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September 20, 2023

British Columbia Public Interest Advocacy Centre
Suite 803 470 Granville Street
Vancouver, B.C.
V6C 1V5

Attention: Leigha Worth, Executive Director

Dear Leigha Worth:

Re: FortisBC Energy Inc. (FEI)

Annual Review for 2024 Delivery Rates (Application) – Project No. 1599536

Response to the British Columbia Public Interest Advocacy Centre representing the British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens' Organizations of BC, Together Against Poverty Society, and the Tenant Resource and Advisory Centre *et al.* (BCOAPO) Information Request (IR) No. 1

On July 28, 2023, FEI filed the Application referenced above. In accordance with the amended regulatory timetable established in BCUC Order G-241-23 for the review of the Application, FEI respectfully submits the attached response to BCOAPO IR No. 1.

For convenience and efficiency, FEI has occasionally provided an internet address for referenced reports instead of attaching lengthy documents to its IR responses. FEI intends for the referenced documents to form part of its IR responses and the evidentiary record in this proceeding.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Sarah Walsh

Attachments

cc (email only): Commission Secretary
Registered Interveners

A. PROPOSED RATE IMPACTS & REVENUE DEFICIENCY

1.0 Reference: Exhibit B-2, Application, pages 1, 10

BCUC Decision G-352-22, page 15

Topic: Proposed 2024 Rate Impacts for Residential Customers

Preamble: FEI states:

> "The proposed delivery rates for 2024 flowing from the approved formulas and forecasts set out in the Application, including returning the actual 2022 earnings sharing to customers, result in a 4.50 percent delivery rate increase from 2023 delivery rates. After consideration of the delivery rate riders, the annual bill impact is an increase of approximately $45.18 or 4.21 percent for a residential customer. The increase is primarily due to higher income tax expense, amortization of FEI's deferral accounts, and formula-driven O&M expenses, partially offset by increases in revenue due to growth in customers and volume and reduced earned return due to a reduction in FEI's rate base." **(Application, page 1)**

> "The purpose of the Annual Review is not to unravel or revisit the MRP Decision. Rather, it is designed to provide the BCUC and interveners the opportunity to review the performance of FEI over the prior year and to assess the reasonableness of proposed delivery rates for the test period." **(BCUC Decision G-352-22, page 15)**

1.1 Please explain with supporting reasons how FEI assessed from a top-down (strategic) perspective the reasonableness and appropriateness of its proposed 2024 delivery rates.

<u>Response:</u>

As part of FEI's process in preparing its annual review applications, FEI assesses the forecast rate impact, which includes considerations of both the delivery rate impact and the overall bill impact (i.e., after consideration of commodity and midstream rates as well as the RSAM rider). If the rate impact were to reach a level that was considered to be rate shock (or if FEI anticipated large rate fluctuations such as a rate decrease followed by an expected rate increase), FEI would consider rate smoothing strategies through the use of a deferral account.

It is reasonable and appropriate for FEI to be provided the opportunity to recover its cost to serve customers (including the allowed return), and FEI's proposed delivery rate increase for 2024 reflects a reasonable level of expenditures. Further, the majority of FEI's revenue requirement is comprised of items that have already been approved through previous proceedings (e.g., the indexed O&M, indexed growth capital, and approved regular sustainment and other capital, as well as the cost of service impacts from approved CPCNs and Major Projects).

Many of the remaining revenue requirement components that are forecast annually are driven by factors outside of FEI's control, such as changes in tax policies; however, to the extent that FEI is able to manage these factors for the benefit of customers, FEI undertakes such efforts (for example, being strategic in when FEI seeks debt issuances or employing strategies to manage tax impacts). For 2024, as noted on page 1 of the Application, one of the largest drivers in the proposed 2024 delivery rate increase is the higher income tax expense which is primarily due to the phase-out of Canada's Accelerated Investment Incentive starting in 2024. This phase-out is out of FEI's control and has an impact on 2024 rates due to the reduction in income tax deductible through CCA.

FEI also seeks opportunities to create savings or other benefits for customers. There are several such examples in this Application:

- The strong mitigation performance by FEI as noted on page 9 of the Application led to an overall reduction in the 2024 Forecast rate base by approximately $127.531 million, which resulted in a decrease to the 2024 Forecast earned return and the overall 2024 deficiency by approximately $7.950 million;
- Through multiple years of efforts and negotiations, FEI succeeded in receiving $6.135 million in insurance proceeds resulting from the delayed completion of the Tilbury 1A Project, and FEI is proposing to flow these proceeds fully to customers; and
- FEI underwent many months of efforts with the Ministry to receive proceeds through the BC PST Rebate on Select Machinery and Equipment and is proposing to flow these proceeds to customers immediately (please refer to the responses to the BCUC IR1 11 series for further details).

FEI works diligently and strategically to manage rate impacts while ensuring that customers are provided safe and reliable service.

1.2 Please provide a table that includes the following information: i) the delivery rate changes as approved for the period 2014-2024; ii) the cumulative delivery rate changes 2014-2024; iii) BC CPI 2014-2024; iv) the cumulative BC CPI 2014-2024; v) anticipated cumulative rate increases including those related to CPCNs, environmental targets, and any others as currently anticipated by FEI to 2030; and vi) forecasted cumulative BC CPI projected to 2030.

Response:

Please refer to the response to BCSEA IR1 1.1 for the following:

i) The delivery rate changes as approved for the period 2014-2023 and proposed 2024;

ii) The cumulative delivery rate changes for the period 2014-2023 and proposed 2024;

iii) The BC CPI from 2014 to 2023 (12-month average up to July 2023 only, as the remainder of 2023 and 2024 are not available); and

iv) The cumulative BC CPI from 2014 to 2023 (12-month average up to July 2023 only, as the remainder of 2023 and 2024 are not available).

With regard to item v), please refer to Section 9.4 of FEI's 2022 Long-Term Gas Resource Plan (LTGRP),[1] which provides the directional illustration of the cumulative effective rate increase to 2042 due to changes under FEI's Diversified Energy (Planning) and Deep Electrification scenarios. The directional illustration of cumulative rate increases includes CPCNs and Major Projects that have been filed by FEI or have been approved by the BCUC or the Province through Orders in Council (OICs).

With regard to item vi), FEI is unable to provide a forecast of BC CPI to 2030 as such a forecast is not publicly available and FEI is not in a position to make such a prediction. Consistent with other applications requiring an assumption of the long-term forecast of BC CPI, FEI relies on the Bank of Canada's Inflation-control target of 2 percent.[2]

1.3 Please provide a line graph that reflects the following: i) the cumulative delivery rate changes as approved for the period 2014-2024; ii) the cumulative BC CPI 2014-2024; iii) anticipated rate cumulative increases including those related to CPCNs, environmental targets, and any others as currently anticipated by FEI 2024-2030; and iv) forecasted cumulative BC CPI projected 2024-2030.

<u>Response:</u>

For items i) and ii), please refer to the response to BCSEA IR1 1.1. For items iii) and iv), please refer to the response to BCOAPO IR1 1.2.

Preamble: FEI states:

"In calculating its 2024 revenue deficiency, FEI has utilized its currently approved capital structure and ROE of 38.5 percent and 8.75 percent, respectively, as approved by Order G-129- 21. As explained in Section 8.1, FEI is currently

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[1] https://docs.bcuc.com/documents/proceedings/2022/doc_66503_b-1-fei-2022-longtermgasresourceplan.pdf.
[2] https://www.bankofcanada.ca/rates/indicators/key-variables/inflation-control-target/.

awaiting a decision on Stage 1 of the BCUC initiated Generic Cost of Capital (GCOC) proceeding which is expected to be issued in the upcoming months. FEI will provide an update to its rate calculations as part of an Evidentiary Update subsequent to the GCOC decision being issued." **(Application, page 10)**

1.4 Please provide the potential full extent of the 2024 Delivery rate impacts for residential customers assuming FEI's proposed Cost of Capital recommendations are approved by the BCUC.

Response:

On September 5, 2023, the BCUC issued its Decision and Order G-236-23 on Stage 1 of the GCOC proceeding (GCOC Decision). The GCOC Decision approved a deemed equity component of 45 percent and an allowed ROE of 9.65 percent, effective January 1, 2023, for FEI.

FEI is currently analyzing the impacts of the GCOC Decision and will be filing both a Compliance Filing to the GCOC Decision and an Evidentiary Update to the current Annual Review proceeding. FEI expects to file the Evidentiary Update in early October (i.e., prior to the Annual Review Workshop) and will describe the impact on the proposed 2024 delivery rates as part of the update, including a proposal for mitigating the delivery impact of the GCOC Decision.

FEI will be proposing to smooth the impacts of the GCOC Decision over multiple years and will provide this proposal and rationale in the Evidentiary Update.

2.0 Reference: Exhibit B-2, page 8, Figure 1-1, page 8

Topic: Proposed 2024 Delivery Rates

Preamble: FEI states:

"The revenue requirement components set out in the Application result in an effective delivery rate increase of 4.50 percent for 2024 compared to 2023 Approved. The effective delivery rate increase results from a revenue deficiency of $47.554 million….The following chart summarizes the items that contribute to the 2024 revenue deficiency. The chart shows each item that increases the deficiency in yellow and each item that decreases the deficiency in green. The 2024 deficiency of $47.554 million is then the sum of all the previous bars and is shown at the end of the chart in blue." **(Application, page 8)**

"In 2024, demand is forecast to decrease by approximately 1.6 PJ (or 0.72 percent) compared to 2023 Approved, primarily due to forecast decreases in Rate Schedule (RS) 46 Liquefied Natural Gas (LNG) and RS 22 large volume transportation bypass customers. These decreases are mostly offset by increases in demand from non-bypass residential, commercial, and industrial customers." **(Application, page 8)**

2.1 Please provide the proportion of the $47.6 million revenue deficiency that is impacted (directly or indirectly) by the formula vs. the proportion of the $47.6 million revenue deficiency that is not impacted by the formula (directly or indirectly).

Response:

Please refer to Table 1 below which breaks down each revenue deficiency item comprising the $47.6 million and provides the proportions which are formula driven vs. forecast (i.e., non-formula) driven. FEI also included the breakdown, in dollars and in percentage, of each revenue deficiency item between formula driven and forecast (non-formula) driven components.

Table 1: Revenue Deficiency Impacted by the Formula vs. Forecast (non-Formula)

Deficiency	Total ($ millions)	Total %	Forecast Related ($ millions)	Forecast Related %	Formula Related ($ millions)	Formula Related %
Demand Forecast	(7.399)	-15.6%	(7.399)	-20.8%	-	0.0%
Other Revenue	(0.461)	-1.0%	(0.461)	-1.3%	-	0.0%
Net O&M	12.491	26.3%	1.353	3.8%	11.138	93.5%
Rate Base Growth	(7.950)	-16.7%	(6.920)	-19.4%	(1.030)	-8.6%
Depreciation	7.705	16.2%	7.705	21.6%	-	0.0%
Deferral Amortization	19.048	40.1%	19.048	53.4%	-	0.0%
Financing and Return on Equity	3.252	6.8%	3.341	9.4%	(0.089)	-0.7%
Taxes	20.868	43.9%	18.975	53.2%	1.893	15.9%
Total	**47.554**	**100.0%**	**35.642**	**100.0%**	**11.912**	**100.0%**

2.2 Please provide a table that breaks down each revenue deficiency item in Figure 1-1 between formula driven (either directly or indirectly) and non-formula driven, as well as the percentage of each of the revenue deficiency drivers of the proposed 4.5% delivery rate increase.

Response:

Please refer to the response to BCOAPO IR1 2.1.

2.3 Please provide the percentage of the proposed 4.5% delivery rate increase that is driven by overall cost increases and the percentage of the proposed 4.5% delivery rate increase that is driven by volume reductions.

Response:

FEI notes that, as discussed in Section 1.5.1 of the Application, although the 2024 demand is forecast to decrease by approximately 1.6 PJ (or 0.72 percent) when compared to 2023 Approved, the overall revenue is forecast to increase by approximately $7.399 million. This increase in revenue is due to the increase in customer counts and forecast demand from the non-bypass residential, commercial, and industrial customers, which more than offsets the reductions to revenue from decreased demand from RS 46 LNG and RS 22 bypass customers.

Without the forecast increase in revenue, the 2024 delivery rate increase would have been 5.2 percent, and is attributable to the factors noted in Figure 1-1 on page 8 of the Application, including increases in the revenue requirement for taxes, deferral amortization, net O&M (primarily formula) and depreciation.

3.0 Reference: Exhibit B-2, page 8; Section 2.3, page 13

Topic: Load and Customer Growth

Preamble: FEI states:

> "In 2024, demand is forecast to decrease by approximately 1.6 PJ (or 0.72 percent) compared to 2023 Approved, primarily due to forecast decreases in Rate Schedule (RS) 46 Liquefied Natural Gas (LNG) and RS 22 large volume transportation bypass customers. These decreases are mostly offset by increases in demand from non-bypass residential, commercial, and industrial customers." **(Application, page 8)**

> "The calculation of the average customers used to determine 2024 Formula O&M is summarized in the table below. The growth factor is applied to the unit cost O&M (UCOM), which was calculated based on 2019 average customers of 1,031,862 (shown on line 21 under year 2020 or line 28 in Table 2-2 below). Starting with this 2019 average customer count, the calculation adds 75 percent of the cumulative average of actual/forecast customer growth during the MRP term from 2020 to 2024 (shown on line 26 in Table 2-2 below) to determine the average customers for rate setting (shown on line 29 of Table 2-2 below)." **(Application, page 13)**

3.1 Please fully discuss the impact of the rise in interest rates, DSM and the move to advanced programming, and government environmental policy to FEI's forecast of customer additions underpinning the 2024 Delivery Rate Application.

Response:

FEI does not make adjustments to its customer additions forecasting method for interest rates, DSM, advanced programming, and government environmental policy. As described in Appendix A3 of the Application, FEI's residential customer forecast is based on the CBOC forecast for housing starts. Although the CBOC forecasting method is proprietary and confidential, FEI expects their algorithm would have considered many of these factors, particularly rising interest rates, when producing their forecast.

FEI notes the customer additions forecast (and also the demand forecast) that underpins the 2024 delivery rate is fundamentally a one-year forecast using historical data and the CBOC forecast for housing starts. While the market/environmental/economic factors identified by this information request would likely have an effect (positively or negatively) on FEI's customer additions as well as demand, the impacts of these factors over a one-year period would be small. These market/environment/economic factors would, however, generally have larger impacts in a long-term forecast. For example, these factors are considerations in FEI's 2022 LTGRP in which various scenarios similar to those identified here are explored, including economic stagnation, diversified energy, or deep electrification over a 20-year horizon.

Ultimately, variances due to over- or under-forecasting of customer additions and/or demand from the one-year forecast that underpins the proposed delivery rate increase, except for the use rate variances from Rate Schedules (RS) 1, 2, 3 and 23, are captured in the Flow-through deferral which will be either recovered from or returned to customers in the following year through amortization. The use rate variances from RS 1, 2, 3 and 23 are captured in the RSAM deferral account and are recovered from or returned to customers through the RSAM rate rider over a two-year period. As such, customers are generally held whole from forecasting variances through the deferral accounts already in place under the currently approved treatment.

B. OPERATING AND MAINTENANCE EXPENSES (O&M)

4.0 Reference: Exhibit B-2, Section 6.1, page 41

Topic: Changes in O&M

Preamble: FEI states:

> "In 2024, the Formula O&M is $312.561 million, representing a 4.4 percent increase from the 2023 Formula O&M, primarily driven by the net inflation factor. For the O&M expenses tracked outside of the formula (i.e., Forecast O&M), the 2024 forecast is $57.646 million, representing a 4.2 percent increase from the amount approved for 2023. Overall, the increase in gross O&M expense from 2023 Approved to 2024 Forecast is 4.4 percent." **(Application, page 41)**

4.1 Please provide a breakdown of FEI's net O&M for the 2023 outlook (actuals to June 30th 2023 and forecast for the remaining months of 2023) and 2024 forecast, by cost element.

Response:

Please refer to Table 1 below for the June 30, 2023 year-to-date actuals by labour (including fringe benefits) and non-labour for formula O&M and forecast O&M. Please note that the capitalized overhead adjustment for the formula and forecast O&M expenditures is done at an aggregate level.[3] Further, the biomethane O&M transferred to the BVA is allocated at 43 percent labour and 57 percent non-labour, consistent with the biomethane gross expenditures.

At this time, except for the aggregate annual numbers provided in Table 6-1 of the Application, FEI does not have a forecast (2023 Projected) for the remaining months of 2023 and for 2024 by cost element for formula O&M. FEI does not prepare detailed breakdowns of its Projected or Forecast formula O&M as part of the annual reviews for a number of reasons. First, results for 2023 and 2024 are expected to change as compared to the current forecasts in response to business requirements, particularly at a granular level of detail, making forecasts at the cost element inapplicable. Further, as part of the MRP, FEI is approved to manage the overall formula O&M by allocating resources where needed across cost elements and departments.

With regard to forecast (flow-through) O&M, FEI has already provided its expectations regarding 2023 Projected and 2024 Forecast in a granular level of detail for each category as part of the Application.

[3] Adjustment of 16 percent for capitalized overhead as approved by the MRP Decision and Order G-165-20.

Table 1: Actual June 2023 Year-to-Date Labour and Non-labour for Formula and Forecast O&M

		June 2023 YTD Actual		
Line	**2023 O&M Expense**	**Total**	**Labour**	**Non-Labour**
1	Formula	$ 138.1	$ 74.9	$ 63.2
2	Forecast	$ 27.0	9.1	17.9
3	**Total Gross O&M ($ millions)**	**$ 165.1**	**$ 84.0**	**$ 81.1**
4	% of Total Gross O&M	100%	51%	49%
5				
6	Total Gross O&M ($ millions)	$ 165.1	$ 84.0	$ 81.1
7	Less: Capitalized Overhead	(28.4)	(14.4)	(14.0)
8	Less: Biomethane O&M Transferred to BVA	(2.7)	(1.2)	(1.5)
9	**Net O&M ($ millions)**	**134.0**	**68.4**	**65.6**
10	% of Total Net O&M	100%	51%	49%

4.2 Please provide the approximate percentage of total O&M (gross and net) that labour and labour-related expenses represents.

Response:

Please refer to the response to BCOAPO IR1 4.1.

4.3 Please provide the total increase ($ and %) in wages and benefits in both 2023 and 2024.

Response:

Please refer to the response to BCOAPO IR1 4.1 explaining why FEI does not have a forecast (2023 Projected) for the remaining months of 2023 and for 2024 by cost element (grouping) which would be required in order to provide the total increase ($ and %) in wages and benefits in both 2023 and 2024.

5.0 Reference: Exhibit B-2, Section 1.4.1, pages 3-4; Section 1.4.2, page 4

Topic: Productivity Savings

Preamble: FEI states:

> "For 2022, FEI achieved formula O&M savings in addition to meeting the embedded productivity improvement factor in the O&M formula. Total formula O&M savings before earnings sharing were approximately $7.3 million, excluding the COVID-19 pandemic approved exogenous factor credit for net O&M cost reductions of approximately $3.9 million." **(Application, page 3)**

> "Additionally, approximately $3 million of the overall O&M savings are due to estimated general overall labour savings." **(Application, page 4)**

> "As described in FEI's Annual Review for 2022 Delivery Rates, in 2021, FEI and FortisBC Inc. (together FortisBC) initiated a working group consisting of senior managers and directors from different parts of the organization that is responsible for reviewing and identifying productivity initiatives." **(Application, page 4)**

5.1 Please provide a table that includes the following information: i) the total productivity savings ($) achieved in addition to meeting the embedded productivity improvement factor (0.5%) in the O&M formula for each completed year 2020-2024 of the current MRP. For the purposes of the 2023 year, please provide on an outlook basis reflecting the most current available actuals (to June 30, 2023 based on actuals with the remaining months of 2023 based on forecast); ii) total forecasted O&M; iii) total productivity savings (in total) achieved as a percentage of total forecasted O&M for each year.

<u>Response:</u>

FEI interprets the reference to "productivity savings" in this IR as requesting the total formula O&M savings of $7.3 million; however, in the event that BCOAPO intended to refer to the savings from the productivity initiatives only, FEI has provided both breakdowns below.

Table 1 provides the estimated total formula O&M savings that have been achieved for the actual years completed from 2020 to 2022. These saving are in addition to the savings resulting from the embedded Productivity Improvement Factor (PIF) of 0.5 percent in the O&M formula. The annual formula O&M savings in Table 1 are adjusted to reflect the BCUC's decision as part of the Annual Review for 2023 Delivery Rates approving the COVID-19 incremental costs and related savings for 2020 and 2021 to be returned to customers.

Table 1: Total Savings Achieved Above the Embedded 0.5% PIF Compared to Total Formula O&M

$ millions	2020	2021	2022
Formula O&M Savings	(2.265)	(4.191)	(3.487)
COVID Savings Adjustments	1.680	2.180	(3.860)
Item i) Formula O&M Savings Adjusted for COVID	(0.585)	(2.011)	(7.347)
Item ii) Total Forecasted (Formula) O&M	261.798	272.463	285.219
Item iii) Total Estimated Savings as % of Total Forecasted (Formula) O&M	0.2%	0.7%	2.6%

Table 2 provides the estimated total formula O&M savings related to the productivity initiatives that have been achieved for the actual years completed from 2020 to 2022. These savings are in addition to the savings resulting from the embedded PIF of 0.5 percent in the O&M formula.

Table 2: Savings Achieved from Productivity Initiatives compared to Total Formula O&M

Year	Item i) Estimated Savings for Productivity Initiatives ($ millions)	Item ii) Total Forecast (Formula) O&M ($ millions)	Item iii) Total Estimated Savings for Productivity Initiatives as % of Total Forecast (Formula) O&M	Notes
2020	Minor	$261.798	Minor	
2021	Minor	$ 272.463	Minor	
2022	$2	$ 285.219	0.7%	Please refer to the response to CEC IR1 2.7 for further details.

Regarding the request to provide the total productivity savings on an outlook basis for 2023, please refer to the response to BCOAPO IR1 4.1 explaining why FEI does not have a forecast for the remaining months of 2023.

5.2 Please explain what is meant by "general overall labour savings".

Response:

Please refer to the response to BCUC IR1 8.3.

5.3 Please provide a breakdown of the $3 million of O&M savings due to general overall labour savings, along with the factors driving the material savings.

Response:

Please refer to the response to BCUC IR1 8.3.

5.4 In Section 1.4.2, pages 4-7 of the Application, FEI identifies a number of initiatives implemented by the working group including for example, Operational Field Excellence and Methane Leak Detection. Please provide a table with the following information: i) each initiative from pages 4-7; ii) the total savings ($) attributable for each initiative in 2022; iii) the total savings ($) attributable for each initiative in 2023; iv) the total savings ($) attributable for each initiative anticipated in 2024, if any; and v) the total savings ($) by year 2022, 2023 and 2024. As part of the response, please identify and explain the portion of the 0.5% productivity factor these initiatives have contributed to for each year (2022, 2023, 2024) and the portion above the 0.5% productivity factor (that is, the savings over and above the formula) that these initiatives have contributed to in each year (2022, 2023, 2024).

Response:

For items i), ii), and v), please refer to the response to CEC IR1 2.7 (with regard to item v), for years' 2023 and 2024, please refer to the response to BCOAPO IR1 4.1, which explains why this information is not available).

For items iii) and iv), please refer to the response to BCOAPO IR1 4.1, which explains why FEI does not have a forecast of productivity initiative savings for the remaining months of 2023.

The 2022 Formula O&M savings reported in Section 1.4.1 of the Application of $7.3 million, which include the productivity initiatives, are the savings which FEI has achieved over and above the embedded PIF of 0.5 percent.

FEI notes that the purpose of including a discussion of the productivity initiatives in the annual reviews is to provide examples and highlight initiatives that the Company is pursuing to manage overall costs, while meeting its business requirements in its evolving and challenging operating environment. For example, there are smaller scale efforts and activities undertaken which are not tracked specifically that contribute to the Company achieving the PIF used in the determination of the overall formula O&M funding available.

6.0 Reference: Exhibit B-2, Section 6.3, Table 6-4, page 44; Section 6.3.1, page 45

Topic: Increase in O&M Expenditures outside the Formula

Preamble: FEI states:

> "A decrease of approximately $5 million due to a reduction in current service costs as well as a higher amortization of actuarial gains, both of which are primarily the result of a higher discount rate. The discount rate, which is determined with reference to the market rate of interest on high-quality debt instruments at a point in time, increased from 4.50 percent, which was used to determine the 2023 Approved expense, to 5.25 percent, which is used to determine the 2024 Forecast expense." **(Application, page 45)**

6.1 Please expand Table 6-4 (page 44) to include the following information: i) the variance ($ and %) between the 2023 Approved O&M Expenditures and the 2024 Proposed O&M Expenditures; and ii) the total 2023 Approved O&M Expenditures excluding Pension; iii) the total 2024 Proposed O&M excluding Pension; and iv) the total variance ($ and %) between the 2023 Approved and 2024 Proposed O&M Expenditures excluding Pension.

Response:

Please refer to Table 1 below for item i) the variances ($ and %) between 2023 Approved and 2024 Forecast O&M expenditures.

Table 1: 2023 Approved and 2024 Forecast O&M ($ millions)

Line No.	Description	Approved 2023	Forecast 2024	Variance $	Variance %
1	Pension/OPEB (O&M Portion)	$ 9.577	$ 2.555	$ (7.022)	-73.3%
2	Insurance	12.242	13.328	1.086	8.9%
3	Integrity O&M	8.000	11.200	3.200	40.0%
4	BCUC Levies	8.493	9.955	1.462	17.2%
5	**Clean Growth Initiatives:**				
6	Biomethane O&M	5.237	5.817	0.580	11.1%
7	Renewable Gas Development	2.000	4.052	2.052	102.6%
8	NGT O&M	1.937	2.604	0.667	34.4%
9	Variable LNG Production Costs	7.859	8.135	0.276	3.5%
10	Forecast O&M	$ 55.345	$ 57.646	$ 2.301	4.2%

Please refer to Table 2 below for items ii) the total 2023 Approved O&M excluding pension/OPEB, iii) 2024 Forecast O&M excluding pension/OPEB, and iv) the total variance ($ and %) between the 2023 Approved and 2024 Forecast O&M expenditures excluding pension/OPEB.

Table 2: 2023 Approved and 2024 Forecast O&M Excluding Pension/OPEB ($ millions)

Line No.	Description	Approved 2023	Forecast 2024	Variance $	Variance %
1	Insurance	$ 12.242	$ 13.328	$ 1.086	8.9%
2	Integrity O&M	8.000	11.200	3.200	40.0%
3	BCUC Levies	8.493	9.955	1.462	17.2%
4	**Clean Growth Initiatives:**				
5	Biomethane O&M	5.237	5.817	0.580	11.1%
6	Renewable Gas Development	2.000	4.052	2.052	102.6%
7	NGT O&M	1.937	2.604	0.667	34.4%
8	Variable LNG Production Costs	7.859	8.135	0.276	3.5%
9	Forecast O&M	$ 45.768	$ 55.091	$ 9.323	20.4%

FEI provides further elaboration on the forecast O&M items with variances greater than 5 percent, including commenting on BCOAPO's request that FEI explain how it assessed the expenditures from a top-down perspective. However, FEI notes that it is expected that Flow-through O&M expenses will fluctuate more significantly from year to year, which is in part why such expenses are approved for flow-through treatment as opposed to being included as part of formula O&M. Variances between approved and actual flow-through items are trued up through the Flow-through deferral account so that customers are kept whole.

1. **Pension/OPEB:** The concept of a "top-down perspective" does not apply to this category of expense, as the annual expense amount is driven by the impact of market forces on the interest rate and pension plan investment returns, among other factors external to FEI.
2. **Insurance:** The concept of a "top-down perspective" does not apply to this category of expense. As explained in Section 6.3.2 of the Application, this expense is determined based on FEI's annual insurance renewal and the impact of the renewal on FEI's insurance premiums. Insurance costs have been increasing steadily over the last five years. While FEI is able to benefit from being part of Fortis Inc.'s insurance program, ultimately increases in insurance are outside of FEI's control.
3. **Integrity O&M:** The increase in integrity O&M from 2023 Approved to 2024 Forecast is primarily due to an increased number of integrity digs forecast for 2024 as well as higher costs per dig. FEI annually assesses the reasonableness of the forecasts for integrity digs; however, ultimately the digs are necessary to ensure the safety and reliability of FEI's system. Further, the annual variability of integrity digs was recognized by the BCUC in the MRP Decision. The BCUC approved flow-through treatment for integrity O&M on page 74 of the MRP Decision, stating that it agrees that the costs are primarily outside of FEI's control and that FEI has demonstrated that there can be considerable uncertainty related to scope, cost, timing and volume of expected digs. Please refer to the response to CEC IR1 6.12 for the reasons behind the higher number of integrity digs forecast for 2024 and

please refer to the response to BCOAPO IR1 7.2 for the reasons for increasing costs per dig, including cost pressures in fuel and contractors that are reflected in the 2024 Forecast.

4. **BCUC Levies:** The concept of a "top-down perspective" does not apply to this category of expense. This expense is the allocation that FEI receives from the BCUC for the BCUC's annual operating costs.
5. **Biomethane O&M:** As shown in Table 6-8 of the Application, the primary drivers of the increased Biomethane O&M are an increase to Program Overhead and increased O&M from the Kelowna and City of Vancouver projects. The Biomethane program is one of FEI's clean growth initiatives and the costs are either directly or indirectly the result of prescribed undertakings. The increase in FEI's biomethane O&M expenditures are reasonable and appropriate from a "top-down" perspective because FEI must continue to increase its blend of biomethane into its system in order to meet the Province's GHG emission reduction standard by 2030 in the CleanBC Roadmap, the Province's emission reduction target by 2040, and the net-zero GHG emissions target by 2050.
6. **Renewable Gas Development:** Government policies and regulations on climate action, including the Province's GHG emission reduction standard by 2030 in the CleanBC Roadmap, the Province's emission reduction target by 2040, and the Province's ambition to achieve net-zero GHG emissions by 2050, make it necessary for FEI to prepare its system for the introduction of hydrogen, lignin and synthesis gas as energy options (the acquisition of which are prescribed undertakings under the GGRR). As such, the increase of renewable gas development O&M is necessary, as well as reasonable and appropriate from a "top-down" perspective. The 2024 Forecast includes work required to continue to progress feasibility, safety, codes and standards, and business opportunities for the supply and use of hydrogen, lignin, and syngas, which lead to increases in both labour and non-labour costs. Please refer to Section 6.3.6 of the Application for the specific ongoing activities and projects related to the development of hydrogen and lignin in FEI's system.
7. **NGT O&M:** As explained in Section 6.3.7 of the Application, the increase in the NGT O&M is primarily due to increasing CNG load, particularly from the GFL Environmental Inc. Fueling Station located in Abbotsford and the Annacis Island Fueling Station. The increase is reasonable and appropriate as increasing throughput at CNG stations will increase the runtime of the compressors as well as other equipment at the station. NGT is one of FEI's clean growth initiatives. All of FEI's clean growth initiatives are critical to FEI achieving provincial and federal climate goals, and are therefore reasonable and appropriate from a "top-down" perspective.

6.2 Further to BCOAPO 6.1, for each variance greater than 5%, please explain how FEI assessed, from a top-down perspective, the appropriateness and reasonability of the proposed expenditures.

Response:

Please refer to the response to BCOAPO IR1 6.1.

6.3 Please provide a sensitivity of the 2024 forecast pension and OPEB expensive of a +/- 1% change to the forecast 2024 discount rate of 5.25%.

Response:

Sensitivities on the 2024 Forecast pension and OPEB expense are not readily available without working with FEI's actuary, Willis Towers Watson (WTW), who could provide this information but with additional consulting costs and time incurred.

Alternatively, the approximate magnitude of change can be provided based on sensitivities already provided on 2022 pension and OPEB expense by WTW in their 2022 ASC 715 actuarial report. Based on this information, the effect of a +/- 1 percent change to the pension and OPEB expense (which is comprised of actuarially determined current service costs, interest costs, expected return on pension assets, and amortization of actuarial gains/losses) is approximately as follows:

Table 1: Increase / (Decrease) in 2022 Pension and OPEB Expense

In thousands $	Pension	OPEB
1% increase in the discount rate	(10,335)	(2,157)
1% decrease in the discount rate	21,149	1,750

With respect to how components of pension and OPEB expense are included in O&M, the current service cost is allocated between O&M and capital based on US GAAP accounting standard update ASU 2017-07 issued in 2017, and approved in the 2018 Annual Review in Order G-196-17. The rest of the components would be allocated to O&M. As a result, the sensitivity of changes in the overall pension and OPEB expense may not align with the change in O&M expenditure.

7.0 Reference: Exhibit B-2, Section 6.3.3, pages 46-49; Section 6.3.3.1, Table 6-7, page 47

Topic: Integrity Dig Expenditures Increase

Preamble: FEI states:

"The 2024 Forecast for integrity digs and incremental integrity activities is $11.2 million, which is an increase of $3.2 million from 2023 Approved and $2.2 million from 2023 Projected. The 2024 Forecast includes approximately $10.2 million for integrity digs and $1 million for incremental integrity activities related to the IGU and CTS TIMC Projects." **(Application, page 46)**

"As there is no sufficient technical basis for estimating the number of digs from a first time in-line inspection, FEI has based its projections on the engineering judgement of qualified staff, which is informed by various information sources…" **(Application, page 48)**

"The estimates reflect Operations' understanding of cost pressures, including fuel and contractors." **(Application, page 49)**

7.1 Please provide a table that includes the following information: i) 2020-2023 forecast cost (as approved) for integrity digs; ii) 2020-2023 actual cost for integrity digs. For 2023, please include on an outlook basis based on the most current available cost data; iii) 2024 as forecasted in this Application, and iv) the forecast increase by year ($ and %) between 2020-2024 and in total for the five-year period.

Response:

Please refer to the following table for the requested information.

Integrity Digs ($000s)	2020	2021	2022	2023	2024
Approved/Forecast	4,400	4,800	5,700	7,000	10,200
Actual/Projected	5,900	7,200	6,200	8,200	n/a
Year-to-Year Approved/Forecast Increase ($000s)	n/a	400	900	1,300	3,200
Year-to-Year Approved/Forecast Increase (%)	n/a	9%	19%	23%	46%
Cumulative Approved/Forecast Increase ($000s)	n/a	400	1,300	2,600	5,800
Cumulative Approved/Forecast Increase (%)	n/a	9%	30%	59%	132%

The annual variability in the costs of integrity digs and the variances between forecast/approved and actual costs is expected, as costs associated with integrity digs are primarily outside of FEI's control, and there can be considerable uncertainty related to scope, cost, timing and volume of expected digs. As explained in the response to BCOAPO IR1 6.1, the annual variability of integrity digs was recognized by the BCUC in the MRP Decision. The BCUC approved flow-through treatment for integrity O&M on page 74 of the MRP Decision, stating that it agrees that the costs are primarily outside of FEI's control and that FEI has demonstrated that there can be considerable uncertainty related to scope, cost, timing and volume of expected digs. Further, as explained in the response to CEC IR1 6.13, FEI conducts integrity digs to maintain compliance to standards and to prevent failures (leaks and ruptures) of its transmission pipelines. Integrity digs are critical to FEI's continued safe and reliable operation of its transmission pipelines, and enable FEI to align with industry standard practice.

7.2 Please explain in detail how "cost pressures, including fuel and contractors" have been reflected in the 2024 forecast for integrity digs. As part of the response, please quantify and explain the impact of "fuel and contractors" to the 40% forecast increase for integrity digs ($3.2/(11.2-3.2) = 40%).

<u>Response:</u>

The 2024 Forecast of $11.2 million for Integrity O&M applies to integrity digs <u>and</u> incremental integrity O&M resulting from the approved Inland Gas Upgrades (IGU) and Coastal Transmission System (CTS) Transmission Integrity Management Capabilities (TIMC) CPCNs, as follows:

- $10.2 million for integrity digs (increase of $3.2 million from the 2023 Approved of $7.0 million); and
- $1.0 million for incremental integrity activities (consistent with 2023 Approved amount of $1.0 million).

As the cost pressures referenced in the question and in the preamble to the IR are referring to the integrity digs only, the corrected calculation is $3.2 million / $7 million = 46%.

The 2024 Forecast includes the impact of inflationary-related cost pressures on fuel and contractors, which FEI estimates to be in the range of four percent. However, the primary reasons for the $3.2 million variance between 2023 Approved and 2024 Forecast are as follows:

- There is an approximately $2 million increase due to the number of "ILI Digs – New Tool(s)" following FEI's first-time EMAT inspection of the HUN ROE 1067 as part of FEI's post-CTS TIMC project activities. This is FEI's largest diameter transmission pipeline, with the potential for large numbers of digs in higher-developed areas.
- There is an approximately $1 million increase due to the forecast need for incremental specialized contracted resources due to large diameter digs on the HUN ROE 1067 as part of FEI's post-CTS TIMC project activities and due to dent repairs system-wide.

7.3 In Table 6-7, FEI provides a breakdown of the number of integrity digs per year from 2020 to 2024 between five categories or reasons for the digs. Please provide a breakdown of the total integrity dig expenditures (line 7 from Table 6-7) from 2020 actual to 2024 forecast between the five reasons for dig categories.

Response:

While FEI forecasts and records its actual number of integrity digs based on these categories, it does not record its actual integrity dig expenditures based on the five reasons for dig categories. These categories were created for the purpose of explaining the significant drivers for uncertainty with respect to the number of integrity digs, as discussed in Section 6.3.3 of the Annual Review for 2022 Delivery Rates. As a result, FEI does not have the requested data.

8.0 Reference: Exhibit B-2, page 50

FEI 2023 Delivery Rate Application, Exhibit B-2, page 50

Topic: Coastal Transmission System Transmission Integrity Management Capabilities (CTS-TIMC) Project

Preamble: FEI states:

> "Next steps currently include: defining and establishing capabilities for ensuring that suitable and validated data inputs are fed into the risk model; defining and establishing capabilities for assessing risk for all in-scope assets; and driving risk-informed and risk-based decisions. These capabilities exceed FEI's existing integrity management resources and will require FEI to recruit and retain additional specialist technical and engineering personnel. Given the highly specialized nature of these roles, long lead times are necessary to secure or develop employees with the required engineering competencies….For 2023, FEI is forecasting $0.700 million in incremental O&M primarily associated with securing additional engineering resources to develop and implement the next QRA iteration. FEI will identify any incremental costs for further developing and implementing the QRA process in future rate applications, as well as incremental resources associated with the increased ILI program scope." **(2023 Application, page 50)**

> "For 2024, FEI is continuing to forecast $0.700 million in incremental O&M, consistent with 2023 Approved and 2023 Projected levels, which is primarily associated with initial engineering resources for performing ongoing QRAs." **(2024 Application, page 50)**

8.1 Please provide a table that breaks down the incremental $0.700 million O&M for 2023 as follows: i) the number of incremental internal engineering specialists hired by FEI in 2023 and the associated cost; ii) the external cost of engineering resources in 2023 engaged to assist and/or perform QRAs; and iii) the 2023 projected costs. As part of the response please also identify and explain the number of internal resources in 2023 that began to acquire the specialized skill set.

<u>Response:</u>

Both the 2023 Projected and 2024 Forecast amounts of $0.700 million relate to internal engineering resources; none of the amounts in either year include costs for external engineering resources to assist and/or perform QRAs. Accordingly, please refer to the table below which provides (i) the number of incremental internal engineering specialists hired by FEI in 2023 and 2024, and (iii) the 2023 Projected and 2024 Forecast costs associated with the internal incremental employees.

At this time, FEI has allocated approximately three internal senior technical resources to the CTS TIMC project, including post-Project activities such as QRA and ILI analysis of EMAT data. FEI notes that the actual number of individuals working on CTS TIMC-related work is expected to vary as weekly/monthly integrity management priorities vary. Although FEI is undertaking assessments of future resource requirements, FEI's current projection of its 2023 costs in this area remains at $0.700 million and, accordingly, the 2024 Forecast remains at $0.700 million.

Table 1: 2023 Projected and 2024 Forecast Incremental Internal Resources and Costs

	2023 Projected	2024 Forecast
# of Incremental Internal Resources	3	0[4]
Cost of Incremental Internal Resources	$0.700 million	$0.700 million[5]

8.2 Please provide a table that breaks down the incremental $0.700 million O&M for 2024 as follows: i) the number of incremental internal engineering specialists anticipated to be hired by FEI in 2024 and the associated cost; ii) the external cost of engineering resources in 2024 engaged to assist and/or perform QRAs; and iii) the 2024 projected costs based on the most current actuals to date. As part of the response please also identify and explain the number of internal resources in 2024 that have begun to acquire the specialized skill set.

Response:

Please refer to the response to BCOAPO IR1 8.1.

[4] FEI is not forecasting additional incremental resources in 2024; rather, the three incremental resources in 2023 will continue to be utilized in 2024 and the associated costs will therefore continue to be included in FEI's flow-through forecast for 2024 (and in future years).

[5] The 2024 Forecast of $0.700 million reflects the continued cost of the three incremental resources hired in 2023.

9.0 Reference: FEI Certificate of Public Convenience and Necessity (CPCN) for the Interior Transmission System (ITS) Transmission Integrity Management Capabilities (TIMC) Project, Exhibit B-18, FEI Rebuttal Evidence, pages 8 & 20

Preamble: FEI states:

> "If FEI is required to expose the YAH TRA 323 pipeline for any reason, including to complete integrity digs and/or pipeline repairs resulting from any ILI run, it is standard procedure to temporarily reduce the operating pressure of the pipeline to perform the work safely. Since a pressure reduction also limits pressure on the YAH OLI 610 pipeline, FEI's flexibility to perform work on the YAH TRA 323 pipeline is limited at times by the need for capacity on the YAH OLI 610 pipeline. Having independent pressure control on each line will allow for more flexibility in timing to complete integrity work and improve FEI's ongoing capabilities to collect and respond to integrity data, as well as its ability to resource.
>
> Moreover, maintaining capacity on the YAH OLI 610 pipeline in a reduced pressure scenario requires operating gas-fired compressor stations during off-peak times. This results in higher O&M costs and increased greenhouse gas emissions, due to both the added run time and potential inefficient operation of the compressors under this type of operating scenario." **(Exhibit B-18, FEI Rebuttal Evidence, A12, Page 8)**
>
> "FEI has identified the following reasons supporting the need to proactively replace the heavy-wall pipe segments at Events 29 and 31…First…FEI relies on the KIN PRI 323 and PRI OLI 323 pipelines to provide gas from TC energy to the CTS…if these pipelines were operated at a reduced pressure, FEI would not be able to deliver up to a maximum of 105 MMSCFD of gas to the CTS and, depending on the time of year, would need to source additional supply in the open market at higher cost to replace the balance of the gas…Third, if FEI could not mitigate cracking on the downstream impacted pipe prior to winter and a pressure reduction were required to remain in place throughout the winter, FEI would incur unplanned and much higher gas costs to secure the balance of supply for the CTS, which would be borne by customers." **(Exhibit B-18, FEI Rebuttal Evidence, A16, Page 20)**

9.1 Please describe in detail any instances during 2020, 2021, 2022 and 2023, if any, when FEI incurred any expenses associated with a pressure reduction in any of Utility's pipelines as per FEI's evidence quoted above.

Response:

FEI's evidence quoted above, which has been extracted from FEI's Rebuttal Evidence filed as part of the Interior Transmission System (ITS) Transmission Integrity Management Capabilities

(TIMC) CPCN proceeding, pertains to the following gas transmission pipelines and FEI has therefore limited its response to these pipelines:

- YAH OLI 610;
- YAH TRA 323;
- KIN PRI 323; and
- PRI OLI 323.

The following table provides the recorded instances of pressure reductions on the four pipelines listed above during 2020, 2021, 2022 and 2023. While FEI considers it likely that expenses were incurred in some or all of these instances, FEI is unable to quantify them for a number of reasons. Primarily, FEI does not differentiate fluctuations in its day-to-day or hour-to-hour operating costs, such as those related to changes in its compression fuel use and associated carbon tax, dependent on how the system is operating that day or hour. Operating parameters and associated costs fluctuate regularly based on numerous factors including weather (i.e., customer gas use) and commodity price, and are not broken down and tracked against individual activities on the pipeline system. Additionally, FEI's fluctuations in gas supply costs are not differentiated based on cause.

Table 1: ITS Pressure Reductions 2020 to 2023

Year	Pipeline	Reason for Pressure Reduction Occurrence
2020	PRI OLI 323	Documentation of reason not located
2020	KIN PRI 323	Integrity dig(s)
2020	KIN PRI 323	Integrity dig(s)
2020	YAH TRA 323	Integrity dig(s)
2020	PRI OLI 323	Integrity dig(s)
2021	YAH TRA 323	Integrity dig(s)
2021	YAH TRA 323	Integrity dig(s)
2021	YAH TRA 323	Integrity dig(s)
2021	YAH TRA 323	Pipeline repair
2021	YAH TRA 323	Integrity dig(s)
2021	PRI OLI 323	Pipeline repair
2021	KIN PRI 323	Integrity dig(s)
2022	KIN PRI 323	Integrity dig(s)
2022	PRI OLI 323	Integrity dig(s)
2022	PRI OLI 323	Integrity dig(s)
2022	PRI OLI 323	Integrity dig(s)
2022	PRI OLI 323	Integrity dig(s)
2022	YAH TRA 323	Integrity dig(s)

Year	Pipeline	Reason for Pressure Reduction Occurrence
2022	YAH TRA 323	Integrity dig(s)
2022	YAH TRA 323	Mitigation measure in response to an exposed water crossing
2023	YAH TRA 323	Integrity dig(s)
2023	PRI OLI 323	Pipeline repair
2023	PRI OLI 323	Integrity dig(s)

C. RATE BASE

10.0 Reference: Exhibit B-2, Table 7-3, page 60; Table 7-5, page 61; Table 7-7, page 67

Topic: Projected and Forecast Capital Expenditures

Preamble: FEI states:

> "Further, as part of the FEI Annual Review for 2023 Delivery Rates Decision and Order G-352- 3 22, FEI received approval of its forecasts of regular sustainment and other capital expenditures for the years 2023 and 2024." **(Application, page 59)**

> FEI indicates that its 2023 Projected Capital Expenditures in Table 7-3 is $183.850 million.

10.1 Please explain how FEI derived the 2023 Projected Capital Expenditures (Table 7-3). As part of the response, please confirm or otherwise explain that the 2023 Projected Capital Expenditures is equivalent to an outlook and provide: i) the date the outlook/projection was determined; and ii) the number of months of actuals reflected in the outlook/projection.

Response:

As indicated in the preamble to this IR, the 2023 and 2024 regular sustainment and other capital forecasts were approved as part of the Annual Review for 2023 Delivery Rates Decision and Order G-352-22. Consistent with how FEI presents its approved Formula O&M, approved Growth Capital, and how FEI has reported its approved 2020, 2021 and 2022 regular sustainment and other capital expenditures in previous annual review applications during this MRP term, the 2023 Projected amount is presented in the table to be consistent with 2023 Approved. However, based on actual expenditures up to June 30, 2023, FEI anticipates its forecast 2023 gross sustainment and other capital expenditures to be consistent with its approved amount of $183.850 million.

10.2 Please provide an outlook of the 2023 Capital Expenditures based on actual capital spend to June 30th and outlook for the remaining months of 2023.

Response:

Please refer to the response to BCOAPO IR1 10.1.

10.3 Please provide a table with the following information: i) 2020 - 2024 forecast capital expenditures (as approved); ii) 2020 - 2022 actual capital expenditures; and iii) 2023 capital expenditures on an outlook basis (actual to June 30th and forecast for the remaining months of 2023).

Response:

Please refer to Table 1 below for the requested information.

Table 1: Total Regular Sustainment and Other Capital Expenditures for 2020-2024 Approved, 2020-2022 Actual, and 2023 Projected ($ millions)

	Item i)					Item ii)			Item iii)
	2020 Approved	2021 Approved	2022 Approved	2023 Approved	2024 Approved	2020 Actual	2021 Actual	2022 Actual	2023 Projected
Sustainment Capital	111.530	112.944	117.106	129.336	130.628	112.405	115.763	124.653	129.336
Other Capital	49.770	49.916	46.474	54.514	51.252	50.746	50.246	46.560	54.514
Total	161.300	162.860	163.580	183.850	181.880	163.151	166.009	171.213	183.850

10.4 Please provide a table with the following information: i) 2020-2024 forecast sustainment capital expenditures (as approved); ii) 2020-2022 actual sustainment capital expenditures; and iii) 2023 sustainment capital expenditures on an outlook basis (actual to June 30th and forecast for the remaining months of 2023).

Response:

Please refer to the response to BCOAPO IR1 10.3.

10.5 Please provide an update regarding the City of Vancouver Biomethane Project and whether FEI is still expecting this project to be completed and in-service in 2024.

Response:

The design of the FEI facility is complete and major equipment has been procured. In 2023, FEI awarded the construction contract and construction has now started. FEI anticipates that the Project will be in-service in 2024.

10.6 Please provide an update with respect to the expected filing dates and in-service dates for the five projects listed in Table 7-5 as "to be filed".

Response:

Please refer to the response to BCUC IR1 10.3.

11.0 Reference: Exhibit B-2, Section 11, Schedule 5, Capital Expenditures to Plant Reconciliation; page 63

Topic: Projected and Forecast Capital Expenditures

Preamble: FEI states:

"Major Projects are capital expenditures that do not form part of regular capital spending as they are approved through a separate CPCN or other application or are projects that are proceeding as a result of an Order in Council (OIC). As part of the MRP Decision, the BCUC approved the continuation of the current process of reviewing Major Projects outside of the proposed MRP and approved the continuation of the existing financial threshold for CPCNs of $15 million for FEI for the MRP term." **(Application, page 63)**

"Under Direction No. 5, FEI can spend up to $425 million, plus AFUDC and 27 feasibility and development costs, to construct storage and liquefaction facilities. FEI is 28 forecasting the cost of the Tilbury 1A Expansion Project to be within the authorized amount, at a 29 total of approximately $495 million." **(Application, page 63).**

11.1 Please provide a breakdown by project of the total Special Projects and CPCN additions to plant of $62.185 million in 2024.

Response:

Please refer to Table 1 below for a breakdown by project of the total CPCN and Special/Major Projects additions to plant in 2024.

Table 1: Breakdown of 2024 Capital Additions to Plant related to CPCNs and Special/Major Projects

CPCNs and Special Projects	2024 Additions to Plant ($ millions)
Tilbury 1A Expansion	3.959
Lower Mainland Intermediate Pressure System Upgrade (LIMPSU) CPCN	0.006
Inland Gas Upgrade (IGU) CPCN	45.578
Pattullo Gasline Replacement (PGR) CPCN	0.153
Gibson Capacity Upgrade (GCU)	12.489
Total	**$ 62.185**

11.2 Further BCUC IR 1.2, please quantify the amount of the $47.554 million revenue deficiency in 2024 and the proposed 4.50% rate increase that relates to the $62.185 million of Special Projects and CPCN additions.

Response:

Of the $47.554 million revenue deficiency in 2024, $5.216 million is related to the $62.185 million of Special/Major Projects and CPCN capital additions. This equates to 0.49 percent of the 4.50 percent proposed delivery rate increase in 2024.

11.3 Please confirm or otherwise explain that FEI is forecasting the cost to be within the authorized amounts related to Inland Gas Upgrades (IGU), CTS-TIMC, Advanced Metering Infrastructure (AMI), Lower Mainland Intermediate Pressure System Upgrade (LMIPSU) and the Pattullo Gasline Replacement (PGR) Projects.

Response:

The projects referenced in this IR received CPCN approval and were determined to be in the public interest. As part of the CPCN application process, and in accordance with the CPCN guidelines, FEI typically provides an AACE Class 3 level of cost estimate. However, this estimate does not represent an "authorized" or "approved" level of spending by the BCUC. Rather, as part of the reporting process for CPCN projects, FEI compares the project budget to the actual costs and, if required, FEI would file a material change report should the project costs be expected to exceed the project budget. This was the case with the LMIPSU project. However, as reported in the LMIPSU final report filed with the BCUC on March 15, 2022, the forecast total cost for the LMIPSU project at completion is well below the revised control budget submitted in February 2018. The BCUC accepted the final report in January 2023.

With regard to the PGR project, FEI recently filed its final report in July 2023 and, as indicated in that report, the project's final total cost will be within the control budget.

With regard to the IGU and CTS-TIMC projects, FEI is not anticipating the need to file material change reports due to the costs materially exceeding the control budgets at this time; however, the projects are still in progress.

FEI is still in the initiation phase of the AMI project.

12.0 Reference: Exhibit B-2, page 10

Topic: Amortization of Deferral Accounts

Preamble: FEI states:

> "Amortization of deferral accounts in 2024 increased by $19.048 million, primarily due to the increased amortization of the Demand-Side Management (DSM) deferral account resulting from increased DSM expenditures, and the reduced credit amortization from the Emissions Regulation deferral account resulting from reduced carbon credits available for monetization. These increases were partially offset by reduced amortization from the Pension & OPEB Variance deferral account, the credit amortization from the proposed new PST Rebate on Select Machinery and Equipment deferral account, and reduced amortization expense from the non-rate base Flow-through deferral account and the MRP Earnings Sharing deferral account." **(Application, page 10)**

12.1 Further BCUC IR 1.2, please provide the amount of the $47.554 million revenue deficiency in 2024 and the proposed 4.50% rate increase that relates to the reduced credit amortization from the Emissions Regulation Deferral Account.

Response:

The reduced credit amortization from the Emissions Regulation deferral account contributed approximately $15.381 million to the $47.554 million revenue deficiency in 2024, which equates to 1.46 percent of the 4.50 percent proposed delivery rate increase. The reduction is expected, as the credit amortization in the Annual Review for 2023 Delivery Rates was based on validated credits accumulated from 2018 to 2020 while the credit amortization in this Application is based on the credits in 2021 only.

12.2 Please provide the value of the unsold carbon credits as at December 31, 2023, and the forecast as at December 31, 2024.

Response:

Please refer to the responses to BCUC IR1 12.1 and 12.2.

D. TAXES

13.0 Reference: Exhibit B-2, Section 9.2, pages 81-82

Topic: Change in Property Taxes

13.1 Please provide a breakdown of 1) the approved 2023 and forecast 2024 of net property tax; and 2) projected 2023 and 2024 net property tax between: i) changes in tax rates and ii) changes in revenues to calculate grants in lieu of taxes; and iii) changes in assessed values.

Response:

FEI notes that it has identified an error in the calculation of the 2023 Projected in-lieu payments in the Application. The correct 2023 Projected In-Lieu amount should be $16.328 million, not $12.820 million as shown in Table 9-1, Line 6 of the Application. Please refer to the response to BCUC IR1 14.1 for further explanation.

Please refer to Table 1 below for the breakdown of net property tax between 2023 Approved and 2024 Forecast, including i) changes in effective tax rates (in $ per Assessed Value), ii) changes in revenues to calculate grants in lieu of taxes, and iii) changes in assessed values. Please refer to Table 2 below for the same information but for 2023 Projected and 2024 Forecast.

Table 1: Breakdown of 2023 Approved vs. 2024 Forecast

($ millions)	1) Breakdown of Property Tax 2023 Approved	2024 Forecast	(i) Effective Tax Rate 2023 Approved	2024 Forecast	% Change	(ii) Revenues for Grants in lieu 2023 Approved	2024 Forecast	% Change	(iii) Assessed Values 2023 Approved	2024 Forecast	% Change
Distribution Assets	$ 27.939	$ 30.246	$ 0.018	$ 0.017	-7.3%				$1,511.573	$1,770.277	17.1%
Transmission Assets	20.167	21.434	0.026	0.025	-5.4%				770.555	866.887	12.5%
Gas Storage Assets	7.818	8.597	0.023	0.020	-11.8%				340.381	424.150	24.6%
Manufactured Gas Assets	0.051	0.065	0.051	0.056	11.0%				1.009	1.159	14.9%
General Assets	6.653	6.289	0.022	0.020	-10.2%				305.159	321.920	5.5%
In-Lieu	16.323	16.510				$ 1,632	$ 1,651	1.1%			
BCER Fees	0.285	0.295				n/a	n/a	3.5%			
Total Property Taxes	$ 79.236	$ 83.436									
Less: Transferred to BVA	(0.092)	(0.077)									
Net Property Tax	**$ 79.144**	**$ 83.359**									

Table 2: Breakdown of 2023 Projected vs. 2024 Forecast

	1) Breakdown of Property Tax		(i) Effective Tax Rate			(ii) Revenues for Grants in lieu			(iii) Assessed Values		
	2023	2024	2023	2024		2023	2024		2023	2024	
($ millions)	Projected	Forecast	Projected	Forecast	% Change	Projected	Forecast	% Change	Projected	Forecast	% Change
Distribution Assets	$ 29.252	$ 30.246	$ 0.018	$ 0.017	-2.4%				$1,666.038	$1,770.277	6.3%
Transmission Assets	20.951	21.434	0.026	0.025	-3.4%				817.303	866.887	6.1%
Gas Storage Assets	8.408	8.597	0.022	0.020	-6.8%				386.645	424.150	9.7%
Manufactured Gas Assets	0.062	0.065	0.058	0.056	-3.8%				1.063	1.159	9.0%
General Assets	6.092	6.289	0.021	0.020	-5.7%				293.569	321.920	9.7%
In-Lieu	16.328	16.510				$ 1,633	$ 1,651	1.1%			
BCER Fees	0.292	0.295				n/a	n/a	1.0%			
Total Property Taxes	$ 81.385	$ 83.436									
Less: Transferred to BVA	(0.092)	(0.077)									
Net Property Tax	**$ 81.293**	**$ 83.359**									

14.0 Reference: Exhibit B-2, Section 9.2, pages 81-82

Topic: Change in Income Taxes

14.1 Further to BCUC IR 15.1, please provide how much of the 4.50% delivery rate increase is related to the change in income taxes relative to 2023.

<u>Response:</u>

As noted in Section 1.5.8 of the Application, the increase in income tax contributed approximately $16.653 million to the overall 2024 revenue deficiency, which equates to 1.58 percent of the 4.50 percent proposed 2024 delivery rate increase.

Given that the overall impact of the lower CCA contributes only 1.58 percent to the 2024 delivery rate increase, FEI did not consider smoothing the impact by requesting a deferral account. There are many changes that occur annually in revenue requirements that impact the revenue deficiency and delivery rates, such as changes in property taxes, changes in demand, and changes in the balances of deferral accounts (which impact amortization expense), among others. FEI considers an impact in the range of the lower CCA deductions (i.e., 1.58 percent) to be within typical fluctuations in revenue requirement components.

There would be very little benefit to smoothing the 1.58 percent delivery rate impact. The disadvantages of such an approach include the increased costs to customers from the carrying costs associated with the deferral account, as well as the compounding impact of the phase-out of the Accelerated Investment Incentive in future years, including the further phase-out of the enhanced first-year allowance for clean energy equipment in 2026 as well as the final phase-out in 2028[6]. As such, phasing-in the impact in the current year means that it will be aggregated with the additional CCA impacts that will occur in the next few years, resulting in an even larger rate impact in those years.

14.2 Please explain if FEI considered a rate smoothing deferral account to phase into rates the impact of the lower CCA as a result of the phase out of Canada's accelerated investment incentive.

<u>Response:</u>

Please refer to the response to BCOAPO IR1 14.1.

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[6] https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/sole-proprietorships-partnerships/report-business-income-expenses/claiming-capital-cost-allowance/accelerated-investment-incentive.html#FullExpCEI.

14.3 Please provide FEI's views as to the advantages and disadvantages of a rate smoothing deferral account to phase into rates the impact of the lower CCA as a result of the phase out of Canada's accelerated investment incentive.

Response:

Please refer to the response to BCOAPO IR1 14.1.