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July 15, 2022

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

Attention: Ms. Sara Hardgrave, Acting Commission Secretary

Dear Ms. Hardgrave:

Re: FortisBC Energy Inc. (FEI)

Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application) ~ Project No. 1599246
FEI Written Reply Argument on Common Rates

In accordance with the regulatory timetable set out in British Columbia Utilities Commission (BCUC) Order G-150-22 for the above referenced proceeding, we enclose for filing the Reply Argument of FortisBC Energy Inc. on common rates for the Fort Nelson Service Area, dated July 15, 2022.

In the BCUC letter dated July 8, 2022 (Exhibit A-17) the BCUC invited submissions from parties by Tuesday, July 19, 2022, on whether supplemental final argument is required regarding the Letter of Comment from BC Stats (BC Stats Letter) which was accepted into the evidentiary record for the proceeding by Order G-186-22.

FEI makes the following submissions regarding the BC Stats Letter in advance of the July 19, 2022 deadline to allow interveners to take them into account as they prepare their own submissions.

The BC Stats Letter was admitted on the public proceeding record and related to points made by the Fort Nelson & District Chamber of Commerce and Northern Rockies Regional Municipality (FNDCC-NRRM) in their final argument. FEI has incorporated its comments on the BC Stats Letter in our attached Reply Argument. Please refer to paragraphs 84 to 90 of FEI's Reply Argument.

If FNDCC-NRRM or the Residential Consumer Intervener Association (RCIA) wish to file submissions, FEI proposes that FNDCC-NRRM and RCIA provide their submissions on the BC Stats letter by Friday, July 22, 2022. While interveners may respond to FEI's submissions

on the BC Stats Letter, we submit that their submission should refrain from comments on other aspects of FEI's Reply Argument.

FEI further proposes that it will provide a reply to the intervener submissions on the BC Stats Letter, if needed, by Wednesday, July 27, 2022.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Registered Interveners

British Columbia Utilities Commission

FortisBC Energy Inc.

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

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

July 15, 2022

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PART ONE: INTRODUCTION

1. In this Reply Argument, FortisBC Energy Inc. (FEI) responds to the final arguments of interveners regarding the common rates portion of FEI's Application for Common Rates and 2022 Revenue Requirements for the Fort Nelson Service Area (Application). FEI filed its final argument regarding common rates for the Fort Nelson Service Area (FEFN) on June 10, 2022.

2. The Residential Consumer Intervener Association (RCIA) filed its final argument regarding common rates on June 29, 2022. RCIA supports FEI's proposal to implement common rates for FEFN, with a 20-year phase-in period. FEI is amenable to a 20-year phase-in period.

3. The Fort Nelson and District Chamber of Commerce (FNDCC) and Northern Rockies Regional Municipality (NRRM) (together, FNDCC-NRRM) filed their Final Argument on June 30, 2022. FNDCC-NRRM opposes FEI's Application, arguing that FEI has not established that its proposed common rates are just and reasonable. At root, FNDCC-NRRM's position is that common rates are not fair because they would result in increases to residential delivery rates in Fort Nelson. However, FNDCC-NRRM's estimation that it would be better off with the status quo, despite the benefits of common rates, does not reflect the consideration of a broad, system-wide, and policy-informed view of fairness and other factors that is required in this case. Despite FNDCC-NRRM's views, FEFN is part of a much larger body of customers served by the same utility and part of a Province that has a long-standing policy in favour of postage stamp rates that has informed rate setting in this Province for decades. FEFN customers are not exempt from these principles and policies, just as they are not exempt from the impacts of climate change and the Province's decarbonization policies.

4. While FNDCC-NRRM harkens back to the days when it was once served by a separate utility, FEFN has been a service area of a much larger gas utility since 1987¹ and over the past 35 years has significantly benefited from this ownership structure in numerous ways. Like Fort Nelson, every one of the 136 communities served by FEI across the Province could claim to have "independent" infrastructure used to serve it and a unique cost of service based on its location.

¹ Exhibit B-1, Application, p. 10.

FEI's distribution system outside of Fort Nelson is not an interconnected web as FNDCC-NRRM suggests, but in many locations consists of laterals off the Enbridge pipeline and distribution mains, that together serve customers in other communities in the same way that Fort Nelson is served. While FEFN is no different with respect to the service it receives and the type of infrastructure used to provide it, FEFN is unique in that it is the only community served by FEI that has location-based rates.

5. While FEFN has long enjoyed the benefits of being part of a larger utility with favourable cost allocation results, FEFN's rates have also been volatile, its commercial delivery rates are now higher than FEI's commercial delivery rates, its residential delivery rates are also rising, and FEFN is experiencing a steadily decreasing decline in natural gas demand. FEFN's customer base is also so small that it cannot bear the costs of modern regulation without experiencing material rate increases, making it difficult to justify undertaking regulatory studies and processes and making it necessary to rely on studies and determinations for FEI. Moving to common rates will bring long-term rate stability, achieve regulatory efficiencies, decrease rates for commercial customers, and, most of all, increase fairness as FEFN customers will have rates set on the same basis as the rest of FEI's customers.

6. FEI responds to FNDCC-NRRM and a few of the comments made by RCIA below, organized around the following key points:

- FEI's proposed common rates are supported by a consideration of Bonbright Principles in the context of the legal framework and government policies.
- BCUC precedent supports common rates for FEFN.
- FEFN is similar to many other communities served by FEI.
- FEFN's delivery rates are reasonably forecast to continue to trend upwards due to declining demand and other factors.
- FEI's consultation was reasonable, and this proceeding has provided multiple opportunities for public participation in the review of FEI's Application.
- FEI agrees to some, but opposes other of the relief sought by FNDCC-NRRM in the event common rates are approved or denied.

7. FEI notes that it has endeavoured to address the main issues raised by interveners and silence on any particular point should not be taken as agreement.

PART TWO: COMMON RATES ARE SUPPORTED BY A CONSIDERATION OF BONBRIGHT PRINCIPLES
IN THE LEGAL AND POLICY CONTEXT

8. FNDCC-NRRM submits that there are three primary Bonbright criteria for assessing a proposed rate design, and that “fairness to FEFN’s ratepayers should be paramount” while “[m]atters related to rate stability, regulatory efficiency, and provincial policy should be secondary considerations”. Moreover, FNDCC-NRRM’s submissions on rate stability, regulatory efficiency and provincial policy, as well as rate impact mitigation, would give these considerations little, if any, weight in the BCUC’s analysis. FEI submits that FNDCC-NRRM’s approach is misguided for the following reasons:

- (a) The Bonbright principles need to be considered and weighed in consideration of the circumstances of each case.
- (b) The Bonbright principles need to be considered in the context of the legal framework and government policies, which entails a broad, system-wide view of fairness.
- (c) Considerations of regulatory efficiency, rate stability and government policy, as well as rate impact mitigation, are important factors in the circumstances that need to be afforded significant weight in the BCUC’s decision.

A. The Relevance and Weight of Bonbright Principles Will Vary with the Circumstances

9. First, FNDCC-NRRM’s approach to balancing the Bonbright principles is too rigid. FEI’s description in its Application of the Bonbright Principles and how they should be applied is consistent with FEI’s past applications and with BCUC Decisions. As stated in the Application, FEI does not apply the eight principles above in any priority or with any particular weighting; however, different rate design principles may have varying levels of importance in different contexts. FEI therefore applies its experience and judgment to consider and balance the most relevant principles in a given context.² In the context of this Application, the principles FEI considers most relevant to are:³

- Principle 2: Fair apportionment of costs among customers;

² Exhibit B-1, Application, p. 60.

³ Exhibit B-1, Application, p. 60.

- Principle 4: Customer understanding and acceptance;
- Principle 5: Practical and cost-effective to implement;
- Principle 6: Rate stability; and
- Principle 8: Avoidance of undue discrimination.

10. The BCUC's decisions on FEI's and BC Hydro's most recent comprehensive rate designs illustrate that FEI's approach is sound.

11. In the BCUC's Decision on FEI's 2016 Rate Design Application, which was FEI's most recent comprehensive rate design, the BCUC accepted FEI's approach⁴ and described how the Bonbright principles should be considered and applied (at pages 5-6):⁵

The Panel finds that FEI, Elenchus and interveners are generally aligned with respect to following a principled approach for the development and approval of rate design proposals. This approach is consistent with industry practice which is outlined in Elenchus' statement:

It is generally accepted by regulators and regulated utilities that any utility's cost of service allocation methodology and approach to rate design should be based on a set of clearly enunciated principles. These principles then guide the work that is undertaken to allocate assets and expenses to customer groups appropriately and establish rates that recover those costs from customers in a manner that is consistent with the principles. The most commonly used reference for defining

⁴ FEI's approach was described as follows at page 4 of the Decision: "FEI states that it does not apply these eight principles 'in any priority or with any particular weighting'. FEI elaborates that rate design is a complex balancing process of weighing multiple and sometimes conflicting principles as well as considering the viewpoints from various stakeholders. FEI explains that different rate design principles may have varying levels of importance in different contexts and this requires the application of experience and judgment to consider and balance the most relevant principles in a given context. FEI states that 'rate design should strive to strike a balance among competing rate design principles based on specific characteristics of customers in each rate schedule'. FEI elaborates that rate design is a complex balancing process of weighing multiple and sometimes conflicting." BCUC Decision and Order G-135-18, dated July 20, 2018, FortisBC Energy Inc. 2016 Rate Design Application. Online: https://docs.bcuc.com/Documents/Proceedings/2018/DOC_52063_2018-07-20_FEI-RDA-Decision-and-Order-G-135-18.pdf

⁵ BCUC Decision and Order G-135-18, dated July 20, 2018, FortisBC Energy Inc. 2016 Rate Design Application. Online: https://docs.bcuc.com/Documents/Proceedings/2018/DOC_52063_2018-07-20_FEI-RDA-Decision-and-Order-G-135-18.pdf

the objectives in utilities' cost of service allocation and rate design is the seminal work of James Bonbright.

Further, the Panel finds the application of these principles should also be considered within the context of the legal framework and government policies.

The Panel agrees with FEI that different rate design principles may vary in importance in different circumstances. The relevance and weight given to principles will vary with the circumstances and context of a specific rate design proposal. Further, the Panel acknowledges Elenchus' statement:

It is inevitable that in applying these principles, conflicts arise in trying to apply all of the principles simultaneously. An allocation that is more equitable may well compromise economic efficiency or simplicity. Determining the optimal trade-offs between the principles in developing rates therefore requires judgment. For this reason, cost of service allocation and rate design are often referred to as being as much art as science.

12. The BCUC made similar determinations in its Decision on BC Hydro's 2015 Rate Design Application, where the BCUC considered BC Hydro's prioritization of the Bonbright principles in that Application. As indicated in the quote below, the BCUC again indicates how the prioritization of principles may change and emphasizes the role of government policy in applying the principles:⁶

The Panel understands that BC Hydro's intent in prioritizing the Bonbright principles is a reflection of the utility's situation at the time of this rate design proceeding. The Panel agrees that prioritization can be expected to change over time as circumstances change and current government policy and other factors underpin the need for reprioritization of the principles in this instance. The change in the province's forecast need and self-sufficiency requirements, the reduced LRMC (as discussed in section 2.1 of this decision), certain government policy statements and its focus on conservation rates, and changing customer expectations and understandings all need to be reflected in prioritizing Bonbright principles. [Emphasis added.]

⁶ British Columbia Hydro and Power Authority 2015 Rate Design Application, Decision and Order G-5-17, January 20, 2017, p. 14. Online: https://docs.bcuc.com/Documents/Proceedings/2017/DOC_48618_01-20-2017_G-5-17_BCH-2015-RDA-Decision-WEB.pdf

13. Thus, the eight Bonbright principles serve as a guide or objectives to ratemaking, with the relevance and weight of the principles varying with the circumstances. Further, the Bonbright principles should be considered in the context of the legal framework and government policies.

B. Bonbright Principles to be Applied in Legal and Policy Context, Requiring Broad System-Wide Perspective

14. Second, FNDCC-NRRM's application of Principle 2 (fair apportionment of costs) is focussed too narrowly on its view of the interests of FEFN customers alone.⁷ As explained above with respect to the BCUC's past decisions on rate design, the Bonbright principles need to be applied in the context of the legal framework and government policies, which requires a broader system-wide perspective. In the context of this Application, this is especially relevant for the BCUC's consideration of Principle 2 (fair apportionment of costs).

15. The importance of considering Principle 2 (fair apportionment of costs) in the context of the legal framework and government policies is exemplified in the BCUC's reconsideration decision approving the amalgamation and implementation of common rates for FEI, FortisBC Energy (Vancouver Island) Inc. (FEVI) and FortisBC Energy (Whistler) Inc. (FEW) (Reconsideration Decision). In the BCUC's summary of its conclusions, it emphasized how it considered the issues of "fairness" and "public policy" from a broad, system-wide perspective (at p. 18):⁸

In summary, in the context of an amalgamated entity with new evidence concerning regulatory efficiency and public policy, the Panel reconsidered the issues of "fairness" and "public policy" from a broad, system wide perspective. Using the lens of a broader public interest perspective and in light of its conclusion that amalgamation of the FEU is in the public interest, the Commission Panel is persuaded that postage stamp rates are consistent with regulatory efficiency. The Commission Panel also finds that postage stamp rates will promote

⁷ E.g., FNDCC-NRRM Final Argument, p. 6 and especially p. 25: "the justification for common rates should depend on an assessment of both the likely short-term and the anticipated long-term rate impacts of FEI's proposal on FEFN's ratepayers."

⁸ FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.) Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application, Decision and Order G-21-14, dated February 26, 2014, p. 18.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>

rate stability over the longer term, as the issues relating to potential future rate shock on Vancouver Island will be eliminated. The Panel further finds that the ability to allocate all costs over the larger ratepayer base will improve rate stability for ratepayers as a whole, and therefore finds that postage stamp rates are appropriate in this instance.

16. As indicated by the Panel, the issues of “fairness” and “public policy” should be reviewed from a broad system-wide perspective. From that perspective, the BCUC must consider the Application from the perspective of FEI as a whole and all FEI customers. FEFN has been a service area of a much larger utility for over 30 years and is fully integrated within FEI. In this context, FEFN’s current regional rate structure is logically inconsistent with the rates approved for the rest of FEI, and at odds with government policy in favour of postage stamp rates that has resulted in postage stamp rates being the dominant approach to public utility ratemaking in the Province. As stated by the BCUC in the Reconsideration Decision (at p. 19):⁹

The Commission Panel agrees there would appear to be a logical inconsistency in maintaining regional rates for Fort Nelson. ...The FEU may want to address this apparent inconsistency in its next rate design application.

17. For this reason, and as further discussed on pages 36 to 37 of FEI’s Final Argument, the application of common rates to FEFN is an improvement to the fairness of cost allocation.¹⁰

18. Also key here is the BCUC’s determination in the Reconsideration Decision that “fairness in terms of rate design can be achieved without the requirement of maintaining regional rates in the first instance.”¹¹ In this statement, the Panel was recognizing that existing regional rates are not the “yardstick” for fairness. Regional rates and postage stamp rates are both cost-based rates. The difference between the two is only the scale at which the location is recognized in the cost allocation. From a broad system-wide perspective and in the context of government policy,

⁹ Reconsideration Decision, p. 19.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>

¹⁰ Exhibit B-1, Application, p. 61.

¹¹ Reconsideration Decision, p. 16.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>

postage stamp rates are the most accepted method of cost allocation based on cost causation, and achieve a fair apportionment of costs.

19. In reply to RCIA's comment that FEI has at times misinterpreted Bonbright's principle 2,¹² FEI clarifies that its point is that, while both regional and common rates would be based on cost causation, common rates would improve the fair apportionment of costs and would increase fairness for all FEI customers because:

- the logical inconsistency of retaining regional rates for FEFN would be resolved, as all FEI customers would be served under common rates;
- FEFN customers are currently being subsidized by FEI customers¹³ and benefit significantly from being part of a larger utility;¹⁴ and
- common rates better reflect that FEFN is fully integrated into FEI (e.g., FEFN customers receive the same service from the same utility with the same resources and similar assets).

20. Therefore, contrary to FNDCC-NRRM's submissions, a consideration of Bonbright Principle 2 (fair apportionment of costs) strongly favours transitioning FEFN to common rates whereby all customers within the same rate class will receive the same level of service regardless of their location.¹⁵

C. Rate Stability, Regulatory Efficiency, Public Policy and Rate Mitigation are Important Considerations that should be Given Significant Weight

21. Third, FNDCC-NRRM's consideration of regulatory efficiency, rate stability, public policy and rate mitigation is inappropriate as it gives them little to no weight, undermining the balancing of the Bonbright principles. The importance of principles beyond the fair apportionment of costs has been emphasized by the BCUC in past decisions. For example, in Letter No. L-24-04, the BCUC rejected a complaint from the District of Chetwynd and upheld FEI's postage stamp rates.¹⁶ In

¹² RCIA Final Argument, p. 9.

¹³ Exhibit B-6, BCUC IR1 8.3.

¹⁴ Exhibit B-1, Application, p. 22.

¹⁵ FEI Final Argument, para. 78.

¹⁶ BCUC Letter No. L-24-04, dated April 23, 2004.

the letter, as quoted below, the BCUC described how administrative simplicity, stability and understandability are important considerations when setting rates:¹⁷

Allocating the total cost of service among the different ratepayers so as to avoid arbitrariness and cross-subsidization is important, but not the only factor to be considered when determining the reasonableness of rates. Other important factors include administrative simplicity, understandability and stability of rates.

...

The Commission is not persuaded that the cost of service analysis provides sufficient justification to require Terasen Gas to amend the rates to the District of Chetwynd. As noted above, there are other important considerations to consider when setting rates such as administrative simplicity, stability and understandability. To set a rate for a single municipality or district raises serious issues about how far the boundaries of the rates should extend, and how the utility would adjust rates for other customers if the rates to one district were changed. The appropriate forum for considering the rates charged to various customer classes (whether those classes are defined by geographic area or by customer characteristics) is within a rate design hearing so that other affected customers may respond, as well as the utility. Therefore, the Commission dismisses Chetwynd's complaint.

22. The BCUC's Decision on BC Hydro's 2015 Rate Design Decision also illustrates, at a high level, how the BCUC has reinforced the importance of balancing all relevant Bonbright principles. In that case, BC Hydro prioritized principles other than efficiency. The BCUC's response at a high level was as follows:¹⁸

The Panel also agrees with BCSEA and BC Hydro that reprioritization of the Bonbright principles does not equate to abandonment of the efficiency criterion. For example, the Panel notes that one of the reasons BC Hydro maintains the RIB rate as status quo is because the rate structure appears to be achieving its overall objective of encouraging conservation through customer response to higher marginal prices at the Step 2 energy rate. In the Panel's view, in assessing the rate design proposals for the various customer classes it is important to consider the efficiency criterion in balance with other principles. [Emphasis added.]

¹⁷ BCUC Letter No. L-24-04, dated April 23, 2004.

¹⁸ British Columbia Hydro and Power Authority 2015 Rate Design Application, Decision and Order G-5-17, January 20, 2017, p. 14. Online: https://docs.bcuc.com/Documents/Proceedings/2017/DOC_48618_01-20-2017_G-5-17_BCH-2015-RDA-Decision-WEB.pdf

23. The BCUC's due consideration of relevant criteria is in line with the legal framework. When setting rates, subsection 60(1) of the UCA states that the BCUC "must consider all matters it considers proper and relevant affecting the rate" [emphasis added]:

60 (1) In setting a rate under this Act

(a) the commission must consider all matters that it considers proper and relevant affecting the rate,

24. Section 60(1)(a) confers on the BCUC a discretion to determine the matters which it deems proper for consideration. The considerations of the BCUC when setting rates must therefore adapt to what is proper and relevant to the specific circumstances before it. However, section 60(1)(a) requires that the BCUC *must* consider such matters.

25. In the subsections below, FEI responds to FNDCC-NRRM's specific submissions on regulatory efficiency, rate stability and government policy, as well as mitigation of rate impacts.

(a) Regulatory Efficiency

26. FNDCC-NRRM's submissions on regulatory efficiency view the benefits of regulatory efficiency solely from the perspective of FEFN customers, with FNDCC-NRRM submitting that regulatory efficiencies should not "override the adverse rate impacts of the proposal for FEFN's residential customers..."¹⁹ In reply, FEI submits that it is important to give due consideration to each relevant factor in the overall balancing of factors in the context of the legal framework and government policies.

27. FEI submits that the ongoing costs of regulatory proceedings are material and need to be given significant weight. FEFN's external regulatory costs are shown in Table 5-1 of the Application, ranging from approximately \$20 to \$75 thousand per proceeding. These incremental regulatory proceeding costs for FEFN have been one of the main contributing factors to delivery rate increases over the years, contributing an average of 1.78 percent to the average delivery rate increases.²⁰ In addition, FEI estimates that the total internal regulatory costs

¹⁹ FNDCC-NRRM Final Argument, pp. 39-40.

²⁰ Exhibit B-1, Application, p. 40.

between 2018 and 2022 range from a low of approximately \$65 thousand in 2019 and a high of \$181 thousand in 2021.²¹ Regulatory costs are a material cost for FEFN and a significant contributing factor to FEFN rate increases.

28. Furthermore, FNDCC-NRRM's dismissal of the benefits of regulatory efficiency are inconsistent with the BCUC's past consideration of this topic. Notably, in the BCUC's Reconsideration Decision, the BCUC reasoned that postage stamp rates would improve regulatory efficiency (at p. 16):²²

The Panel accepts that regulatory efficiency may be achieved with both amalgamation and postage stamp rates. Amalgamation may support regulatory efficiency by reducing the number of applications before the Commission. Postage stamp rates may support regulatory efficiency by eliminating the exercise in judgment required to allocate costs on a utility-by-utility basis where there are numerous shared facilities. The Panel notes that many of the arguments of the participants respecting regulatory efficiency considered amalgamation and postage stamp rates collectively.

The Panel accepts BCPSO's argument that fairness in terms of rate design can be achieved without the requirement of maintaining regional rates in the first instance.

The Panel finds that in the circumstances of this case, where there is considerable interdependency among the Utilities comprising the FEU, there is significant judgment required for cost allocation, and there are additional applications made necessary by the existence of three separate utilities, regulatory efficiency will be improved through both amalgamation and postage stamp rates.

29. Ultimately, the BCUC Panel was persuaded that postage stamp rates were consistent with regulatory efficiency, and this was a key factor in the BCUC's reasons for approving common

²¹ Exhibit B-6, BCUC IR1 8.3.

²² Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>

rates.²³ Similarly, in the context of this Application, common rates will reduce regulatory burden and costs,²⁴ which is a benefit that FEI submits should be given significant weight by the BCUC.

30. Related to this topic, FNDCC-NRRM submits that FEI's claims of cross subsidy of FEI to FEFN due to regulatory costs should be given little weight, submitting that FEI has not proposed changes to the Shared Services fee or explained why internal efforts have increased relative to the levels it recovers under the Shared Services fee.²⁵ FEI has filed evidence supporting its claim of cross-subsidization,²⁶ and the BCUC and interveners have had the opportunity to test this evidence in this proceeding. FEI has explained that the regulatory costs are allocated based on customer count, and that the difference between the currently allocated regulatory costs as part of the Shared Services fee and the high-level estimate of internal time required on FEFN regulatory matters 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.²⁷ While a cost allocation based on customer count is reasonable and cost-based, as well as practical, simple and easy to administer, part of the benefit of such allocators is that they relieve the burden of employees having to track all their time on various matters. It is therefore not unexpected that costs allocated in this way may not perfectly track FEI's internal costs of providing the service. As the BCUC recognized in the Reconsideration Decision, where there is a high level of integration, the allocation of costs requires judgement.²⁸ This level of judgement means that the regional rate differences may not reflect the actual difference in cost of service; further, one of the benefits of common rates is removing the need for the application of judgement to allocate costs based on location. Given the evidence in this proceeding, if common

²³ FortisBC Energy Utilities (comprising FortisBC Energy Inc., FortisBC Energy (Vancouver Island) Inc., and FortisBC Energy (Whistler) Inc.) Application for Reconsideration and Variance of Commission Order G-26-13 on the FortisBC Energy Utilities' Common Rates, Amalgamation and Rate Design Application, Decision and Order G-21-14, dated February 26, 2014 (Reconsideration Decision), p. 18.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>

²⁴ Exhibit B-1, Application, pp. 39-41 and 56-57.

²⁵ FNDCC-NRRM Final Argument, p. 40.

²⁶ Exhibit B-6, BCUC IR1 8.3.

²⁷ Exhibit B-6, BCUC IR1 8.3.

²⁸ Reconsideration Decision, p. 16.

rates are not approved, FEI considers it will need to propose a revision to the Shared Services fee to more accurately allocate costs to FEFN.

(b) Rate Stability

31. FNDCC-NRRM's submission on rate stability similarly suggests that any benefits of long-term rate stability are overridden by the rate impacts to FEFN residential customers.²⁹ FEI submits again that each of the relevant factors need to be duly considered by the BCUC and appropriately balanced. FEI continues to rely on its Final Argument, pp. 13-15 and 38-39, where FEI submits that FEFN will continue to experience rate instability due to its small customer base, and common rates will improve long-term rate stability for FEFN. FEI submits that rate stability is a significant benefit that should be given due consideration by the BCUC.

32. FEI's recommended approach is again illustrated by the Reconsideration Decision, which found that postage stamp rates would increase rate stability, concluding in particular that: "postage stamp rates will promote rate stability over the longer term, as the issues relating to potential future rate shock on Vancouver Island will be eliminated."³⁰ While the circumstances with respect to FEFN are different, the principle remains the same. The BCUC should consider the benefits of rate stability provided by common rates, which in FEI's submission weigh heavily in favour of common rates for FEFN.

(c) Government Policy

33. With respect to government policy, FNDCC-NRRM submits that a "seven year old provincial policy expressing a preference for postage stamp rates should not tilt the scales to make an otherwise unjust or unreasonable rate just and reasonable."³¹ FEI has three main points in reply.

34. First, the Province's policy in favour of postage stamp rates has been expressed strongly and consistently for many years. This policy is evident from the letters from the Province referred

²⁹ FNDCC-NRRM Final Argument, pp. 40-41.

³⁰ Reconsideration Decision, p. 18.

³¹ FNDCC-NRRM Final Argument, p. 39.

to in FEI's Application,³² but also in legislative actions such as the provincial direction enabling common rates for Squamish Gas. It is also apparent from the breadth of BC Hydro's postage stamp rates.

35. Second, as the BCUC found in FEI's 2016 Rate Design Application, the application of rate design principles "should also be considered within the context of the legal framework and government policies."³³ In the BCUC's Decision on BC Hydro's 2015 Rate Design Application, the BCUC also recognized the role of government policies, stating that the prioritization of Bonbright Principles "can be expected to change over time as circumstances change and current government policy and other factors underpin the need for reprioritization of the principles in this instance."³⁴ Consistent with the above, in the Reconsideration Decision, the BCUC considered new evidence concerning regulatory efficiency and public policy, and "reconsidered the issues of "fairness" and "public policy" from a broad, system wide perspective".³⁵

36. Third, FNDCC-NRRM's suggestion that the BCUC should first decide whether common rates are just and reasonable, and then consider whether provincial policy "tilts the scales" would lead to legal error. This artificial prioritization of considerations is incorrect as a determination of whether a rate is just and reasonable first requires a consideration of *all* matters relevant and proper affecting the rate, as required by section 60 of the UCA. The BCUC therefore cannot make a determination on whether the rate is just and reasonable based on a limited number of factors, and only then consider other relevant factors. Rather, all factors must be considered in the first instance to make a judgement on whether a rate is just and reasonable. As the BCUC has held in past rate design decisions, government policies are a relevant consideration and, indeed, ratemaking principles must be applied in the context of such policies.

³² Exhibit B-1, Application, p. 37.

³³ At p. 6.

³⁴ British Columbia Hydro and Power Authority 2015 Rate Design Application, Decision and Order G-5-17, January 20, 2017, p. 14. Online: https://docs.bcuc.com/Documents/Proceedings/2017/DOC_48618_01-20-2017_G-5-17_BCH-2015-RDA-Decision-WEB.pdf

³⁵ Reconsideration Decision, p. 18.

37. Therefore, FEI submits that FNDCC-NRRM's approach to government policy must be rejected. Instead, the BCUC must consider the proposal for common rates and the application of Bonbright principles in the context of government policy.

(d) Rate Mitigation

38. FNDCC-NRRM argues that the BCUC should only consider mitigation (i.e., the phase-in of common rates for residential customers) if it first decides that FEI's proposal, independent of any proposed mitigation, is just and reasonable. As discussed in the subsection above, FEI submits that the BCUC must consider all the relevant aspects of FEI's proposal, which includes mitigation, when determining if the proposed common rates are just and reasonable.

39. FEI submits that excluding mitigation would be a legal error and an unreasonably narrow view of the public interest, as phasing in common rates is clearly a proper and relevant consideration affecting the proposed rates. Specifically:

- (a) FEI's proposal to phase-in common rates for FEFN residential customers is part and parcel of FEI's Application and proposed rates.
- (b) The phase-in of common rates would affect how FEFN's residential customers' actual rates would be set for 10 years (or 20 years if RCIA's and FNDCC-NRRM's recommended approach is accepted).
- (c) The phasing-in of FEFN residential rates is not only about timing, but how much FEFN residential customers pay for service. It would reduce the actual amount on the bills of FEFN residential customers for 10 (or potentially 20) years.
- (d) The phasing-in of FEFN residential rates is a relevant and necessary consideration to the application of Bonbright principles, including customer understanding and acceptance, and rate stability.

40. FEI submits that the phasing in of residential rates is a matter that is proper and relevant affecting the proposed rates, and cannot be reasonably excluded from the BCUC's consideration of FEI's proposal. FEI submits that excluding such a clearly relevant and proper consideration would be an error of law.

PART THREE: COMMISSION PRECEDENT SUPPORTS COMMON RATES

41. FNDCC-NRRM claims that BCUC precedent does not support common rates. FEI disagrees, and submits that common rates have become firmly established in the Province as the dominant form of ratemaking and there can be no reasonable doubt that the application of common rates across regions is a just and reasonable form of ratemaking.

42. FNDCC-NRRM's submissions on the decisions leading to FEI's current postage stamp rates³⁶ obscure the fundamental point, which is that, whether through government direction or BCUC decision, all of FEI's customers other than those in FEFN are now served through common rates and that this progression towards common rates has occurred despite regional differences in costs or other factors. The result is that 136 communities across the Province, each of which would have a unique cost of service based on its location, have rates determined without regard to location. This, together with BC Hydro's postage stamp rates across its integrated areas and Fort Nelson, demonstrates that public utility rate-setting based on cost allocation without regard to location is by far the dominant approach to rate-setting in this Province. This reflects both BCUC determinations and a strong and consistent government policy over many years in favour of postage stamp rates. As the BCUC has noted, postage stamp rates are the *de facto* approach to rate setting in this Province and many other jurisdictions.³⁷ Therefore, it cannot be reasonably questioned whether common rates are a fair approach to cost allocation or rate setting.

43. Contrary to FNDCC-NRRM's suggestion,³⁸ the rationale for the BCUC's decision to approve common rates amongst FEI, FEVI and FEW in its Reconsideration Decision is supportive of common rates with FEFN. The facts emphasized by FNDCC-NRRM - that FEVI and FEW would experience rate decreases under common rate and were relatively new utilities - were not factors that persuaded the BCUC to approve common rates. Indeed, the BCUC initially denied postage stamp rates even though the smaller entities (FEVI and FEW) would experience rate decreases and would benefit from rate stability. Rather, as discussed above, the key factors emphasized by

³⁶ FNDCC-NRRM Final Argument, pp. 8 to 12.

³⁷ Decision and Order G-18-22, pages 37 to 38.

³⁸ FNDCC-NRRM Final Argument, pp. 8-9.

the BCUC in its Reconsideration Decision were long-term rate stability, regulatory efficiencies, and the broad public interest and system-wide perspective on fairness. All of these same factors are equally applicable to common rates for FEFN. The BCUC explicitly recognized that its reasoning applied to FEFN, noting that “there would appear to be a logical inconsistency in maintaining regional rates for Fort Nelson.”³⁹ [Emphasis added.]

44. Regarding Revelstoke, FNDCC-NRRM glosses over the fact that, from the outset of service in 1991, propane customers in Revelstoke have paid the same delivery rates as FEI natural gas customers.⁴⁰ The fact that FEI’s common delivery rates include Revelstoke, and the BCUC’s decision to approve the amalgamation of propane supply costs, are significant examples of how the postage stamp rate principle can be fairly applied across regions despite differences, and demonstrates that an integrated system is not a prerequisite to common rates. In approving the amalgamation of the propane supply costs, the BCUC reasoned as follows (at p. 11):⁴¹

The Panel has given full consideration to the Application and the relevance of Bonbright’s principles regarding public utility rates. In the Panel’s view, the arguments presented do not suggest that FEI’s proposal would be inconsistent with those principles. FEI’s proposal is considered in keeping with these principles by equalizing rates fairly across its service territory. FEI’s proposal brings about a balanced allocation of costs, improves price stability and reduces the burden on Revelstoke customers by means of a proposal which minimizes negative effects and allows for alternatives in the future.

The Panel accepts that FEI’s proposal may suggest discrimination, given the effect on natural gas users’ costs. However, the Panel judges this effect by its degree and how overall fairness in the apportionment of costs fits within the public interest framework. In consequence, the Panel does not find that FEI’s proposal is unduly discriminatory or that the principles or price signals are critically compromised.

45. As in the above case, FEI’s proposal for common rates offers material benefits in the form of increased fairness amongst FEI’s customers, long-term rate stability, regulatory efficiency, and

³⁹ Reconsideration Decision, p. 19.

⁴⁰ Decision and Order G-245-20, p. 5.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/486267/1/document.do>

⁴¹ Decision and Order G-245-20, p. 11.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/486267/1/document.do>

⁴¹ Decision and Order G-245-20, p. 11.

immediate reduced delivery rates for FEFN commercial customers. In FEI's submission, in the context of the public interest framework as a whole, the effect on FEFN residential delivery customers is not unduly discriminatory.

46. Regarding the amalgamation and implementation of common rates amongst BC Gas Inc., Inland Natural Gas Co. Ltd., and Columbia Natural Gas Limited, FNDCC-NRRM's submission again obscures the fundamental point. Despite the regional differences noted by the BCUC in its 1993 Decision,⁴² the rates for the three regions (Lower Mainland, Inland and Columbia) have in fact been the same since that decision. The BCUC first approved the consolidation of the Lower Mainland, Inland and Columbia Divisions for regulatory purposes in Order G-68-93. Then, in Order G-101-93, the BCUC approved postage stamp rates for the Lower Mainland and Inland regions, and approved a rate design that allowed the utility to set delivery rates for Columbia that were the same as for the Lower Mainland and Inland, resulting in rate increases or decreases for residential and commercial customers in each of the regions.⁴³ The delivery rates for the three regions have remained identical since that time.⁴⁴

47. The implementation of common rates for Squamish is not "irrelevant" as FNDCC-NRRM suggests.⁴⁵ The relevance of the Squamish Gas amalgamation and postage stamp rates is that the government directed the implementation of postage stamp rates and did so even though the residential customers in Squamish would experience a rate increase. This again is evidence of a strong and consistent government policy in favour of postage stamp rates. As the BCUC found

⁴² Decision and Order G-101-93, dated October 25, 1993 regarding BC Gas Utility Ltd. Phase B Rate Design Application. Online:
extension://elhekieabhbkmcefcobjddigjcaadp/https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/11917/1/document.do

⁴³ Exhibit B-1, Application, pp. 11-12.

⁴⁴ Exhibit B-1, Application, pp. 11-12: "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. 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."

⁴⁵ FNDCC-NRRM Final Argument, p. 11.

in FEI's 2016 Rate Design Application, the application of rate design principles "should also be considered within the context of the legal framework and government policies."⁴⁶

48. While FNDCC-NRRM agrees that it is not necessary for there to be no rate impacts to transition to postage stamp rates, FNDCC-NRRM disputes "whether it is just and reasonable to move a group of customers to postage stamp rates when those customers have historically paid much lower rates, and may again pay much lower rates if kept on a separate rate."⁴⁷ FEI submits that the historical rates of FEFN are of marginal relevance as the BCUC sets rates on a forward-looking basis and the prospect that FEFN would pay much lower rates in the future is speculative and doubtful. Furthermore, while both regional and common rates are cost-based rates, common rates are the most accepted form of ratemaking in this Province and many other jurisdictions. As the history of FEI's rates shows, postage stamp rates can and have been reasonably implemented across regions even though there may be existing differences based on location, such as lower or higher residential delivery rates.

⁴⁶ At p. 6.

⁴⁷ FNDCC-NRRM Final Argument, p. 12.

PART FOUR: FEFN IS SIMILAR TO OTHER COMMUNITIES SERVED BY FEI

49. FNDCC-NRRM argues that the BCUC should apply section 60(2) and (3) of the UCA because FEFN is unique on FEI's system as it serves "a small and remote community which is physically and geographically disconnected from the rest of FEI's operations in BC".⁴⁸ While Fort Nelson is the northernmost community served by FEI, FEFN is not unique on FEI's system. As discussed below in response to FNDCC-NRRM's submissions, FEFN is similar to many other communities served by FEI in terms of the level of connectedness, nature of assets and other factors.

A. FEFN is Physically Integrated to the Same Degree as Other Communities Served by FEI

50. FNDCC-NRRM argues that common rates are not appropriate because, "unlike FEI's other service areas, FEFN is not physically integrated in any meaningful way with the rest of FEI's system." This is factually incorrect. The infrastructure serving FEFN is just like many of FEI's assets serving FEI's other customers in their level of connectedness. Nor is physical integration a prerequisite for common rates. FEI expands on these points below.

51. As shown in the map in Attachment 1.2 of FEI's response to FNDCC-NRRM IR1 1.2,⁴⁹ FEI does not own the Enbridge pipeline⁵⁰ running north to south through the Province, and FEI's system consists of a series of laterals and distribution lines off these pipelines. In particular, many communities are served by FEI via a short lateral off the Enbridge pipeline, just like FEFN is, including the following:

- Hudson's Hope
- Chetwynd
- Powder King Ski
- Mackenzie

⁴⁸ FNDCC-NRRM Final Argument, pp. 5-6.

⁴⁹ Exhibit B-7.

⁵⁰ The Enbridge pipeline is referred to as the Spectra pipelines in the map in Attachment 1.2 of FEI's response to FNDCC-NRRM IR1 1.2. Enbridge and Spectra have corporately merged.

- Bear Lake
- Prince George
- Buck Horn
- Hixon
- Quesnel
- Kersley
- William's Lake
- 150 Mile House
- Lac La Hache
- 108 Mile House
- Horse Lake
- Clinton
- Cache Creek
- Aschcroft
- Logan Lake
- Merritt
- Hope
- Chilliwack

52. In addition, FEI's system that serves the Lower Mainland and Vancouver Island is not connected to FEI's Interior system, as they are only connected indirectly through the Enbridge pipeline.

53. Moreover, physical connectedness is not a prerequisite for common rates. For example, Revelstoke is a physically separate system and also isolated geographically, but has always had

the same delivery rates as the rest of FEI.⁵¹ Moreover, Fort Nelson itself is served under BC Hydro's postage stamp rates, despite being completely disconnected from the rest of BC Hydro's integrated system.⁵² FNDCC-NRRM notes that Fort Nelson was previously treated as one of BC Hydro's non-integrated areas, and that 12 non-integrated areas still exist on BC Hydro's system.⁵³ However, this does not aid FNDCC-NRRM's argument, as Fort Nelson is no longer treated as a non-integrated area with respect to the rates charged by BC Hydro to customers in Fort Nelson. If Fort Nelson is not considered a distinct or special area for the purposes of BC Hydro's rates, FEI submits that Fort Nelson cannot be reasonably treated as such for the purpose of FEI's rates.

54. FNDCC-NRRM argues that putting FEFN on postage stamp rates does little to support policy objectives in favour of postage stamp rates when many nearby communities served by Pacific Northern Gas (PNG) are on different rates than Fort Nelson.⁵⁴ This is a fallacious argument as the concept of postage stamp rates applies to the rates within a single utility. Further, FEFN's current rates are different, and lower, than PNG's rates currently. FEI submits that moving FEFN to common rates is clearly more consistent with Provincial policy in favour of common rates compared to the status quo.

B. FEFN's Gas Supply is Integrated with and Benefits from FEI's Gas Supply Portfolio

55. FNDCC-NRRM argues that FEFN's gas supply is distinct from FEI's,⁵⁵ and RCIA implies that FEFN's cost of gas rates do not reflect an allocation of a pooled gas supply.⁵⁶ While FEFN benefits from a unique gas supply arrangement, this does not detract from the integration of FEFN's gas supply with FEI's overall gas portfolio. FEI explained four ways in which FEFN's gas supply benefits

⁵¹ Decision and Order G-245-20, p. 5.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/486267/1/document.do>

⁵² Exhibit C1-6, FNDCC Evidence, PDF page 4; BC Hydro Electric Tariff, PDF page 19 (Available online: <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/tariff-filings/electric-tariff/bchydro-electric-tariff.pdf>)

⁵³ FNDCC-NRRM Final Argument, p. 22.

⁵⁴ FNDCC-NRRM Final Argument, p. 22.

⁵⁵ FNDCC-NRRM Final Argument, p. 20.

⁵⁶ RCIA Final Argument, p. 7.

from integration with FEI's overall gas portfolio, in which the total pool of gas supply resources is used collectively to manage FEI's total daily load:⁵⁷

- (a) From an operations perspective, the shortfall or excess in the commodity supply based on FEFN's demand for the actual gas day is managed via a balancing agreement between FEI and Westcoast for FEI's overall gas portfolio.
- (b) FEFN's gas cost recovery rates include an allocation of costs from the FEI overall gas supply portfolio, with the commodity cost set using a combination of the Aitken Creek pricing model, hedged and market-based pricing.
- (c) FEFN commodity pricing benefits from FEI's physical price hedge created by injecting gas into the Aitken Creek storage facility during summer months, when commodity prices are typically lower, and withdrawing this gas during the following winter.
- (d) FEFN's gas costs include an allocation of costs related to the Westcoast T-North Short-Haul Firm Transportation Service (T-North Short-Haul), which allows for the scheduling of gas from a receipt point at the Fort Nelson gas plant outlet to the interconnect with FEI's gas distribution system in Fort Nelson.

56. FEI also reiterates that the unique gas supply arrangement to FEFN's benefit is only possible because FEI is a large purchaser of gas in the region.⁵⁸

C. FEFN's Assets Are Similar to FEI's Other Assets

57. FNDCC-NRRRM argues that FEFN's assets are not similar to FEI's other assets, but are "completely different" than those used to serve FEI's other assets.⁵⁹ However, FEFN's assets are in fact similar in nature to FEI's other assets,⁶⁰ and this has been recognized as such by the BCUC in Decision and Order G-114-22 in this proceeding.⁶¹ If FNDCC-NRRRM's point is that the assets in FEFN are not physically exactly the same assets, then every community served by FEI can make the same claim. Indeed, every individual customer has some assets that are used to serve them

⁵⁷ Exhibit B-1, Application, p. 23.

⁵⁸ Exhibit B-1, Application, pp. 22 and 61.

⁵⁹ FNDCC-NRRRM Final Argument, p. 21.

⁶⁰ Exhibit B-17, BCUC IR1 3.1 on FEI's Rebuttal Evidence.

⁶¹ See paragraph 10 of FEI's Final Argument on Common Rates for FEFN.

alone. FNDCC-NRRM has not identified anything unique regarding the assets used to serve Fort Nelson. They are similar in kind to the assets used elsewhere on FEI's system.

D. The Regional Rates for FEFN are Based on a Significant Level of Judgement

58. FNDCC-NRRM asserts that FEFN's calculated costs based on studies and rates flowing from FEI "are driven by differences in the infrastructure used to serve FEFN compared to the rest of the system."⁶² While these costs are based on FEFN's rate base, FEFN does not undertake its own depreciation study, does not have its own capital structure, does not issue its own debt or equity, does not file its own income taxes, and the interest rates for its short-term and long-term debt are those of FEI as a single legal entity that includes FEFN. These calculated costs are therefore driven by FEI's rates (depreciation and salvage rates) and FEI as a single legal entity that includes FEFN (e.g., for tax and capital structure).⁶³ Moreover, FEFN enjoys lower costs by virtue of this reliance, including:⁶⁴

- (a) access to the necessary resources, expertise and training in all areas affecting gas distribution utilities at lower costs than having the same resources and expertise obtained by FEFN;
- (b) access to low cost capital funding thus reducing carrying costs of capital; and
- (c) access to the buying power of a larger company, reducing the costs of pipe and other materials and supplies.

59. FNDCC-NRRM states that the relevance of the above is unclear.⁶⁵ The relevance of the significant amount of allocated and calculated costs that make up FEFN's revenue requirements is that it demonstrates the level of dependency of FEFN on FEI and the significant judgement required when setting FEFN's rates. The BCUC recognized this in its Reconsideration Decision, where it concluded (at p. 16):⁶⁶

⁶² FNDCC-NRRM Final Argument, p. 22.

⁶³ Exhibit B-6, BCUC IR1 10.1.

⁶⁴ Exhibit B-1, Application, p. 22.

⁶⁵ FNDCC-NRRM Final Argument, p. 21.

⁶⁶ Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>

The Panel finds that in the circumstances of this case, where there is considerable interdependency among the Utilities comprising the FEU, there is significant judgment required for cost allocation, and there are additional applications made necessary by the existence of three separate utilities, regulatory efficiency will be improved through both amalgamation and postage stamp rates. [Emphasis added.]

60. RCIA also implicitly recognizes the judgment required when setting FEFN rates where it submits that “it is unclear whether the current FEFN rates are cost-based, or whether FEI’s common rates are a better reflection of the costs to serve FEFN customers.”⁶⁷ FEFN’s current rates reflect the cost to serve FEFN customers based on allocations of cost from FEI and FEI’s financing and capital costs, but do not reflect the costs to operate FEFN as a separate legal entity or utility. Further, there is a lack of clarity as to whether FEFN’s current rates truly reflect the cost to serve FEFN customers due to the level of judgement required when allocating costs to FEFN. Approximately 24 percent of FEFN’s revenue requirement is from direct allocations from FEI, and 76 percent is based on FEI studies and rates. These allocations and calculations require the application of judgement. For example, the allocation of FEI’s O&M costs is based on number of customers. While this allocation is simple and easy to administer, and accurate enough for some costs, it underestimates FEFN’s share of its finance and regulatory costs.⁶⁸ The situation is exacerbated by the fact that the cost to conduct studies for FEFN alone to clarify such matters would result in material increases in FEFN rates, which makes undertaking such studies difficult to justify.⁶⁹ Moving to common rates would resolve these issues and establish rates that reflect the costs to serve FEFN customers without regard to location.

E. FEFN Use of Gas is Not a Distinguishing Feature

61. FNDCC-NRRM also argues that the difference in use per customer (UPC) between FEFN residential customers and the average for the rest of FEI’s residential customers is a reason why common rates should not be approved.⁷⁰ However, the average UPC of FEI cited by FNDCC-NRRM is for the entire region served by FEI, which includes customers in Victoria and Vancouver, as well

⁶⁷ RCIA Final Argument, p. 9.

⁶⁸ Exhibit B-1, Application, pp. 39-40; Exhibit B-6, BCUC IR1 8.1, 8.2 and 8.3.

⁶⁹ Exhibit B-6, BCUC IR1 8.2.

⁷⁰ FNDCC-NRRM Final Argument, p. 21.

as customers in Revelstoke, Prince George, Chetwynd and Hudson's Hope. The UPC in all regions can reasonably be expected to be different, and the UPC in communities with colder winters can be expected to be higher and similar to FEFN's.

PART FIVE: FEFN DELIVERY RATES ARE LIKELY TO CONTINUE TO EXPERIENCE VOLATILITY

62. In this Part, FEI responds to FNDCC-NRRM's submissions related to the forecast of FEFN's delivery rates in the future, which mostly center on the 10-year demand forecast for FEFN.

A. FEI's Effective Delivery Rates Have Been Lower than FEFN's

63. FNDCC-NRRM's claim that FEFN's rates have historically been lower than FEI's is only accurate for current residential delivery rates.⁷¹ FEI's commercial delivery rates are lower than FEFN's commercial delivery rates, and FEI's effective rate (i.e., total delivery margin divided by total FEFN demand) has been lower than FEFN's effective delivery rate on average over the past 12 years.⁷²

64. Contrary to FNDCC-NRRM's submissions, FEI did provide the calculation and data supporting its comparison of the effective delivery rates between FEI and FEFN.⁷³ In addition to noting this comparison in its Rebuttal Evidence,⁷⁴ FEI also provided the comparison of FEI and FEFN's effective delivery rates in its round one IR responses to FNDCC-NRRM.⁷⁵ There has therefore been multiple opportunities for FNDCC-NRRM to ask IRs on these calculations.

65. Regardless, FEI submits that the historical FEFN rates have limited relevance to the question before the BCUC in this proceeding. FNDCC-NRRM suggests that, since FEFN residential rates have been lower in the past, they will be lower in the future. FEI submits that this is speculative and without merit. The BCUC sets rates on a forward-looking basis based on the utility's actual or forecast costs and revenues, not what its costs and revenues were in the past.

B. Common Rates are Justified Regardless of Long-Term Forecast Demand

66. FEI submits that 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. This is

⁷¹ FNDCC-NRRM Final Argument, p. 24.

⁷² Exhibit B-17, BCUC IR1 1.1 on FEI's Rebuttal Evidence.

⁷³ Exhibit B-17, BCUC IR1 1.1 and 1.2 on FEI's Rebuttal Evidence.

⁷⁴ Exhibit B-15, Rebuttal Evidence, p. 2.

⁷⁵ Exhibit B-7, FNDCC-NRRM IR1 8.1.

because there are other compelling reasons to adopt common rates for FEFN that apply regardless of if or when FEFN's residential delivery rates reach parity with FEI's. FNDCC-NRRM disagrees, stating that "the justification for common rates should depend on an assessment of both the likely short-term and the anticipated long-term rate impacts of FEI's proposal on FEFN's ratepayers".⁷⁶ FEI submits that this approach does not reflect the series of decisions by the BCUC and government which have applied postage stamp rates despite rate impacts to customers. For example, common rates were approved for what was FEI, FEVI and FEW without a determination that the three regions would achieve rate parity at some point in the future. Put another way, if rate impacts were the determining factor, common rates would not be implemented across FEI today.

67. FEI submits that FNDCC-NRRM's position is an unreasonably narrow view of the considerations that the BCUC must take into account when setting rates. As discussed above, the UCA requires the BCUC to consider the factors that it considers proper and relevant affecting the rate. As discussed by the BCUC in its Decision on FEI's 2016 Rate Design Application, these factors have included the consideration of Bonbright principles interpreted within the broader legal and policy context. The BCUC's Decision approving common rates for FEI, FEVI and FEW also took a broad perspective of public interest matters, with factors including regulatory efficiency figuring prominently in the BCUC's rationale for approving common rates. FEI submits that there are clearly factors beyond the rate impact to FEFN residential customers that are relevant and proper affecting the rate. Following FNDCC-NRRM's approach would lead the BCUC into legal error and therefore should be rejected.

C. Forecast Demand for FEFN Shows Continued Decline

68. FNDCC-NRRM submits that household forecasting shows that the recent decline that has driven FEFN's delivery rates upwards is in the process of reversing and is likely to manifest in decidedly lower delivery rates for FEFN in the next five to ten years.

69. FNDCC-NRRM's criticisms of FEI's demand forecast methodology are misguided.

⁷⁶ FNDCC-NRRM Final Argument, p. 25.

| FNDCC-NRRM Criticism | FEI Reply |
|--|---|
| <p>“The FEI demand model may be useful in providing short-term insight about the number of customers in the very near future (1 to 2 years) but the model should not be used to provide valid medium to long term demand forecasts.”⁷⁷</p> | <p>There is no basis for this claim. FEI’s demand model was not designed for any particular forecast period. FEI’s residential customer forecast uses the CBOC 20-year forecast of housing starts growth rates to develop its residential customer additions forecast. This forecast is future looking and is used because it provides unique trajectories for both single- and multi-family dwellings.⁷⁸ The results of FEI’s demand forecast are corroborated by FEI’s end-use demand forecast used for long-term resource planning purposes, which would produce a similar declining trend in FEFN’s demand.⁷⁹</p> |
| <p>“The exponential smoothing method used by FEI only uses three years of data to project forward, and is therefore limited as a tool for long-term projections (“incorporating more influence from history...[is] virtually creating a new model”).”⁸⁰</p> | <p>This is incorrect. For the use rate forecasts, FEI uses the Holt’s Exponential Smoothing (ETS) method. FEI’s ETS method uses 10 years of data.⁸¹ The ETS 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.⁸²</p> |
| <p>“FEI admitted in its 2020 to 2024 Multi-Year Rate Plan that its demand model was not successfully tested for use in Fort Nelson.”⁸³</p> | <p>This statement is misleading.</p> <p>FNDCC-NRRM is referring to FEI’s Forecasting Method Study filed in the 2020-20024 Multi-Year Rate Plan (MRP), and, in particular, FEI’s recommendation to use the ETS method for the UPC forecast, which recommendation the BCUC accepted.</p> <p>FEI tested the use of the ETS method based on multiple years of data for the Mainland,</p> |

⁷⁷ FNDCC-NRRM Final Argument, p. 27.

⁷⁸ Exhibit B-17, BCUC IR1 7.1 and 7.3 on FEI’s Rebuttal Evidence.

⁷⁹ Exhibit B-17, BCUC IR1 8.1 to 8.4.

⁸⁰ FNDCC-NRRM Final Argument, p. 27.

⁸¹ Exhibit B-1, Application, p. 92.

⁸² Exhibit B-17, BCUC IR1 7.3.1.

⁸³ FNDCC-NRRM Final Argument, p. 27.

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| | <p>and on one year of Fort Nelson data. Thus, FEI stated in the study:</p> <p>“While FEI notes that Vancouver Island, Whistler and Fort Nelson have not been thoroughly tested, those areas comprise only a small percentage of the overall demand, and there is no reason to believe different results would be achieved for those areas than for the Mainland. As a result, and given the strong performance of the ETS method for forecasting use rates, FEI is recommending switching all residential and commercial use per customer forecasting to ETS, including for the Fort Nelson service area.”⁸⁴</p> <p>The BCUC has since approved FEI’s forecasts for all of FEI and FEFN based on the ETS method for use rates. FEI’s forecast method for Fort Nelson has produced reasonable and accurate results.⁸⁵</p> |
| <p>“In the Okanagan Capacity Upgrade Project Application, FEI likewise acknowledges that its model does not work well in predicting growth.”⁸⁶</p> | <p>This statement is incorrect. FEI’s forecast demand model works well in predicting growth.⁸⁷ FEI has never acknowledged that its demand forecast model does not work well in predicting growth. In particular, FEI does not acknowledge this in any way in Section 3.3.1.2 of FEI’s OCU Application, as incorrectly suggested by FNDCC-NRRM.⁸⁸</p> <p>FEI’s customer additions forecast in the OCU CPCN Application used the same method that was used for the Fort Nelson Service Area in this Application. FEI used the LHA growth rates only to further break down FEI’s forecasts into the different municipalities. As</p> |

⁸⁴ DOC_53565_B-1-1-FortisBC-2020-2024-Multi-YearRatePlan-Appendices.pdf (bcuc.com)

PDF page 63 (Appendix B2, page 12)

⁸⁵ Exhibit B-15, Rebuttal Evidence, pp. 21-22.

⁸⁶ FNDCC-NRRM Final Argument, p. 27.

⁸⁷ Exhibit B-15, Rebuttal Evidence, pp. 21-22.

⁸⁸ Exhibit C2-8, NRRM Response to BCUC IR1 5.2.

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| | there is only one LHA within the Fort Nelson Service Area, the HHF forecast from BC Stats cannot be used to further break down the Fort Nelson Service Area customer additions, nor would there be any need to so as there is no need for more granular data. ⁸⁹ |
| “When the FEI demand model results are extrapolated, they lead to absurd conclusions. For example, under the FEI demand model RS2 customers in FEFN see their gas consumption go to zero in 2043 while somehow there would continue to be RS2 customers until 2156. RS3 customers are likewise projected to go to zero in 2033 (only 10 years out from the proposed move to common rates), though average RS3 consumption per customer would more than triple from 6.4TJ to 21.9TJ between 2021 and 2032” ⁹⁰ | <p>Extrapolating out FEI’s forecast for over 100 years is absurd and not relevant. No forecast is accurate over such long periods of time.</p> <p>FNDCC-NRRM misapplies FEI’s forecast methodology. FEI does not forecast UPC by a simple extrapolation, but using the ETS method.</p> <p>FEI provided its 10-year forecast for FEFN in response to BCUC IR1 3.3 (Exhibit B-6).</p> |

70. In response to FNDCC-NRRM’s further criticisms:

- (a) FNDCC-NRRM states the fact that FEI’s forecast method has been repeatedly tested by the BCUC is irrelevant because it has not been used on a long-term basis.⁹¹ FEI disagrees. The fact that FEI’s forecast method has been repeatedly tested and approved and proven to be accurate is strong evidence that the forecast method is sound. This should increase the confidence in FEI’s forecast over longer periods of time. In contrast, CSCW offers no evidence of any previous review or testing of its method.
- (b) While FEI only has data to provide the MAPE for short forecast periods,⁹² the MAPE of CSCW’s forecast method is double that of FEI’s and has consistently over-forecast FEFN’s total demand from 2011 to 2020. If CSCW’s method cannot accurately predict demand over a single year, it is unlikely that it will be reasonable over 10 years. The available data therefore supports the reliability of FEI’s forecast demand method over CSCW’s.

⁸⁹ Exhibit B-15, Rebuttal Evidence, p. 22.

⁹⁰ FNDCC-NRRM Final Argument, p. 27.

⁹¹ FNDCC-NRRM Final Argument, p. 28.

⁹² FNDCC-NRRM Final Argument, p. 28.

- (c) There are no errors in the MAPE scores in FEI's Rebuttal Evidence as FNDCC-NRRM claims.⁹³ The small difference⁹⁴ in percentages shown in Figure 3 and Table 7 of FEI's Rebuttal Evidence are due to different calculations: the percent errors in Figure 3 are error divided by actual, whereas the percent errors in Table 7 are error divided by forecast. Whether error divided by actual or error divided by forecast, the error resulting from CSCW's methods is twice as much as FEI's methods (i.e., 9.1% vs. 4.5%).⁹⁵
- (d) Contrary to FNDCC-NRRM's submission, FEI is not comparing "apples to oranges" when it averages the MAPE's performance values.⁹⁶ FEI has only made one change to its forecasting method over the time period, which was the adoption of the ETS method, which has improved the forecast method.⁹⁷ The use of the previous method in the comparison therefore likely makes the comparison more favourable to CSCW. The other changes referred to by CSCW are in reference to the customer count adjustment due to a new CIS, which FEI addressed in its Rebuttal Evidence.⁹⁸

71. In further reply to FNDCC-NRRM's submission that FEI's forecast method cannot be relied on, FEI has also provided a forecast based on the method used in its 2022 Long Term Gas Resource Plan (LTGRP). This forecast shows a continued decline.⁹⁹

⁹³ FNDCC-NRRM Final Argument, p. 29.

⁹⁴ What FNDCC-NRRM refers to as a 20% difference is the difference between 0.5% and 0.6%.

⁹⁵ Exhibit B-15, Rebuttal Evidence, Figure 3 and Table 7.

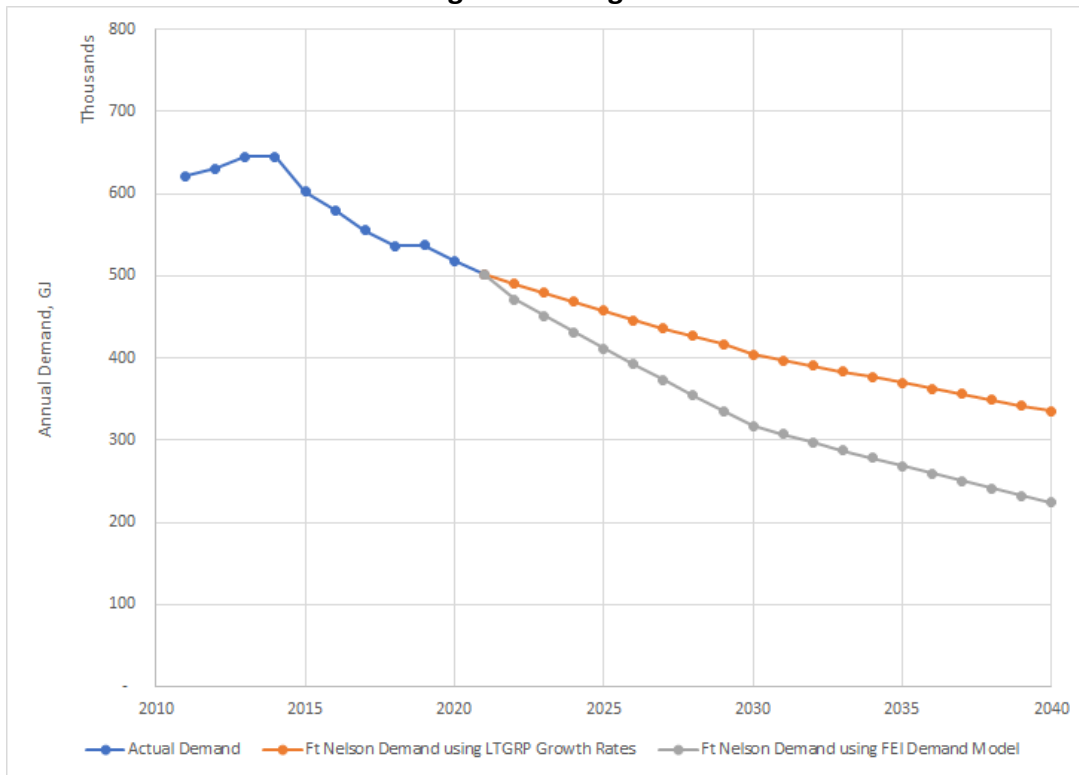
⁹⁶ FNCC-NRRM Final Argument, p. 29.

⁹⁷ Exhibit B-1, Application, Appendix A-3, p. 1.

⁹⁸ Exhibit B-15, Rebuttal Evidence, A33.

⁹⁹ Exhibit B-17, BCUC IR1 8.4 on FEI's Rebuttal Evidence.

Figure 1 – Comparison between FEFN Demand Forecast based on LTGRP Growth Rates under the Diversified Energy Planning Scenario and FEFN’s Existing Forecasting Method



72. Furthermore, FEI’s demand method is superior to the method proposed by NRRM’s expert Dr. Corbett, of CSCW Systems Corporation (CSCW).¹⁰⁰ As FEI submitted in paragraph 46 of its Final Argument, CSCW’s forecast, which is based on BC Stats data, is not supported and cannot be relied on.

73. FNDCC-NRRM notes that CSCW’s supporting documents include two methodology papers from BC Stats.¹⁰¹ Both papers are from August 1999.¹⁰² To reiterate FEI’s Rebuttal Evidence, BC Stats explained that its forecast 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. BC Stats further explained that the forecast method and software

¹⁰⁰ Exhibit C2-5, Appendix D.

¹⁰¹ FNDCC-NRRM Final Argument, p. 29.

¹⁰² Exhibit C2-8, Attachment 1 and 2 to NRRM’s Response to BCUC IR1 4.1.

were currently under review for potential replacement. BC Stats recommended FEI refrain from using the Fort Nelson forecast until such time as these updates are complete.¹⁰³

74. FNDCC-NRRM unsuccessfully attempts to gloss over the unreliability of the BC Stats data on which its forecast is based.¹⁰⁴ The fact that CSCW's method attempts to predict total forecast demand based on the relationship between total gas demand and households does not change the fact that the BC Stats household data is based on an outdated model from 1999 and 2016 Census data, and the agency responsible for the data has recommended against its use. In short, the output can only be as reliable as the input.

75. FNDCC-NRRM states that the V-shape curve forecast produced by CSCW, which FEI considers statistically inexplicable, is in fact "fully explained statistically in the method notes prepared by Dr. Corbett".¹⁰⁵ To be clear, FEI understands Dr. Corbett's methods. However, the V-shape curve is on its face not reasonable.¹⁰⁶ Moreover, the V-shape forecast is already proven wrong for 2021. CSCW forecasts the beginning of a dramatic recovery in demand in 2021.¹⁰⁷ However, 2021 actual demand is continuing to decline consistent with past years.¹⁰⁸

76. FNDCC-NRRM states that FEI's model requires that for the first time in the history of Fort Nelson the community will not recover.¹⁰⁹ In reply, FEI is not claiming that Fort Nelson will never recover economically or otherwise. Indeed, FEI cannot know when or if Fort Nelson will recover, and FEI's position has never been that common rates depend on a continual decline in Fort Nelson over the next 10 years or otherwise. FEI considers that common rates are just and reasonable even if there is no further decline in FEFN's rates. However, the evidence is that FEFN's demand has been declining and the best forecast methods at FEI's disposal show a continued decline. The CBOC's housing forecast shows a continuing decline in housing starts.

¹⁰³ Exhibit B-15, Rebuttal Evidence, p. 24.

¹⁰⁴ FNDCC-NRRM Final Argument, p. 30.

¹⁰⁵ FNDCC-NRRM Final Argument, p. 31.

¹⁰⁶ Exhibit B-15, Rebuttal Evidence, p. 24 and Exhibit B-18, Attachment 1.2a.

¹⁰⁷ Exhibit B-15, Rebuttal Evidence, Figure 5.

¹⁰⁸ Exhibit B-15, Rebuttal Evidence, Figure 1 and Figure 2.

¹⁰⁹ FNDCC-NRRM Final Argument, p. 31.

And there are factors at play that will drive continued decline generally, including Provincial policies favouring electrification of household heating, as reflected in FEI's end-use forecast method in its 2022 LTGRP. In short, FEI does not have any basis to predict a recovery in Fort Nelson at this time.

77. FNDCC-NRRM states it relies on BC Stats household data whereas FEI only asked BC Stats about population data.¹¹⁰ FEI disagrees with FNDCC-NRRM's interpretation of what it asked BC Stats. The comments from BC Stats about its forecast, as reiterated above, were not limited to its population forecast, but referred to its forecast generally. However, it is a moot point as, not surprisingly, BC Stat's household data is based on its population data. As stated in the second BC Stats methodology document relied on by CSCW, which discussed the household forecast method, the household methodology projects the average number of people per household and then applies that to the population forecast:¹¹¹

The primary component of the British Columbia small area household projection methodology is a projection of the average number of persons per private household by small area. Once the number of persons per household for some future point in time has been predicted, the number of private households is derived by applying this ratio to an independently derived population projection.

78. FNDCC-NRRM argues that the BC Stats data is the "best data available".¹¹² FEI disagrees. For example, FNDCC-NRRM has provided no reason why the CBOC's housing starts 20-year forecast is not reasonable. The CBOC forecast is a forecast from an independent third party which offers the benefit of forecasting both single family and multi-family dwellings, which is an important factor when forecasting natural gas demand.¹¹³ FEI's demand forecast, which relies on the CBOC forecast for residential customer additions forecasting, has been repeatedly tested and proven to be reliable.¹¹⁴

¹¹⁰ FNDCC-NRRM Final Argument, p. 31.

¹¹¹ Exhibit C2-8, Attachment 2 to NRRM's Response to BCUC IR1 4.1, p. 4.

¹¹² FNDCC-NRRM Final Argument, p. 32.

¹¹³ Exhibit B-17, BCUC IR1 7.1 and 9.1 on FEI's Rebuttal Evidence.

¹¹⁴ Exhibit B-15, Rebuttal Evidence, p. 21.

79. FNDCC-NRRM states that BC Stats was not asked to opine on whether it was preferable to use FEI's model over CSCW's, suggesting that BC Stats may have preferred CSCW's model.¹¹⁵ In reply, it would not have been reasonable or appropriate for FEI to ask BC Stats to provide an expert opinion in this proceeding on the relative merits of FEI's and CSCW's forecast methods, nor does FEI expect BC Stats would have been willing to do so. BC Stats is not an expert retained by any party in this proceeding and its role is not to opine on the relative merits of competing forecast methodologies. Rather, it is the role of FEI and CSCW to defend the results of their forecasts filed in this proceeding.

80. FEI further notes that any party is free to reach out to BC Stats to discuss their data. If FNDCC-NRRM considered that it was appropriate to ask BC Stats to opine on the relative merits of the forecasting methods in this proceeding, it was free to make such a request. If FNDCC-NRRM wished to seek confirmation from BC Stats regarding the information FEI provided in its Rebuttal Evidence, FNDCC-NRRM was free to do so (and may in fact have done so). As its stands, no party has filed any evidence contradicting FEI's evidence regarding the BC Stats data.

81. Finally, FNDCC-NRRM argues that FEI's MAPE data for CSCW's forecast is not correct because FEI applied a "rolling 10 year linear regression model" while Dr. Corbett used a simple linear regression model.¹¹⁶ As FEI explained in response to FNDCC-NRRM IR1 11.2 on FEI's Rebuttal Evidence, the MAPE scores for CSCW's forecast would be significantly worse if based on a linear regression:¹¹⁷

FEI used a rolling 10-year linear regression between BC Stats actual household data and FEFN's actual total demand because it results in a lower error than a linear regression that uses all prior years of actuals (e.g., for the forecast of 2011, it uses 10 years of actual from 2001 to 2010, and for the forecast of 2012, it uses 11 years of actuals from 2001 to 2011, etc.). Please refer to Table 1 below which shows that if FEI had not used a rolling 10-year linear regression in Table 7 of FEI's Rebuttal Evidence, the MAPE for the period from 2011 to 2020 would have been 19.6 percent, compared to 9.1 percent using a rolling 10-year linear regression, and compared to 4.5 percent using FEI's forecasting method.

¹¹⁵ FNDCC-NRRM Final Argument, p. 32.

¹¹⁶ FNDCC-NRRM Final Argument, p. 32.

¹¹⁷ Exhibit B-19, FNDCC-NRRM IR1 11.2 on FEI's Rebuttal Evidence.

82. In summary, CSCW's forecast is a new methodology which has not been previously tested, is based on BC Stats data for Fort Nelson that should not be relied on, performs significantly worse than FEI's methodology, is systematically optimistic in its forecasts, produces a V-shape result that is not reasonable, and is already incorrect with respect to 2021 actual data which shows a continued decline in natural gas demand. FEI submits that its demand forecast, as corroborated by its end-use method forecast from the 2022 LTGRP, is the best information available on the forecast of FEFN natural gas demand.

83. However, FEI emphasizes that its forecast is only a forecast. FEI does not know what will happen in Fort Nelson over the next 10 years, and FEI is cognizant that what will happen over the next 10 years will be different than any forecast. FEI reiterates its view that a determination on whether FEFN's residential delivery rates will reach, or come close to, parity with FEI's residential delivery rates is not needed to establish that extending common rates to FEFN is just and reasonable.

D. Submissions on Letter from BC Stats

84. In this section, FEI provides its submission on the letter from BC Stats¹¹⁸ recently admitted by the BCUC onto the record in this proceeding. FEI has five key points.

85. First, BC Stats does not contradict FEI's evidence and specifically does not indicate that the representations that BC Stats staff provided to FEI about its data are incorrect. FEI submits that its Rebuttal Evidence regarding the BC Stats data is accurate and can be relied on by the BCUC in this proceeding.

86. Second, FEI submits that BC Stats has not provided any reason why the BCUC should reduce the weight it places on the evidence. While FEI regrets any potential for harm to BC Stats, FEI was not in a position to be aware of BC Stats' internal policies. FEI was transparent about the reasons for its inquiries, met with multiple BC Stats staff members, and received written confirmation via email from an Acting Director that the information it would file in its Rebuttal

¹¹⁸ Exhibit E-2.

Evidence was accurate.¹¹⁹ Ultimately, the evidence has already been filed on the record in this proceeding and the weight the BCUC places on that evidence is not connected to whether the information was provided in accord with BC Stats' internal policies.

87. Third, FEI disagrees that the information that BC Stats staff provided and which FEI reported in its Rebuttal Evidence is positional in nature, partial to any particular participant, or made to support any specific party's position. BC Stats staff did not opine on either FEI's forecast or CSCW's forecast or take any position in this proceeding. Rather, BC Stats staff provided information on the reliability of BC Stats' own forecast data for Fort Nelson. As stated in FEI's Rebuttal Evidence:¹²⁰

- BC Stats explained that its forecast 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.
- BC Stats further explained that the forecast method and software were currently under review for potential replacement.
- BC Stats recommended FEI refrain from using the Fort Nelson forecast until such time as these updates are complete.

None of this information is an opinion on CSCW's forecast or a position in this proceeding. The implication for CSCW's forecast, however, has been made clear by FEI in its evidence and argument.

88. Fourth, FEI disagrees that the inclusion of FEI's Rebuttal Evidence is analogous to one party being able to present expert evidence on an issue while the other party is barred from doing so.¹²¹ All parties are able to seek out comments from BC Stats and, in fact, BC Stats' letter confirms that "other parties in these proceedings have sought clarification directly from BC Stats regarding the Quotation."¹²² FNDCC-NRRM also has its own expert consultant in this proceeding

¹¹⁹ Exhibit B-15, Rebuttal Evidence, p. 24; Exhibit B-18, RCIA IR1 1.2 on FEI's Rebuttal Evidence, Attachment 1.2a and 1.2b.

¹²⁰ Exhibit B-15, Rebuttal Evidence, p. 24.

¹²¹ Exhibit E-2, BC Stats Letter, p. 4.

¹²² Exhibit E-2, BC Stats Letter, p. 3.

that has tendered evidence on FNDCC-NRRM's behalf and that can provide expert advice to FNDCC-NRRM to defend its forecast.

89. Finally, FEI acted reasonably with respect to the information it received from BC Stats and the information is relevant and properly filed as rebuttal to FNDCC-NRRM's intervenor evidence. FNDCC-NRRM's expert, CSCW, brought the BC Stats data into the scope of this proceeding by filing a forecast based on BC Stats data that CSCW claimed was superior to FEI's demand forecast.¹²³ CSCW's method produced unreasonable results, so FEI appropriately and reasonably inquired with BC Stats about how to understand BC Stats' forecast and methodology.¹²⁴ Given the information provided by BC Stats regarding the reliability of its data for Fort Nelson and NRRM, FEI understandably and appropriately reported on the results of those inquiries in its Rebuttal Evidence, as they clearly impacted the reliability of the data used by CSCW, which CSCW was urging the BCUC to rely on to contradict FEI's forecast. FEI provided its email correspondence with BC Stats when requested by the RCIA in its IRs,¹²⁵ which, again, was reasonable and appropriate, and in accord with the BCUC's expectations that FEI respond to information requests in its proceedings.¹²⁶

90. For these reasons, FEI submits that it is reasonable and appropriate for the BCUC to rely on FEI's Rebuttal Evidence regarding the BC Stats data for Fort Nelson, which is confirmed by the email correspondence with BC Stats and is not contradicted by BC Stats or any other evidence in this proceeding.

E. Evidence of Economic Development is Limited and Uncertain

91. FNDCC-NRRM points to three potential projects and an increase in annual allowable cut as a basis to suggest that there is economic development in the region that will lead to increased population in Fort Nelson and therefore increased natural gas demand.¹²⁷ In reply, FEI continues

¹²³ Exhibit C2-5, Appendix D.

¹²⁴ Exhibit B-15, Rebuttal Evidence, p. 24; Exhibit B-18, RCIA IR1 1.2 on FEI's Rebuttal Evidence, Attachment 1.2a.

¹²⁵ Exhibit B-18, RCIA IR1 1.2 on FEI's Rebuttal Evidence.

¹²⁶ BCUC Rules of Practice and Procedure, 14.01.

¹²⁷ FNDCC-NRRM Final Argument, pp. 33-35.

to rely on paragraphs 42 to 44 of its Final Argument which discuss how FEI's demand forecast is consistent with the general economic decline in the region, and how none of the projects will add industrial gas demand. Given that it is not certain when or whether these projects will proceed, and the extent of any indirect impact on natural gas demand is unknown, the extent and timing of any increase in natural gas demand indirectly resulting from these projects is uncertain.

F. There is No Evidence of Impact on Demand Due to the COVID-19 Pandemic

92. FNDCC-NRRM's theory that Fort Nelson was on the verge of an economic recovery before the COVID-19 pandemic and that this recovery is now poised to occur¹²⁸ is speculative and opinion only. There are no observable changes in the natural gas consumption pattern in FEFN attributable to the COVID-19 pandemic. As Figures 1 and 2 of FEI's Rebuttal Evidence demonstrate, 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.¹²⁹ FEI submits that there is no evidence to support FNDCC-NRRM's theory that the COVID-19 pandemic interrupted an economic recovery. Even if it did, there is no evidence to predict when or if an economic recovery will occur in the future.

G. FEFN Capital Expenditures Will Continue to Impact FEFN's Rates

93. In reply to FNDCC-NRRM's comment on capital expenditures, FEI relies on its Final Argument, paragraphs 49-53.

H. Provincial Decarbonization Policies Affect FEFN

94. While FNDCC-NRRM does not dispute that FEFN may be similar to other communities served by FEI, it submits that the risk in Fort Nelson due to factors such as incentives for electrification, municipal requirements for residential units to shift from natural gas to electricity,

¹²⁸ FNDCC-NRRM Final Argument, pp. 34-35.

¹²⁹ Exhibit B-15, Rebuttal Evidence, pp. 19-20; Exhibit B-17, BCUC IR1 7.3.2 on FEI's Rebuttal Evidence; Exhibit B-7, NRRM IR1 6.4. Also see Exhibit B-4, BCUC IR1 2.1 and 3.2 and Exhibit B-5, NRRM IR1 1.1.

and reduced consumption in multi-family dwellings compared to multi-family homes, is lower than across the rest of FEI's system *on average*.¹³⁰ FEI submits that comparing FEFN to FEI on average misses the key point, which is that FEFN is in fact similarly situated to many other communities served by FEI that are on common rates, such as Williams Lake, Prince George, Mackenzie, Chetwynd and Hudson's Hope.¹³¹ As these similarly situated communities are served under common rates, then it is just and reasonable to also serve FEFN under common rates. Moreover, moving FEFN to common rates in alignment with the treatment of FEI's other similarly situated customers will increase fairness.

95. FEI also submits that FEFN will be better served under common rates as compared to the status quo, as BC is currently transitioning toward a decarbonized environment and FEI is already developing and implementing strategies to support decarbonization.¹³²

¹³⁰ FNDCC-NRRM Final Argument, p. 37.

¹³¹ Exhibit B-10, FNDCC-NRRM IR2 1.4.

¹³² Exhibit B-6, BCUC IR1 3.2; Exhibit B-10, FNDCC-NRRM IR2 1.1.

PART SIX: FEI'S CONSULTATION WAS REASONABLE

96. In reply to FNDCC-NRRM's submission on FEI's consultation process, FEI relies on pages 47 to 53 of its Final Argument, and the evidence referenced therein, which discuss how FEI's consultation was reasonable, and how this regulatory proceeding has provided multiple opportunities for the public to participate in the review of FEI's Application, including asking IRs, filing evidence and submitting argument.

PART SEVEN: TOPICS PERTAINING TO THE IMPLEMENTATION OF COMMON RATES AND COSTS OF THIS PROCEEDING

97. FNDCC-NRRM seeks several approvals related to the implementation of common rates, which FEI addresses below.

- (a) **Phase-In:** FNDCC-NRRM requests a 20-year phase in for residential common rates.¹³³ RCIA also recommends this approach.¹³⁴ FEI is amenable to a 20-year phase-in.¹³⁵
- (b) **Tracking Costs:** FNDCC-NRRM requests that FEI be required to track its costs associated with providing service to FEFN and be required to apply at a future date as to how FEFN's rates would have evolved as a separate rate.¹³⁶ FEI tracks its costs of providing service as part of its ordinary functions, but submits that an application at a future date should not be directed. While FEI can track its costs, FEI will not be able to recreate what FEFN's rates would have been if FEFN's regional rates were continued. FEFN's rates are set through BCUC processes, which requires cost allocations and other judgements, which will be difficult to recreate. Moreover, one of the key benefits of common rates is the regulatory efficiencies; these efficiencies will be reduced if FEI must estimate what FEFN's rates would have been each year and file an application subject to further process. FEI also submits that there would be no reason for such a filing, as a move away from common rates would not be justified regardless of the analysis of FEFN's rates. FEI has not been required to file such an application for any of its other regions that have amalgamated or moved under common rates. FEI submits that such a process is unreasonable and unwarranted.

¹³³ FNDCC-NRRM Final Argument, p. 46.

¹³⁴ RCIA Final Argument, p. 27.

¹³⁵ As discussed in Section 5.5 of the Application, the annual bill increase for an average FEFN residential customer is approximately \$17 per year for a 10-year phase-in. The expected annual bill increase for a 20-year phase-in would be approximately half of that amount."

¹³⁶ FNDCC-NRRM Final Argument, p. 46.

- (c) **RSAM:** FNDCC-NRRM requests the return of any “over-collection from FEFN ratepayers” in FEFN’s RSAM account to FEFN ratepayers only.¹³⁷ FEI addressed this topic at paragraphs 98 to 100 of its Final Argument, but considers in reply that it is not opposed to the return of the RSAM account balance to FEFN ratepayers only. However, it appears to be FNDCC-NRRM’s position that the balance in the RSAM account should only be to the account of FEFN ratepayers if it is a positive balance in their favour. This is an asymmetrical and unprincipled approach. FEI submits that whether the balance is a credit or a debit should not be a factor in determining whether the balance is to the account of FEFN ratepayers.
- (d) **2021 Revenue Surplus:** FNDCC-NRRM requests that the balance in the FEFN 2021 Revenue Surplus deferral account should be refunded to FEFN customers only.¹³⁸ FEI has addressed this topic at paragraphs 96-97 of FEI’s Final Argument. FEI notes that under its proposed approach, the balance in this account will be returned to FEFN customers only, albeit only to FEFN residential customers.

98. FNDCC-NRRM submits that if common rates are not approved, then the costs of the regulatory proceeding should be to the account of FEI or its other ratepayers, because “It is clear from the Application that the primary purported benefits were to accrue to FEI’s shareholders or to customers outside of Fort Nelson”.¹³⁹ FEI submits there is no merit to this suggestion. FEI has acted prudently in bringing forward the present Application before the BCUC and has clearly presented why common rates are just and reasonable, and beneficial for FEFN customers. Common rates are supported by government policy,¹⁴⁰ past BCUC decisions,¹⁴¹ and are revenue neutral for FEI.¹⁴² To be clear, moving FEFN to common rates provides no benefit to FEI’s shareholder. As FEI explains in the Application, FEFN’s rates are an anomaly, with the rest of

¹³⁷ FNDCC-NRRM Final Argument, p. 46.

¹³⁸ FNDCC-NRRM Final Argument, p. 46.

¹³⁹ FNDCC-NRRM Final Argument, p. 46.

¹⁴⁰ Exhibit B-1, Application, p. 13.

¹⁴¹ Exhibit B-1, Application, p. 14.

¹⁴² Exhibit B-1, Application, Appendix C-4, p. 2.

FEI's over one million customers all receiving the same service as FEFN under common rates. As noted above, the BCUC recognized this in its Reconsideration Decision, stating (at p. 19):¹⁴³

The Commission Panel agrees there would appear to be a logical inconsistency in maintaining regional rates for Fort Nelson. ...The FEU may want to address this apparent inconsistency in its next rate design application. [Emphasis added.]

99. Further, it is the appropriate time to consider the implementation of common rates for FEFN, given FEFN's rising costs and shrinking demand. This was recognized by the BCUC in its Decision on FEI's Application for 2019-2020 Revenue Requirements and Rates for the Fort Nelson Service Area:¹⁴⁴

Postage Stamp Rates

As for the CEC's recommendation for FEI to more aggressively pursue the implementation of postage stamp rates for FEFN, the Panel makes the following observations. As discussed by FEI and demonstrated in Table 1 above, currently only residential customers (Rate Schedule 1) would experience a rate increase if FEFN were to amalgamate or postage stamp its rates with the rest of FEI's service areas. The Panel recognizes FEI's concerns regarding the rate impact that would be experienced by the residential customers in FEFN. However, the Panel also notes that FEFN's commercial and industrial customers currently would experience rate decreases if FEFN and FEI were to postage stamp their rates. Furthermore, the potential for reduced administrative and regulatory costs resulting from postage stamp rates should at least partially offset the negative rate impact on FEFN's residential customers.

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

¹⁴³ Reconsideration Decision, p. 19.

Online: <https://www.ordersdecisions.bcuc.com/bcuc/decisions/en/111696/1/document.do>.

¹⁴⁴ FortisBC Energy Inc., Application for Approval of 2019-2020 Revenue Requirements and Rates for the Fort Nelson Service Area, Reasons for Decision, March 5, 2019, pp. 10-11.

Online: https://docs.bcuc.com/Documents/Proceedings/2019/DOC_53520_G-48-19-FEI-FtNelson-2019-2020-RRA-ReasonsforDecision.pdf.

postage stamp rates, and that transitional impacts can be minimized and managed with sufficient planning and fore-thought.

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

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

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

100. FEI therefore submits that it acted reasonably and appropriately in filing the present Application.

PART EIGHT: CONCLUSION

101. FEI submits that bringing FEFN onto postage stamp rates is appropriate, fair and in the best interests of all FEI customers, including those in the FEFN service area. FEI respectfully requests that the Application should be approved as filed, with a 10-to-20-year phase-in period for FEFN residential customers.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated:

July 15, 2022

[original signed by Chris Bystrom]

Chris Bystrom

Counsel for FortisBC Energy Inc.