential delivery rates, best meets the key objectives and is supported by Bonbright's rate design principles. FEI submits that its proposed common rate option is just and reasonable and should be approved.

PART FOUR: IMPLEMENTATION OF COMMON RATES

93. FEI proposes to implement its proposed common rates option for FEFN on January 1, 2023, coinciding with FEI's rate change dates for delivery, cost of gas, and midstream charges. The proposed common rates will require changes to FEI's financial schedules and tariff; however, the effort and cost of this implementation is relatively minor. The required implementation measures are described in Section 7.2 of the Application and include the following:[125]

(a) Amalgamation of FEFN's and FEI's gas cost portfolios;

(b) Consolidation of FEFN's rate base and deferral accounts with FEI;

(c) Changes to FEI's capital and O&M under the current MRP to include FEFN's capital and O&M expenses;

(d) Approval of the FEFN Residential Common Rate Phase-in Rate Rider, and to set the actual phase-in rate rider each year in FEI's Annual Reviews;

(e) Changes to the existing FEFN 2021 Revenue Surplus deferral account to facilitate the implementation of the proposed FEFN Residential Common Rate Phase-in Rate Rider; and

(f) Minor amendments to the FEI Tariff and specific rate schedules.

94. The subsections below address the implementation topics explored in IRs.

A. Consolidation of FEFN's Rate Base and Deferral Accounts with FEI

95. FEFN currently has 12 rate base deferral accounts and three non-rate base deferral accounts. In the Application, FEI has described how it proposes to consolidate FEI and FEFN deferral accounts as part of the implementation process for FEFN's transition to common rates.[126] The topics explored in the IRs with respect to FEI's proposed treatment of deferral accounts are discussed in the sections below.

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[125] Exhibit B-1, Application, p. 84.

[126] Exhibit B-1, Application, Section 7.1.4, pp. 78-82.

(a) FEFN 2021 Revenue Surplus Deferral Account Should Be Applied To Mitigate Impacts to FEFN's Residential Customers

96. As discussed in Part Three, Section D of this Final Argument, FEI proposes to phase-in the move to common delivery rates for FEFN's residential customers through the establishment of the FEFN Residential Common Rate Phase-in Rider. Rather than creating a new deferral account, FEI proposed to add the revenue deficiency created due to the phase-in period to the existing FEFN 2021 Revenue Surplus deferral account, which has a forecast balance of $94 thousand at the end of 2022. FEI is also requesting approval to rename the existing FEFN 2021 Revenue Surplus deferral account to the FEFN Residential Common Rate Phase-in deferral account, and to amortize the deferral account balance over the same 10-year period as the proposed FEFN residential phase-in rate rider.[127]

97. As part of its proposed common rates for FEFN, FEI proposes to use the balance in the 2021 FEFN Revenue Surplus deferral account to further mitigate the impacts to FEFN residential customers due to common rates.[128] As also discussed in Part Three, Section D of this Final Argument, it is just and reasonable to apply the Revenue Surplus deferral account balance to minimize the rate increase for FEFN residential customers.[129] Given the savings already available for the commercial customers due to common rates (i.e., for the average RS 2 small and RS 3 large commercial customer, the forecast savings in 2023 are estimated to be $350 and $3,327 per year, respectively), FEI submits that it is equitable to prioritize minimizing the impact to FEFN's residential customers by using the 2021 revenue surplus on FEFN's residential customers rather than allocating the 2021 revenue surplus to all rate classes. Applying the revenue surplus to all customer classes would result in even greater savings for FEFN's commercial customers due to common rates, but would result in a higher negative bill impact to FEFN's residential customers. While longer amortization periods generally import a slight risk of intergenerational inequity, the majority of FEFN's customers who would benefit from a one-time up-front application of the Revenue Surplus deferral account will also benefit from the 10-year application

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[127] Exhibit B-1, Application, p. 81.

[128] Exhibit B-1, Application, pp. 58-59 and 81.

[129] Exhibit B-4, BCUC IR1 10.1; Exhibit B-5, FNDCC-NRRM IR1 6.1; Exhibit B-6, BCUC IR1 30.1, 30.3, and 30.4.

of the Revenue Surplus deferral account balance, with the added benefit of minimizing the rate increases to residential customers in 2023 and subsequent years.[130]

(b) The FEFN Revenue Stabilization Adjustment Mechanism Deferral Account should be Consolidated with FEI's RSAM

98. FEI submits that it is appropriate to consolidate the existing FEFN Revenue Stabilization Adjustment Mechanism (RSAM) deferral account with FEI's existing RSAM deferral account and to refund or recover (depending upon whether there is a credit or debit) the balance of the FEFN RSAM from all FEI customers in 2023 and 2024.[131]

99. While FNDCC and NRRM submitted in final argument on FEI's 2022 delivery rates that a separate account should be maintained with the balance distributed/recovered from only FEFN customers, FEI explained the material downsides of this approach, as follows:[132]

- If the balance at December 31, 2022 is in a debit position, then the entire balance will be recovered from FEFN's customers only as a debit rate rider which will increase the bill impact to FEFN's customers in 2023 (and 2024 if the recovery were to occur over two years). This will be in addition to the bill impact to FEFN's residential customers due to common rates. Furthermore, if FEI's RSAM is in a credit position at that time, then FEFN's customers will miss out on the savings available from FEI's credit RSAM rider.

- The FEFN RSAM rider generally has much higher variation between each year than FEI's RSAM rider, which adds to the rate volatility issue faced by FEFN's customers. For example, FEFN's RSAM rider over the last 12 years has ranged from negative $0.416 per GJ to positive $0.391 per GJ, and between 2020 and 2021, the RSAM rider varied by $0.51 per GJ (equivalent to 288 percent) from positive $0.177 per GJ to negative $0.333 per GJ. In contrast, the variation in FEI's RSAM rider has been smaller, from negative $0.12 per GJ to positive $0.246 per GJ. Therefore, if the remaining balance of FEFN's RSAM deferral

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[130] Exhibit B-4, BCUC IR1 10.1; Exhibit B-5, FNDCC-NRRM IR1 6.1; Exhibit B-6, BCUC IR1 30.1, 30.3, and 30.4.

[131] Exhibit B-1, Application, p. 79.

[132] Exhibit B-9, BCUC IR2 39.1. See also Exhibit B-4, BCUC IR1 5.5 and 27.2 in the 2022 delivery rates portion of the proceeding.

account is recovered from FEFN's customers only, there would likely be more instability in their rates, especially if the variation is unfavourable to FEFN's customers (e.g., a large swing from a credit rider to a debit rider/lower credit rider).

- Returning or recovering the December 31, 2022 balance of FEFN's RSAM deferral account to or from FEFN's customers only is inconsistent with the approach that was approved by Order G-21-14 for the merging of the FEI and FEW RSAM deferral accounts.

100. Therefore, FEI does not consider the approach suggested by FNDCC and NRRM to be in the best interest of customers and submits that it is not appropriate.

B. Changes to FEI's Capital and O&M under the Current MRP to include FEFN's Capital and O&M Expenses

101. As FEFN is not currently operating under a multi-year rate plan (MRP), adjustments to FEI's formula O&M and forecast regular capital expenditures will be required to incorporate FEFN.[133] As part of this Application, FEI is seeking approval of the implementation of common delivery rates, including adding FEFN's forecast 2023 customer count to FEI's forecast 2023 customer count in order to account for the inclusion of FEFN's O&M in FEI's O&M.[134]

102. There are three components of FEI's MRP that will need to be adjusted to incorporate FEFN, as follows:

(a) **Formula O&M Expense:** In order to account for FEFN's O&M as part of FEI's formula O&M, FEI will add FEFN's forecast 2023 customer count to FEI's forecast 2023 customer count, thus incorporating FEFN into the 2023 formula O&M calculation.[135]

(b) **Growth Capital Expenditures**: As FEFN's existing customers do not represent new customer additions to FEI, they would not be added to FEI's gross customer additions forecast for 2023 and therefore no adjustment is required to FEI's growth capital formula. However, any new customer additions forecast for FEFN for 2023 and beyond will be included as part of FEI's forecast 2023 new customer additions (just as FEVI and FEW have been included in the FEI forecast since the move to common rates approved in 2015).[136]

(c) **Sustainment and Other Capital Expenditures**: Assuming that common delivery rates are effective January 1, 2023, FEI will incorporate FEFN's forecast sustainment and other capital expenditures for 2023 and 2024 as part of FEI's updated forecasts for 2023 and 2024 sustainment and other capital, which FEI will

[133] Exhibit B-1, Application, p. 77.

[134] Exhibit B-9, BCUC IR2 38.1.

[135] Exhibit B-1, Application, pp. 77-78.

[136] Exhibit B-1, Application, pp. 78.

be providing as part of its 2023 Annual Review. FEI was directed as part of the MRP Decision to file updated regular capital forecasts for 2023 and 2024 as part of the 2023 Annual Review. If common rates are approved, FEI will include 2023 and 2024 forecasts for FEFN's sustainment and other capital in an evidentiary update in the 2023 Annual Review.[137]

103. FEI is not able to provide the exact one-time adjustment to FEI's Base Unit Cost O&M in 2023, as FEI has not yet developed the 2023 Annual Review forecasts for FEI, including FEI's forecast demand and customer count for 2023 and the net inflation factor which will be used to escalate FEI's formula O&M. However, FEI has illustrated in detail the approach to the calculation in its responses to BCUC IR1 24.1 and BCUC IR2 38.1. As illustrated in these responses, the impact to FEI of amalgamating FEFN's rate base and revenue requirement with FEI, including offsetting revenues from FEFN, is expected to be small, with virtually no impact to FEI's customers. The proposed treatment for 2023 would be calculated using the same method and the BCUC will be able to verify the inputs to that calculation at the time FEI provides its evidentiary update or compliance filing to the 2023 Annual Review.[138]

104. If approved, and depending on the timing of the decision on common rates, FEI will provide an evidentiary update to the Annual Review for 2023 Delivery Rates proceeding with updated financial schedules, or FEI will include the updated financial schedules (and the minimal change to FEI's delivery rates) in the compliance filing to the decision on the 2023 Annual Review. This approach is consistent with how FEW's and FEVI's O&M and capital expenditures were incorporated into FEI's Base O&M and capital under the 2014-2019 PBR Plan.[139]

[137] Exhibit B-1, Application, p. 78; Exhibit B-9, BCUC IR2 32.1 and 38.1.
[138] Exhibit B-6, BCUC IR1 24.1 and Exhibit B-9, BCUC IR2 38.1.
[139] Exhibit B-9, BCUC IR2 32.1 and 38.1.

PART FIVE: FEI'S CONSULTATION WAS REASONABLE AND RESPONSIVE TO CUSTOMER REQUESTS

105. This Part discusses how FEI's consultation on the Application was reasonable and appropriate, and how the regulatory process has provided the opportunity for stakeholders to fully participate in the review of the Application and file their comments for the BCUC's consideration.

A. FEI Consultation with Stakeholders has been Reasonable and Appropriate

106. FEI described the steps of its consultation process in the Application,[140] and summarized it as follows in its Rebuttal Evidence:[141]

> FEI has engaged with FEFN stakeholders throughout this Application process and, in particular, during the Application development process. FEI's Community and Indigenous Relations Manager contacted stakeholders in Fort Nelson, including FNDCC, as early as October 2020 to advise that FEI was in the process of developing a common rates application and to discuss the potential for holding a town hall. At that time, FEI was considering hosting an in-person town hall in Fort Nelson; however, due in part to the occurrence of the "second wave" of the COVID-19 pandemic and the resulting increased provincial restrictions, FEI decided to delay the town hall to provide time to assess virtual options and to continue to develop the application.
>
> For the originally scheduled March 30, 2021 town hall, FEI advertised through newspaper (Fort Nelson News and Alaska Highway News) and radio (CKRX-FM 102.3). FEI acknowledges that it could have contacted members of the FNDCC and NRRM earlier to request assistance with getting the word out for the virtual town hall. However, once it was clear that the March 30 virtual town hall had received limited registration, FEI rescheduled the town hall to April 27 and increased its media outreach as well as reaching out to members of the Fort Nelson community to assist with the outreach. For the re-scheduled town hall, FEI doubled its radio coverage, re-ran newspaper ads in the Fort Nelson News and Alaska Highway News, and promoted the town hall over social media. Further, FEI forwarded the details of the re-scheduled virtual town hall to FNDCC and to the Fort Nelson First Nation to help get the word out to the community. Fort Nelson First Nation confirmed via email to FEI on April 21, 2021 that they had received the information and had posted it on their Facebook page.

[140] Exhibit B-1, Application, Section 6.

[141] Exhibit B-15, Rebuttal Evidence, A19, pp. 10-12.

Leading up to the virtual town hall, FEI responded to a number of requests from FNDCC for information on FEI and FEFN rates (see Appendix 2 of FNDCC's evidence, email thread spanning from April 19 to April 22).

Subsequent to the town hall, FEI continued to engage with FNDCC through email and, at the request of FNDCC, members of the FEI regulatory team met with FNDCC virtually to answer questions about the information presented at the town hall.

FEI also responded directly to a customer question received via email subsequent to the town hall (see Appendix A to this Rebuttal Evidence), and responded to a request for information from the Regional Development Officer for NRRM. FEI notes that this email thread was not included in NRRM's Evidence; therefore, FEI has included this email thread as Appendix B. FEI also notes, as shown in Appendix C, that FEI's Community and Indigenous Relations Manager re-iterated its offer to make a separate presentation to the Regional Council, which the Regional Council accepted.

FEI also presented and responded to questions at a Fort Nelson First Nation Chief and Council meeting.

Throughout this engagement process, FEI has responded with as much information and detail as possible, recognizing that the common rates application was still under development and that any information provided in advance of the application would potentially be subject to modifications (which is why FEI was unable to provide all of the detailed information requested).

FEI acknowledges that it neglected to inform FNDCC immediately when the Application was filed. However, in recognition of this oversight and in an attempt to help summarize the Application's content, FEI regulatory staff prepared a one-page summary of the Application specifically for FNDCC at its request (see Appendix C2 of NRRM's Evidence).

The email received from NRRM on September 29, 2021 which stated that the information provided by FEI at the Regional Council Meeting did not satisfy the question posed, occurred months after the meeting and, most importantly, subsequent to the regulatory process being established by the BCUC for the Application. At that time, and as stated in FEI's response dated October 7, 2021 (see Appendix C2 of NRRM's Evidence), FEI did not consider it appropriate to provide information of the specificity requested outside of the regulatory process, as such information would not be part of the regulatory proceeding record and thus would not be part of the public record.

107. FEI presented the rate impacts of common rates as part of its presentations at the virtual town hall, the Regional Council meeting, and at the Fort Nelson First Nation Chief and Council meeting. These presentations showed that common rates would result in an increased bill impact for FEFN residential customers. The rate impacts to residential customers are the only negative impact of common rates and the impacts were fairly presented.[142]

108. FEI encouraged attendees of the town hall to provide feedback through an online survey.[143] The questions and comments posted to the online survey were incorporated into FEI's Application and were used as part of an FAQ posted on FEI's webpage for the Application.[144] FEI's webpage dedicated to the Application went live on February 26, 2021, and provided: details of the Application and the BCUC process; benefits of common rates to Fort Nelson customers; information on how to participate in the virtual town hall session; a link to provide feedback through an online survey; and a dedicated email.[145]

109. FEI has been and remains open to hearing from stakeholders and adjusting its proposal for common rates.[146]

B. FEI's Virtual Town Hall was an Appropriate Alternative to an In-Person Town Hall Meeting and Had a Reasonable Attendance

110. FEI held a virtual town hall on April 27, 2021, which was a successful alternative to an in-person town hall meeting. FEI advertised the meeting in the only two newspapers that cover Fort Nelson locally ahead of both the original virtual town hall on March 30 and the re-scheduled virtual town hall on April 27, 2021. FEI promoted the virtual town hall over social media and provided details to FNDCC and the Fort Nelson First Nation to enable more direct outreach to individual members of the community of the re-scheduled April 27 virtual town hall.[147] FEI also ran 30-second advertisements on CKRX-FM 102.3 (or Bounce 102.3), which is the sole radio

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[142] Exhibit B-15, Rebuttal Evidence, A20, p. 12.

[143] Exhibit B-15, Rebuttal Evidence, A23, p. 13.

[144] Exhibit B-1, Application, Sections 6.3.3.1 and 6.3.3.2; Exhibit B-15, Rebuttal Evidence, A23, p. 13.

[145] Exhibit B-1, Application, p. 68.

[146] Exhibit B-15, Rebuttal Evidence, A22, p. 13.

[147] Exhibit B-15, Rebuttal Evidence, A19, p. 11.

station in the Fort Nelson area. The 30-second radio spot advertised the virtual town hall and invited feedback from Fort Nelson customers. FEI's media outreach was effective. For example, FNDCC learned of FEI's virtual town hall from an evening radio ad.[148]

111. Other methods of advertising the virtual town hall, such as bill payments and direct emails to customers, would not have been appropriate or practical.[149] FEI states in its Rebuttal Evidence regarding bill inserts:[150]

> Regarding bill inserts, FEI did not use this method to promote the virtual town hall due to the lead-time required to create the bill inserts. Since not all customers receive their bills on the same date, in order to ensure all FEFN customers receive the bill inserts prior to the virtual town hall, the bill inserts would need to be created two months prior to ensure the inserts were in the bills one month prior to the town hall. For example, in order to include bill inserts in customers' bills prior to the original March 30 virtual town hall, the bill inserts would have had to have been created in January. Such an approach would have been impractical for two reasons. First, FEI was still developing the Application at that time and had not yet confirmed the date and time for the virtual town hall, so it would not have been possible for FEI to confirm the date and time of the virtual town hall as early as January. Second, including bill inserts over two months prior to the virtual town hall would have lessened the timeliness of the information as many customers would likely have forgotten about the virtual town hall by the time the event was scheduled to occur. Additionally, FEI notes that had it used bill inserts to promote the original March 30 virtual town hall, FEI would have had very limited ability to reschedule to April 27 due to low registration since there would not be enough lead time to redo the bill inserts to inform FEFN customers of the revised date.

112. As FEI does not have consent from customers to use email addresses for this purpose, advertising through direct emails would violate the *Personal Information Protection Act* (PIPA).[151]

[148] Exhibit B-1, Application, pp. 68-69; Exhibit B-15, Rebuttal Evidence, A18, p. 10.

[149] Exhibit B-15, Rebuttal Evidence, A18, p. 10; Exhibit B-19, FNDCC-NRRM IR1 2.1 on FEI's Rebuttal Evidence.

[150] Exhibit B-15, Rebuttal Evidence, A18, p. 10.

[151] Exhibit B-15, Rebuttal Evidence, A18, p. 10.

113. The virtual town hall had 75 registrants and 17 attendees.[152] It was better attended than FEI's previous in-person town halls as part of FEI's 2016 Rate Design Application[153] and FEI's 2012 Amalgamation and Common Rates Application.[154]

114. Overall, FEI submits that it utilized appropriate channels to ensure that FEFN customers were apprised of the virtual town hall, and that the virtual town hall was relatively well attended.

C. FEI's Proposed Common Rate Option Responded to Stakeholder Feedback

115. The development of FEI's proposed common rates options demonstrates that FEI has considered stakeholder feedback. FEI's proposal to mitigate impacts to residential customers was developed in response to the feedback received from stakeholders at the virtual town hall. FEI explained:[155]

> 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.

116. One of the primary concerns of FEFN customers was recognition of their proximity to the supply of natural gas. FEI has developed the midstream rate at 5 percent of FEI's midstream rate to address this concern.[156] FEI has also proposed a 10-year phase-in period to mitigate bill

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[152] Exhibit B-1 Application, p. 68; Exhibit B-15, Rebuttal Evidence, A16, p. 9.

[153] Exhibit B-15, Rebuttal Evidence, A16, p. 9.

[154] Exhibit B-19, FNDCC-NRRM IR1 1.1 on FEI's Rebuttal Evidence.

[155] Exhibit B-7, FNDCC-NRRM IR1 19.1.

[156] Exhibit B-15, Rebuttal Evidence, A22, p. 13.

impacts to FEFN residential customers due to the proposed common delivery rates. This phase-in period is forecast to result in a reduced bill impact compared to the status quo in 2023, and an annual bill impact thereafter of $17 dollars.[157]

117. Due to the fact that the proposed common rate option was developed in response to the virtual town hall and the Regional Council meeting, this option was not presented in its final form as submitted in the Application. However, FEI presented options that were very similar at both the virtual town hall and at the Regional Council meeting.[158] FEI submits that this demonstrates an effective public consultation process, whereby the design of the Application took into consideration the feedback received through public consultation. Ultimately, this regulatory proceeding has provided ample opportunity for further public feedback and comment upon the proposal.[159]

D. FEI Solicited feedback from First Nations in the Fort Nelson Service Area

118. FEI engaged with the two Indigenous groups in the Fort Nelson service area – Fort Nelson First Nation and Prophet River First Nation. FEI offered to provide separate presentations to both First Nations. Fort Nelson First Nation invited FEI to provide a virtual presentation on May 18, 2021. FEI considered and responded to the questions raised by the Chief and Council during the presentation.[160] FEI has explained how the proposed common rate option addresses the concerns addressed by the Fort Nelson First Nation Chief and Council raised during the May 18, 2021 presentation.[161] Upon filing of the Application, FEI also emailed direct copies of the Application to the Fort Nelson First Nation and Prophet River First Nation and offered to provide more information.[162]

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[157] Exhibit B-6, BCUC IR1 15.5.

[158] Exhibit B-6, BCUC IR1 18.1; Exhibit B-15, Rebuttal Evidence, A21, pp. 12-13.

[159] Exhibit B-15, Rebuttal Evidence, A21, p. 13.

[160] Exhibit B-1, Application, pp. 73-74.

[161] Exhibit B-6, BCUC IR1 21.1.

[162] Exhibit B-6, BCUC IR1 20.1.

E. FEI Provided Reasonable notice of the Filing of the Application

119. FEI submits that all stakeholders had sufficient notice of the fact that the proceeding had been established in order to intervene or otherwise participate in the proceedings. As directed by the BCUC in Order G-277-21, FEI published the Public Notice in display-ad format in the Fort Nelson News and Alaska Highway News, publishing notice on FEI's Twitter, LinkedIn and Facebook social media platforms, and emailed copies of the Application to all registered interveners from FEI's Annual Review for 2022 Rates and the FEFN 2019-2020 RRA proceedings, including FNDCC, NRRM, Fort Nelson First Nation, and Prophet River First Nation.[163] FEI submits that this notice was sufficient and reasonable.

F. This Extensive Regulatory Proceeding has Provided Ample Opportunity for Public Participation, Review and Comment

120. FEI submits that this regulatory proceeding has provided ample opportunity for stakeholders to participate in the review of, and provide comments on, FEI's Application. In addition to the first phase of the process on FEFN's 2022 revenue requirements, this proceeding has consisted of two rounds of IRs on Common Rates, Intervener Evidence with IRs, and Rebuttal Evidence with further IRs. In addition to the Residential Consumer Intervener Association (RCIA), FNDCC and NRRM have fully participated in this proceeding, each claiming to represent the interests of businesses and residents in Fort Nelson.[164] All stakeholders have had the opportunity to file letters of comment, which residents of Fort Nelson have recently done on June 1.[165] FNDCC and NRRM will also have the opportunity to make arguments in this proceeding. Therefore, there has been ample opportunity afforded to stakeholders to comment on, and fully participate in the BCUC's review of, FEI's Application.

PART SIX: CONCLUSION

121. FEI respectfully submits that its proposed common rates are just and reasonable, and should be approved as filed. On pages 4 to 6 of the Application, FEI has set out the approvals

[163] Exhibit B-15, Rebuttal Evidence, A24, p. 14.

[164] Exhibit C1-1 and Exhibit C2-1.

[165] Exhibit E-1.

sought to amalgamate FEFN's gas supply portfolio costs with FEI's Midstream Cost Reconciliation Account (MCRA) and implement common delivery rates for FEFN with FEI. A draft final order is included as Appendix F-3 of the Application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: June 10, 2022

[original signed by Chris Bystrom]
Chris Bystrom
Counsel for FortisBC Energy Inc.