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September 20, 2023

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

Attention: Patrick Wruck, Commission Secretary

Dear Patrick Wruck:

Re: FortisBC Energy Inc. (FEI)

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

Response to the British Columbia Utilities Commission (BCUC) 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 BCUC 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): Registered Interveners

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A. OVERVIEW AND APPROVALS SOUGHT

1.0 Reference: OVERVIEW AND APPROVALS SOUGHT

Exhibit B-2 (Application), Section 1.3, Table 1-1, p. 3, Section 1.4.2, pp. 4–7, Section 1.5, p. 10

Annual Review Requirements

On page 3 of the Application, FortisBC Energy Inc. (FEI) provides Table 1-1 showing information on the Annual Review Requirements, reproduced in part as follows:

Item	Description	Response or Reference
	[...]	
2	Identification of any efficiency initiatives that the Utilities have undertaken, or intend to undertake, that require a payback period extending beyond the MRP period with recommendations to the BCUC with respect to the treatment of such initiatives.	FEI has not identified any efficiency initiatives with a payback beyond the end of the MRP period

On pages 4 to 7 of the Application, FEI outlines various productivity initiatives.

1.1 Please discuss why the productivity initiatives described on pages 4 to 7 of the Application are not expected to have any efficiency initiatives with a payback beyond the end of the Multi-Year Rate Plan (MRP) period.

Response:

FEI clarifies that the intent of the response to Item #2 in Table 1-1 of the Application (as shown in the preamble) is to indicate that FEI has not identified any initiatives that require a payback period beyond the MRP term. If there were such initiatives that required a payback period beyond the MRP term, FEI would need to seek approval to receive Efficiency Carryover Mechanism (ECM) treatment. The requirements for ECM treatment and the implications of receiving such treatment (namely that the savings associated with ECM initiatives will continue to be shared 50/50 with customers past the end of the MRP term for a maximum of three years), are detailed on pages 86 and 87 of the MRP Decision.

The initiatives described on pages 4 to 7 of the Application will, in some cases, result in savings that extend beyond the MRP term; however, none of the initiatives require a payback period beyond the MRP term (and thus none of the initiatives require FEI to seek approval for ECM treatment) for one or more of the following reasons:

- The benefits have largely been captured and have exceeded the investments required, such as the operational field excellence initiative and paperless billing initiative;
- The investment required is very minimal; thus, it is not expected the payback period will extend beyond the MRP term, such as the customer service initiatives; and/or
- The initiatives are still under the early evaluation stage and there is no definitive information regarding the anticipated financial benefits, thus FEI is unable to evaluate the payback period at this time.

As such, FEI is not seeking ECM treatment for any of its initiatives as part of this Annual Review.

On page 10 of the Application, 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. […]

1.2 Please provide a breakdown of the $19.048 million increase in amortization of deferral accounts in 2024 by major drivers.

Response:

The $19.048 million increase in amortization is the difference between the total forecast amortization in 2024 of $134.012 million[1] and the total forecast amortization in 2023 of $114.964 million[2]. This is primarily attributed to the following major drivers:

Type	Increase / (Decrease)	Particulars	$ millions
Rate Base	Increase	Demand-Side Management (DSM)	10.128
		Emissions Regulations	25.949
		AMI Application and Feasibility Costs	3.042
		Net Salvage	1.807
	Decrease	Pension & OPEB Variance	(3.849)
		Gains and Losses on Asset Disposition	(3.475)
		PST Rebate on Select Machinery and Equipment	(1.586)
		Greenhouse Gas Reduction Regulation Incentives	(1.164)
		Others (< $1.0 million individually)	(1.350)
Subtotal Rate Base			**$ 29.502**
Non-Rate Base	Increase	Others (< $1.0 million individually)	0.101
	Decrease	Flow-through	(5.728)
		MRP Earnings Sharing Account	(4.827)
Subtotal non-Rate Base			**$ (10.454)**
Total Net Increase			**$ 19.048**

1 Sum of Line 31, Column 6 from Schedule 11.1 of Section 11 and Line 30, Column 6 from Schedule 12 of Section 11.

2 Annual Review for 2023 Delivery Rates Evidentiary Update dated October 24, 2022, Appendix B, sum of Line 31, Column 6 from Schedule 11.1 and Line 29, Column 6 from Schedule 12.

B. FORMULA DRIVERS

2.0 Reference: FORMULA DRIVERS

Exhibit B-2, Section 2.3, Table 2-2, pp. 14–15

Growth Factor Calculation Summary

In Table 2-2 on page 14 of the Application, FEI provides the calculation of the average customers used to determine the 2024 Formula Operations and Maintenance (O&M), reproduced in part as follows:

Line No.	Date	Actual 2020	Actual 2021	Actual 2022	Projected 2023	Forecast 2024
1	Prior Year Ending Customer Count	1,038,354	1,051,752	1,062,480	1,073,302	1,084,905
2	Adj: Fort Nelson				2,297	
3	Additions:					
4	January	1,544	2,043	1,399	1,724	1,912
5	February	1,028	1,162	1,107	863	970
6	March	403	1,178	868	525	604
7	April	722	395	73	1	38
8	May	726	(37)	170	(27)	(10)
9	June	921	(167)	289	(28)	(17)
10	July	824	(507)	(227)	(406)	(439)
11	August	848	256	73	145	170
12	September	338	862	770	582	641
13	October	2,006	1,797	1,905	1,811	1,985
14	November	2,010	2,035	2,658	2,390	2,591
15	December	2,028	1,711	1,737	1,726	1,883
16	Total Additions	13,398	10,728	10,822	9,306	10,328
17	12-month Weighted Average Additions	6,268	5,334	4,711	6,262	4,466
18						
19	Current Year Ending Customer Count	1,051,752	1,062,480	1,073,302	1,084,905	1,095,233

2.1 Please explain why customer losses are anticipated from May to July 2024, with reference to FEI's actual results in May to July 2023.

2.1.1 Please explain why the amounts for customer losses are largest in July for Actual 2021, Actual 2022, Projected 2023, and Forecast 2024.

Response:

Net customer additions are the aggregation of customer disconnects[3] and customer additions. Customer losses are recorded when disconnects exceed additions. FEI generally sees more customer losses in the summer months when space heating is not required (e.g., a small percentage of customers tend to disconnect from the system as gas is not required during the summer months), while customer additions are often lowest in the peak of summer (i.e., July) when projects tend to take longer to complete. As such, when combining these two trends, the aggregate net additions in July are typically negative. FEI also notes that as shown in Table 2-2 of the Application, when space heating is once again required in the fall and winter months, more housing projects tend to be completed and the net additions historically rebound to the highest levels during the winter months.

[3] Disconnects can occur for multiple reasons, including but not limited to customer preferences and non-payment. Disconnects do not always include removal of the meter.

Please refer to Table 1 below which provides the actual net customer additions from May to July 2023. May 2023 net additions were positive as compared to the 2024 forecast for May which is negative (historic data shows May has been positive and negative over time). The actual net customer additions for June and July 2023 are similar to prior years and consistent with the 2024 Forecast.

Table 1: Actual Net Customer Additions from May to July 2023

Net Customer Additions	2023 Actual
May	507
June	(20)
July	(492)

For clarity, all customer count forecasts are prepared using annual data to avoid the significant volatility noted in monthly data. The monthly forecasts presented in Table 2-2 are calculated based on the annual customer count forecast and past monthly proportions. For more information on the annual forecast methods please refer to Appendix A3.

On page 14 of the Application, FEI states:

> FEI is forecasting gross customer additions of 15,000 for 2024, which is lower than the 2023 Approved amount of 16,000 but is reflective of FEI's expectation of its 2023 customer growth, which is projected at 15,450. […]

On page 15 of the Application, FEI states:

> Gross customer additions is a forecast of new customers attaching to the gas distribution system. It comprises both new construction activity and conversions from other fuels to natural gas. […]

2.2 Please provide a breakdown of new customers by percentage from new construction activity and conversions from other fuels to natural gas for the 15,000 gross customer additions forecast for 2024 and 15,450 gross customer additions projected for 2023.

<u>Response:</u>

FEI does not forecast gross customer additions broken out by new construction and conversion activities. However, based on new customer connections data from the past several years, the proportion of new customers from conversion activities ranged between 10 and 20 percent. FEI considers it reasonable to anticipate that customer additions from conversion activity would be in the same range in both 2023 and 2024. The remainder should correspondingly be from new construction activity.

C. DEMAND FORECAST & REVENUE AT EXISTING RATES

3.0 Reference: DEMAND FORECAST

Exhibit B-2, Section 3.3.4, p. 29

Liquified Natural Gas (LNG) Demand

On page 29 of the Application, FEI explains the increase in LNG demand as follows:

> For LNG demand, the 2024 Forecast is 0.8 PJ [petajoules] higher than the 2023 Projected level. This is primarily driven by non-NGT [natural gas for transportation] LNG demand as NGT customers are expected to remain consistent with the 2023 Projected level. The increase in the non-NGT LNG 2024F [2024 forecast] demand from 2023P is a result of FEI successfully completing trial shipments of LNG via ISO [International Organization for Standardization] containers with multiple new customers in Asia during the winter of 2022/23. These customers have all expressed interest to increase their purchases over the winter of 2023/24, as demand for LNG in Asia increases. FEI is continuing discussions with existing and potential customers and expects to secure firm contracts later in 2023.

3.1 Please elaborate on the trial shipments of LNG via ISO containers carried out by FEI during the winter of 2022/23 and explain how these trials impacted the non-NGT LNG demand for 2024.

Response:

Over the winter of 2022/23, FEI sold LNG to four customers with ISO containers under Rate Schedule (RS) 46. The trials were successful with a number of milestones, including:

- The first FEI LNG shipment out of DP World's terminal in the Port of Vancouver, Centerm;
- The first FEI LNG accepted by MSC, a containership line that had not previously transported LNG;
- The first shipment of FEI LNG through three container terminals in China (Shanghai, Qingdao and Yantian); and
- The first delivery of FEI LNG to Taiwan.

All of these "firsts" increased the options for shipping and delivery for FEI's ISO container customers. The trial shipments are an important step in executing long-term sales agreements as the trials helped prove out the logistics of shipping LNG via ISO container. By successfully completing these trial shipments over the winter of 2022/23, these customers are in a better position to purchase LNG from FEI over the winter of 2023/24 as they have more confidence in the logistics associated with moving ISO containers. In addition to these four customers, FEI has been in discussions with other potential Asian buyers that have strong interest in FEI's LNG offering, but have not yet completed a trial shipment. FEI's forecast of the non-NGT LNG demand represents a reasonable expectation of the demand for sale of LNG via ISO containers from the combination of these existing and potential customers.

3.2 Please indicate which regions or countries in Asia showed interest in increasing their LNG purchases over the winter of 2023/24.

Response:

The majority of interest in LNG purchases over the winter of 2023/24 are for deliveries to China. However, FEI is also in advanced discussions with a potential customer in Japan and continues preliminary discussions with customers in other Asian regions including Taiwan, Korea, Philippines, and Indonesia.

3.3 Please discuss the potential demand growth expected in Asia for LNG in 2023/24 and explain the key drivers behind this increase.

Response:

China, Japan, and South Korea are the three largest importers of LNG in the world. According to the International Energy Agency, demand for LNG in China is expected to continue to increase, primarily due to strong energy demand and policy support to curb air pollution.[4]

The potential growth in FEI's non-NGT LNG demand in 2023/24 is specifically due to increased customer demand in China as a result of expected typical winter increases in Asian LNG pricing and the continued demand for lower carbon fuel sources. This load forecast is supported by some customers successfully completing trial runs over the winter of 2022/23, and the important logistical milestones that were overcome, as discussed in the response to BCUC IR1 3.1.

3.4 Please explain FEI's rationale for including LNG demand in Asia in the 2024F.

Response:

Consistent with previous years, FEI has included a forecast of all RS 46 demand in the 2023 Projection and 2024 Forecast, which includes FEI's forecast sales of LNG via ISO containers,

[4] https://www.iea.org/reports/lng-market-trends-and-their-implications.

including to those customers who ultimately deliver the LNG to Asia. FEI has been including the forecast of demand provided to customers under spot purchase agreements (i.e., not under firm take-of-pay commitments) since it was directed to do so by Order G-86-15.

FEI clarifies that, while the source of the demand for LNG is ultimately the Asian market, FEI's sales occur in BC. For all RS 46 sales to ISO customers, title transfer of the LNG occurs at the outlet flange of the Tilbury LNG Facility, and it is the customer that is responsible for transportation and delivery of the LNG to the end user.

Further, there is no regulation or policy that would prevent FEI from selling RNG under RS 46 to customers that deliver the LNG to Asia or other parts of the world. FEI has previously served LNG customers that deliver to Asia and, given the successful trial shipments of LNG to the Asian market discussed in the response to BCUC IR1 3.1, FEI considers it appropriate to include potential LNG demand from Asia in the 2024 Forecast.

3.5 Please discuss the status of FEI's "continuing discussions with existing and potential customers to secure firm contracts later in 2023." Please identify any resulting agreements or firm contracts secured to date.

<u>Response:</u>

FEI has not executed any firm contracts as of the date of this filing, but has executed multiple RS 46 spot agreements to support customer trial shipments (as discussed in the response to BCUC IR1 3.1). FEI has also been engaged in discussions with customers indicating increased demand from customers with ISO containers over the winter of 2023/24.

D. OTHER REVENUE

4.0 Reference: OTHER REVENUE

Exhibit B-2, Section 5.2, pp. 34–35

Late Payment Charges

On pages 34 to 35 of the Application, FEI states:

> As explained in the Annual Review for 2023 Delivery Rates, Late Payment Charges were historically forecast based on the average of the most recent three years of actual Late Payment Charges earned. However, due to a number of factors in the most recent years, including the COVID-19 pandemic and FEI's implementation of customer relief measures, the actual amounts collected have fluctuated significantly from year to year. As these fluctuations would still be present in the most recent three years of actual results (i.e., 2020, 2021 and 2022), FEI has utilized the same approach used to calculate the 2023 Approved Late Payment Charges in the Annual Review for 2023 Delivery Rates. Accordingly, the 2024 Forecast for Late Payment Charges is calculated based on the average of 2022 Actual Late Payment Charges of $3.638 million and 2023 Projected of $3.576 million. […]

4.1 Please discuss whether FEI considered any alternative forecasting methodologies for 2024 and why they were not chosen. If no alternatives were considered, please explain why not.

Response:

FEI considered using the most recent three years of actual Late Payment Charges (i.e., 2020, 2021 and 2022) as discussed on pages 34 to 35 of the Application and referenced in the preamble above. This is the approach that FEI has historically used prior to 2022. As noted in the Application, FEI changed its approach to forecasting Late Payment Charges to account for the impacts of the COVID-19 pandemic, including the impact on the recovery of Late Payment Charges due to the implementation of customer relief measures in 2020 and 2021.

If FEI were to use the previous approach, i.e., use actual 2020, 2021 and 2022 Late Payment Charges, the forecast for 2024 would be $2.365 million, as shown in Table 1 below. This is considerably less than the recent trend of actual Late Payment Charges and likely not representative of the amount FEI will receive in 2024. For comparison, the 2022 Actual and 2023 Projected Late Payment Charges are $3.638 million and $3.576 million, respectively.

As such, FEI considers using the average of 2022 Actual and 2023 Projected Late Payment Charges to be a more accurate representation of the expected Late Payment Charges in 2024, as this approach excludes the impacts of the COVID-19 customer relief measures.

Table 1: Summary of 2020 to 2022 Actual FEI Late Payment Charges

($M)	Late Payment Charges
2020 Actual	0.822
2021 Actual	2.635
2022 Actual	3.638
Average	2.365

5.0 Reference: OTHER REVENUE

Exhibit B-2, Section 5.2, p. 35

Tilbury Insurance Proceeds

On page 35 of the Application, FEI states:

> FEI has included an additional flow-through item for 2023 Projected, which is a one-time credit of $6.135 million which FEI is flowing 100 percent to customers. The credit represents the actual insurance proceeds that FEI received in 2023 due to the delayed completion of the Tilbury 1A Expansion Project (T1A Project).
>
> The T1A Project had an original in-service date of 2017; however, as explained in FEI's Annual Review for 2018 Delivery Rates proceeding, the completion of the project was delayed to 2018 due to an incident that occurred on August 19, 2017. FEI filed an insurance claim in March 2018 and received confirmation in early 2023 that these proceeds would be paid out, with the final proceeds received in March 2023. These insurance proceeds will be treated as flow through and fully returned to customers […]

5.1 Please discuss why it took five years from the date of filing the Tilbury insurance claim to receive funds.

<u>Response:</u>

The funds took five years to receive as there was a significant difference in opinion between FEI and its Insurers on the recoverable settlement value for the Delay in Start Up Loss. Additional resources and expertise were needed to substantiate the proposed settlement value, and significant negotiation was required before a final settlement was reached. FEI also proceeded with a Notice of Civil Claim in the BC Supreme Court in November 2019 to preserve its legal rights; however, a settlement was reached amicably in early 2023 and a discontinuance of this notice was issued in February 2023 following receipt of the final settlement funds.

5.1.1 Please discuss whether the length of the Tilbury insurance claim process would be comparable to other past or current insurance claims (e.g. 2021 flooding damage).

<u>Response:</u>

The length of time to settle the Tilbury claim was longer than many other claims FEI has experienced; however, given the complexity, nature of the loss, difference of opinion between the parties on valuation with respect to the Delay in Start Up coverage, additional legal processes, and other factors, FEI does not consider the length of time to be unreasonable. Overall, when an insurance claim is straightforward (e.g., the 2021 floods, where the damages incurred were mostly property damage, which is straightforward to quantify), a claim can be settled in a shorter timeframe than the Tilbury claim. However, when there is a disagreement over aspects of the settlement values, it takes additional time to resolve before a final settlement can be reached.

5.2 Please explain why FEI has not provided updates on this insurance claim since the 2018 Delivery Rates proceeding.

5.2.1 Please compare the approach FEI took to providing updates on the Tilbury insurance claim to the approach FEI took to providing updates on 2021 flooding damage.

Response:

In the Annual Review for 2018 Delivery Rates (2018 Annual Review), FEI reported on the delay in the completion date of the Tilbury 1A Project in response to CEC IR1 19.2 and then subsequently provided the revised 2018 delivery rate impacts of the delayed in-service date in an Evidentiary Update to the 2018 Annual Review dated September 26, 2017. FEI did not report on a potential insurance claim at that time as it had not determined if such a claim would be filed.

FEI notes that it files insurance claims in a variety of situations and that the act of filing an insurance claim would not in itself be something that FEI typically reports on in its revenue requirement applications (or annual reviews).

The reason that FEI is reporting on this insurance claim in the current Application is because a revenue requirement impact as a result of the insurance claim has now occurred, and FEI considered it appropriate to discuss this impact in the current Application and explain the proposed treatment of the proceeds. Also, the receipt of these insurance proceeds is somewhat unique due to the length of time it took for the claim to be resolved (as explained in the responses to BCUC IR1 5.1 and 5.1.1); thus, FEI determined that including a separate discussion of the proceeds in the Other Revenue section of the Application would be most appropriate and transparent.

In the case of the insurance claim related to the 2021 Flooding event, the reason that FEI included a discussion of this claim in the Annual Review for 2023 Delivery Rates application was because if the claim is successful, it would change the costs that FEI needs to recover through Exogenous Factor treatment. FEI notes that the trigger for the Exogenous Factor event reported in the Annual Review for 2023 Delivery Rates was the November 2021 flooding and the resulting costs arising from the flooding damage, not the insurance claim itself. The insurance claim was relevant to the explanation due to the claim's impact on the potential amount of flooding damage costs to be recovered. Please also refer to the response to BCUC IR1 5.4 for further explanation as to why FEI did not file for exogenous factor treatment of the Tilbury 1A insurance proceeds.

5.3 Please discuss whether FEI's proposal to flow this amount 100 percent to customers is in line with the MRP as approved by BCUC Order G-165-20.

<u>Response:</u>

FEI considers its proposed approach to flow through the Tilbury insurance proceeds 100 percent to customers to be consistent with the approved MRP. FEI flows through all CPCN/Major Project-related cost variances, which would include the Tilbury 1A Project, to customers via the Flow-through deferral account.

In the absence of the approved flow-through treatment, FEI would likely have requested a separate deferral account to flow these proceeds 100 percent back to customers. FEI considers its proposed approach more efficient as it eliminates the need to create a new deferral account.

5.4 Please discuss whether FEI assessed the Tilbury insurance proceeds for exogenous factor treatment.

5.4.1 If yes, please provide FEI's analysis for each of the requirements for exogenous factor treatment.

5.4.2 If no, please explain why not.

<u>Response:</u>

No. As explained in the response to BCUC IR1 5.2, the event (i.e., the incident causing the delay in the Tilbury 1A Project's in-service date) was reported in the 2018 Annual Review. The revenue requirement impacts were described in the Evidentiary Update to the 2018 Annual Review. The revenue requirement impacts of the incident and resulting delay did not require exogenous factor treatment because the Tilbury 1A Project is a Major Project and the revenue requirement impacts were therefore treated as flow-through. Consistent with the treatment of CPCN and Major Project expenditures, FEI has proposed to treat the Tilbury insurance proceeds as a flow-through.

5.5 Please confirm, or explain otherwise, whether an insurance deductible is reflected in the $6.135 million Tilbury insurance proceeds amount.

5.5.1 If yes, please specify the dollar value.

5.5.2 If no, please explain why not.

Response:

FEI confirms the $6.135 million in proceeds received was net of insurance deductibles of $1.899 million.

5.6 Please discuss whether the Tilbury insurance claim has impacted FEI's insurance premiums.

5.6.1 If yes, please specify the dollar value and year of the impact.

5.6.2 If no, please explain why not.

Response:

FEI has no evidence that the Tilbury insurance claim directly impacted its other insurance premiums. The insurance program that funded this claim was a project-specific claim for the Tilbury 1A project, allowing Fortis Inc.'s regular operational insurance program (FEI is part of Fortis Inc.'s overall operational insurance program) to be somewhat insulated from the impact of the Tilbury claim. While there is some overlap with carriers (i.e., some of the Insurers who were on the Tilbury program also participate in the operational program), not all Insurers would have been materially impacted.

While the claim would have been notable for underwriters when establishing FEI's 2023-2024 insurance rates, carriers are aware that claims do sometimes occur and would not necessarily penalize FEI for this loss in isolation. Overall, if FEI had an increase in the frequency and severity of its claims, there would likely be an impact on its premiums; however, this would be at the underwriters' discretion. Furthermore, any loss FEI sustains forms part of its overall risk profile, which impacts how Insurers view its risk as a whole and ultimately factors into how they rate FEI's insurance policies.

E. OPERATIONS AND MAINTENANCE EXPENSE

6.0 Reference: O&M EXPENSE

Exhibit B-2, Section 6.2.1, pp. 43–44; Annual Review for 2023 Delivery Rates, Exhibit

B-3, BCUC IR 10.5

New/Incremental System Operations, Integrity and Security Funding

On page 43 of the Application, FEI provides a breakdown of both annual and cumulative variances between forecast/actual and formula O&M related to the approved new/incremental System Operations, Integrity and Security funding, and quantifies the variances attributable to several areas, including cyber security and gas control.

On page 43 of the Application, FEI states:

> Higher spending for cyber security of $0.300 million [for 2022 forecast to actual variance] was for additional consulting resources in the following areas: an additional consulting resource to augment cybersecurity requirements due to additional threat management needs; emergency management consulting for emergency exercises; physical security threat intelligence services to manage security risks; and the use of consulting services to update the business continuity program.

6.1 Please discuss whether FEI experienced any cyber security incidents or threats that prompted any of the cyber security spending in 2022. If so, please explain the occurrences.

Response:

FEI did not experience any material cybersecurity incidents in 2022.

In 2022, threat intelligence providers, including the Canadian Centre for Cyber Security, recommended a review of cybersecurity systems based on the global geopolitical situation, particularly due to the situation in the Ukraine. FEI responded by engaging additional third-party support to ensure FEI's cybersecurity program and systems were capable of appropriately protecting FEI's systems and data. FEI noted increased activity on its firewalls at some points in 2022 that may have been a result of increased global threat activity; however, the origin of threat activity is difficult to determine due to the capabilities of threat actors to conceal their location.

On page 44 of the Application, FEI states:

> For gas control, FEI spent $0.607 million less than the formula amount in 2022. As explained in the Annual Review for 2023 Delivery Rates, FEI hired one gas controller in 2021 and had intended to hire one net new gas controller per year going forward. However, FEI was unable to hire another net new gas controller in 2022 due to a combination of recruitment challenges, staff turnover, and coordinating the timing of new hires with retirements of existing employees. Hiring gas controllers is challenging as it is difficult to locate candidates with appropriate experience and skills within BC, particularly due to the high-cost housing market in the Lower Mainland and, to varying extents, in FEI's other operating territories. FEI continues to strive to increase its gas control staffing to ensure the utility will be able to <u>meet the requirements of its customers, align with industry standards, and continue to operate in a safe and reliable manner within a progressively complex and demanding operational environment.</u> [Emphasis added]

In response to BCUC IR 10.5 of the Annual Review for 2023 Delivery Rates proceeding, FEI stated:

> […] FEI continues to strive to increase its Gas Control Room staffing to 12 gas controllers to ensure the utility will be able to meet the requirements of its customers, align with industry standards, and continue to operate in a safe and reliable manner within a progressively complex and demanding operational environment.
>
> One net new controller per year achieves FEI's goal for gas controller staffing by 2025 (i.e., one net new controller in each of 2022, 2023, and 2024, plus one year for training). […]

6.2 Please explain how many gas controllers FEI currently has and whether staffing levels have changed since FEI hired the one gas controller in 2021 (i.e. retirements, turnover, etc.).

<u>Response:</u>

FEI currently has nine Gas Controllers, of which seven are fully qualified and two are in training.

There have been a number of changes in staffing since 2021. One Gas Controller was hired in each of 2021 and 2022 and two more were hired earlier in 2023. These four new hires have been offset by three retirements and one person leaving the Company to pursue other opportunities.

6.3 Please confirm, or explain otherwise, that the $0.607 million in gas control savings is due to FEI being unable to hire one net new gas controller (i.e. savings is equal to one gas controller's salary).

6.3.1 If not confirmed, please provide a breakdown of the $0.607 million by drivers.

Response:

The $0.607 million in Gas Control savings are primarily due to staffing shortages for Gas Controllers. Since the start of the MRP term, there has been approximately only one net new hire because of internal movement and retirement of Gas Controllers during the same period of time.

6.4 Please discuss whether FEI has been successful in hiring a net new gas controller to date in 2023.

Response:

FEI posted for two Gas Controllers in Q3 of 2022 and successfully filled those positions in Q1 of 2023. These individuals are currently participating in the internal Gas Controller training program and there will be an additional posting in Q3 of this year.

6.5 Please explain, with rationale, whether FEI anticipates the challenges faced in hiring a net new gas controller in 2022 (i.e. recruitment challenges, staff turnover, coordinating the timing of new hires with retirements of existing employees, and locating candidates with appropriate experience and skills) to continue for the remainder of 2023 and into 2024.

6.5.1 If so, please discuss what strategies FEI has in place to address these challenges to ensure FEI will be able to "meet the requirements of its customers, align with industry standards, and continue to operate in a safe and reliable manner."

6.5.2 If not, please explain why not.

Response:

Yes, FEI is still expecting the challenges related to recruitment, staff turnover and retirements for Gas Controller positions to continue for 2023 and 2024. The most recent Gas Controller postings were in 2022 and there were very few applicants that had directly relevant qualifications and experience. The recruitment process took approximately six months to find suitable candidates and it is expected similar hiring conditions will continue at least for the remainder of 2023 and into 2024.

FEI is employing various strategies to try to address these challenges, including expanding the candidate pool in the recruitment process to consider non-traditional candidates who may lack direct experience in oil and gas but who have transferrable skills from other industries that would allow them to be successful as a Gas Controller. As discussed in the response to BCUC IR1 6.4, FEI is providing internal Gas Controller training to its new hires to supplement their role-specific experience. FEI has also modified the job requirements to consider candidates with a Red Seal Interprovincial Certificate to better align with hiring practices in other jurisdictions.

6.6 Please discuss any operational implications of FEI not achieving its goal for gas controller staffing by 2025.

Response:

The primary operational implication of FEI not achieving its goal for gas controller staffing by 2025 is burnout of the existing employees due to the additional overtime requirements that would be required to meet staffing levels. This could further erode the workforce by people leaving the Company, retiring early, or taking increased sick time.

FEI is confident that it can continue to build the department through some of the recruitment strategies discussed in the response to BCUC IR1 6.5. Additionally, FEI is continuing to improve the efficiency of its Gas Control operations through improved planning and project coordination, development of operating orders and through other initiatives such as Control Room Management.

6.7 Please identify any other departments and roles where FEI is experiencing staffing challenges and the associated dollar impact of these staffing challenges in 2024.

Response:

In addition to the Gas Control area where recruiting for Gas Controller positions continues to be challenging, other departments experiencing staffing challenges (recruitment and retention) include the following departments:

- Major Projects;

- Engineering;
- External and Indigenous Relations;
- Customer Service;
- People (Human Resources); and
- Conservation and Energy Management (C&EM).

The People department and the External and Indigenous Relations department have been the most impacted by voluntary attrition due to increased competition for top talent with particular skillsets and levels of experience in recent years. Major Projects, Engineering, Customer Service, and C&EM have seen increased voluntary attrition and retirements. Specific roles challenging to recruit in these areas include Engineering, Project Management, External Relations, C&EM, and Human Resources personnel. Additionally, vacancies in the departments of Gas Control, Operations and Occupational Health & Safety (OH&S) are taking the longest to fill in 2023.

Overall, FEI has experienced an increase in the time to fill vacancies, with the average time increasing from 55 days in 2022 to 56 days in 2023 on a year-to-date basis. Factors influencing FEI's ability to recruit new hires include unqualified and inexperienced applicants, salary expectations of candidates, as well as lack of flexibility with remote work and commute time.

FEI does not have an estimate of the 2024 financial impact of staffing challenges as there are many factors that affect overall recruitment at FEI, including growth of the Company, a competitive labor market, a low unemployment rate, an increasing attrition rate due to retirements and voluntary turnover, as well as applicant expectations. Also, use of consultants and overtime to temporarily backfill for vacancies affects FEI's ability to estimate the financial impact of vacancies.

7.0 Reference: O&M EXPENSE

Exhibit B-2, Section 6.2.1, p. 44; Annual Review for 2023 Delivery Rates, Exhibit

B-4, RCIA IR 1.2

Canadian Energy Pipeline Association (CEPA) Participation

On page 44 of the Application, FEI states:

> With regard to CEPA participation, FEI spent $0.348 million less than the formula amount in 2022. As noted in the 2023 Annual Review, <u>CEPA has ceased operations</u>; however, the work related to CEPA-driven activities continues. In 2022, FEI continued with implementing control room management improvements and activities for Integrity First self-assessments. [Emphasis added]

In response to RCIA IR 1.2 of the Annual Review for 2023 Delivery Rates proceeding, FEI confirmed that CEPA ceased operations at the end of 2021.

7.1 Please discuss what specific activities are forecast for 2024 in relation to the CEPA Participation line item given that CEPA has ceased operations.

7.2 Please discuss whether FEI views the line item for CEPA Participation within System Operations, Integrity and Security New/Incremental Spending to still be appropriate given that CEPA has ceased operations.

<u>Response:</u>

FEI confirms that the line item for CEPA participation is still appropriate and necessary. There were two components to the "CEPA Participation" incremental O&M: (1) the CEPA membership fees; and (2) work related to CEPA-driven activities.

CEPA supported its member organizations' commitment to continual improvement, development of rigorous standards, and ongoing independent verification. The absence of CEPA-led coordination has resulted in FEI taking on the coordination of activities, including partnerships with industry peers, to fill the gap left by CEPA's dissolution. As the nature of the activities remains similar to the activities contemplated in the 2020-2024 MRP Application, FEI continues to record these costs in the "CEPA Participation" category when referring to these necessary and ongoing activities.

Specific activities forecast for 2024 in relation to the CEPA Participation line item are:

- Continued development and improvement of FEI's integrity management program activities and documentation. As an example, FEI expects to prioritize enhancement of its management review and learning from event processes as part of aligning with the CSA Z260:19 standard, "Pipeline system safety metrics".

- Continued participation with peer transmission pipeline operators in the development of standards, guidance documents, and other industry knowledge.
- Integrity First self-assessment responses, which are expected to encompass a variety of continual improvement initiatives.
- Incremental internal resources to keep pace with management system development and enhancement, such as in response to industry practice and other changes impacting FEI's Integrity Management Program.

FEI also notes that while it continues to report on the new/incremental system operations, integrity and security funding O&M categories in accordance with the MRP Decision, ultimately these categories of expenditures are part of FEI's overall indexed-based O&M funding envelope. Similar to all other components of FEI's indexed-based O&M, some areas will see lower spending than formula and others will see higher spending than formula. An example of an area where FEI's actual O&M is higher than formula is Cyber Security which, as shown in Table 6-3 of the Application, is $0.300 million higher than formula in 2022 and $0.910 million higher than formula cumulatively over the first three years of the MRP term. FEI established its Base O&M at the commencement of the MRP term based on its expectations of funding requirements at that time, and it is expected that programs, activities and initiatives will change over the five-year term of the MRP.

8.0 Reference: O&M EXPENSE

Exhibit B-2, Section 1.4.1, p. 4

2022 Formula O&M Savings

On page 4 of the Application, FEI states:

> Of the approximate $7.3 million in formula O&M savings realized in 2022, approximately $2 million are due to savings achieved as the result of productivity initiatives, including the Willingdon Park Redesign, Paperless Billing Customer Campaigns, and Operational Field Excellence, which were described in the Annual Review for 2023 Delivery Rates. Additionally, approximately $3 million of the overall O&M savings are due to estimated general overall labour savings. The remaining savings are the result of various factors, including: $0.3 million in lower spending compared to the formula amount for incremental expenditures related to System Operations, Integrity and Security (refer to Section 6.2.1 for further details); $0.4 million of lower employee expenses, $0.5 million of lower spending on Connect to Gas rebates due to lower customer participation; and <u>savings due to general timing of expenditures</u>. While some of the savings are one-time in nature (e.g., required time to fill vacancies from turnover), some of the savings are expected to continue into the future, recognizing that cost pressures in the future may offset the savings. [Emphasis added]

8.1 Please indicate what percentage of the savings in each of the cited reasons for savings (i.e. productivity initiatives, general overall labour savings, lower employee expenses, etc.) is expected to be one-time and what percentage is expected to be recurring.

<u>Response:</u>

FEI estimates the approximately $2 million related to the Productivity Initiatives (as noted in the preamble to this IR) to be recurring. The other drivers of the 2022 savings are typically considered one-time in nature. However, it is difficult to distinguish within each driver what percentage of the savings is expected to be one-time versus recurring, as it is challenging to predict whether all the factors contributing the achieved formula O&M savings in 2022 are expected to continue into the future.

For example, on a historical experience basis, for some factors such as the approximate $2 million savings related to the Productivity Initiatives, it is reasonable to anticipate the savings are likely to continue into the future given the nature of the savings. However, there may be cost pressures in the future that offset the savings. On the other hand, the savings related to overall labour savings may or may not continue into the future as it in part depends on factors such as the level of vacancies and the Company's business requirements that may change from year to year.

At an overall Company level, based on the achieved savings to date in the MRP, ($0.6 million in 2020, $2 million in 2021, and $7.3 million in 2022), FEI anticipates at this time that “recurring” savings in the $2 to $3 million range are likely to continue through to the end of the MRP term.

8.2 Based on historical experience, please discuss whether FEI expects the factors contributing to the $7.3 million of formula O&M savings realized in 2022 to continue into 2023 and 2024.

Response:

Please refer to the response to BCUC IR1 8.1.

8.3 Please provide a breakdown of the approximate $3 million in general overall labour savings by reasons for savings (i.e. vacancies, turnover, etc.) and department.

Response:

Please refer to the table below for a breakdown of the approximate $3 million in labour savings in 2022 by the departments contributing to the observed variance.

General Overall Labour Savings (by department)

Customer Service	$	0.6
Operations and Engineering including LNG Operations	$	1.5
Major Projects	$	0.1
Safety and Learning, External Relations	$	0.3
General and Administration and Other	$	0.3
Total	$	2.8

The O&M labour savings are primarily due to vacancies, turnover and retirements. FEI notes that the savings by department are also influenced by overtime costs incurred and the allocation of labour between O&M, Capital, and Other (Deferral).

8.4 Please elaborate on the $0.4 million in savings resulting from lower employee expenses.

Response:

The $0.4 million savings in 2022 in employee expenses are related to course fees, travel, meals and accommodation, company functions, and employee hiring and relocation. It is typical for employee-related expenditures to fluctuate from year to year due to varying and/or changing business requirements and activities, as well as a result of the number of employees hired and requiring relocation.

8.5 Please provide the approximate dollar value of savings attributable to the "general timing of expenditures".

Response:

The approximate dollar value of savings attributable to the general timing of expenditures is $1 million.

8.6 Please discuss any impact delayed costs, as noted on page 4 of the Application, have had on FEI's operations to date in 2023.

Response:

FEI continues to operate its system safely and reliably, as demonstrated by the June 2023 year-to-date performance of its service quality indicators. At the end of June 2023 year-to-date, for the nine service quality indicators with benchmarks and thresholds, six indicators are meeting the benchmark, two are performing better than the threshold, and one (i.e., the Telephone Service Factor (Non-Emergency)) is trending to the threshold. FEI expects the Telephone Service Factor (Non-Emergency) to recover and be at benchmark levels for 2023. Please also refer to the response to BCUC IR1 19.1.

9.0 Reference: O&M EXPENSE

Exhibit B-2, Section 6.3.6, pp. 52–54

Clean Growth Initiative - Renewable Gas Development

On pages 52 to 53 of the Application, FEI states:

> The 2023 Projected expenditures are approximately $3.069 million, which is an increase of $1.069 million from 2023 Approved. The 2023 Projected O&M costs include $1.25 million in internal labour resources (consistent with the amount included in 2023 Approved) as well as <u>increased costs for the use of external consultants</u> to successfully execute on planned activities to meet business goals and objectives. […] [Emphasis added]
>
> The 2024 Forecast is $4.052 million, which represents an approximately $0.983 million increase from 2023 Projected […]. The 2024 Forecast includes an increase in labour costs to approximately $1.4 million for <u>one incremental resource</u> and an increase in non-labour costs to approximately $2.6 million. […] [Emphasis added]

On pages 53 to 54, FEI lists the specific activities and projects which require increased non-labour resources in 2023 and 2024.

9.1 Please provide the dollar value of “increased costs for the use of external consultants”.

<u>Response:</u>

The increased cost for the use of external consultants in 2023 is approximately $1 million.

9.2 Please provide the role title and salary of the “one incremental resource”. Please indicate whether the role is permanent or temporary.

<u>Response:</u>

The current tentative role title is “Manager Renewable Gas and Low-Carbon Initiatives”, and the base salary is expected to be approximately $140,000 per annum. This is based on FEI’s emerging need for a role responsible for developing and managing FEI’s initiatives supporting the business and market development for the production, delivery, and uptake of renewable and low carbon fuel to its customers. The role will provide the overall planning and management required to develop the end-to-end processes and business models required to support new business opportunities for the safe and efficient production and delivery of renewable and low carbon fuel to customers. The role is intended to be permanent.

9.3 Please indicate what amount (dollar value and percentage) of the $2.6 million non-labour costs is attributable to each of the specific activities and projects cited on pages 53 to 54 of the Application.

Response:

The amount (dollar value and percentage) of the 2024 Forecast $2.6 million non-labour costs attributable to each of the specific activities and projects cited on pages 53 and 54 of the Application is detailed in the following table.

Activity	Dollar Value ($ million)	Percentage (%)
Hydrogen Production Supply Opportunities –2024 Forecast Non-Labour Resource Activities to Progress Production Project Preliminary Feasibility	0.70	26.9
Hydrogen Offtake Supply Opportunities –2024 Forecast Non-Labour Resource Activities to Progress Procurement Feasibility	0.04	1.5
Lignin Offtake Supply Opportunities –2024 Forecast Non-Labour Resource Activities to Progress Procurement Feasibility	0.01	0.4
Hydrogen Distribution and Customer End-Use Service –2024 Forecast Non-Labour Activities to Progress Gas System Hydrogen Readiness Assessment and Conversion	1.50	57.7
Concurrent Hydrogen Development Enabling Initiatives –2024 Forecast Non-Labour Resource Activities to Achieve Progress	0.20	7.7
Hydrogen Demonstration Pilot Projects –2024 Forecast Non-Labour Resource Activities to Progress Preliminary Feasibility	0.15	5.8
Total	**2.6**	**100**

F. RATE BASE

10.0 Reference: RATE BASE

Exhibit B-2, Section 7.2.3, p. 62

Flow-Through Capital Expenditures - Biomethane Capital

On page 62 of the Application, FEI explains the forecast for biomethane capital expenditures as follows:

> The 2023 Projected capital expenditures are less than 2023 Approved by $28.988 million. The variance between 2023 Projected and Approved is the result of a delay in spending on various projects … which was partially offset by additional spending on the Capital Regional District (CRD) project. For the CRD project, FEI built a pipeline and station which are expected to be substantially complete in 2023, ahead of the CRD facility completion which is expected to come online in 2024. The lower 2023 Projected expenditures for Foothill LF (RDFFG) are a result of a refreshed schedule which will delay the in-service date. The lower projected capital for the Comox Valley LF, Andion – Semiahmoo, and Vernon LF projects are due to delays in finalizing agreements with these counterparties. The Delta RNG [renewable natural gas] project pipeline has been delayed due to permitting, but FEI has completed the interconnection station and expects to begin taking delivery via a virtual pipeline in 2023; the capital spend on the pipeline will be incurred at a future time.

10.1 Please discuss the reasons behind the delay in spending on the Foothill LF project and explain how the schedule has been refreshed to accommodate the delay.

Response:

In 2022, FEI refined the project plan and execution strategy incorporating learnings from the City of Vancouver Landfill project, which effectively delayed the project by approximately 1 year. In 2023, FEI reinitiated the project execution with updated cost estimates and a refined plan. Based on the revised project plan and assuming the technology supplier to refine the raw biogas is selected this fall (2023), FEI is anticipating the in-service date to be the end of Q1 2026.

10.2 Please provide further details on the reasons for the delay in the Delta RNG project pipeline due to permitting issues.

10.2.1 Please discuss when FEI expects to incur the capital spend on the Delta RNG project pipeline.

10.2.2 Please discuss under what jurisdiction the permits for the Delta RNG project pipeline are granted (e.g. Municipal, Provincial, etc.).

Response:

FEI originally planned to connect the Delta RNG project to FEI's transmission system close to the Delta RNG project site. The connection to the transmission line was originally planned to run within the highway right of way. However, since the Delta RNG project agreement was signed, FEI was informed that the Ministry of Transportation and Infrastructure (MOTI) was undertaking significant highway improvements along the planned FEI pipeline route and, as a result, the planned route was no longer feasible.

FEI then performed a pipeline alignment analysis between Q3 2022 and Q2 2023 that considered several routes. Each of these routes had varying impacts on multiple private landowners, including the City of Delta, and still required the potential crossing of the MOTI right of way. At this time, FEI does not have final permits for its pipeline. However, FEI has modified its plan and is now considering a route which connects to a lower pressure pipeline, which will eliminate all major crossings and reduce the overall impact on stakeholders. FEI is therefore confident that, with the new route, it will proceed with pipeline construction (and resume capital spending) in late 2023 or early 2024. In the meantime, FEI will rely on a virtual pipeline (i.e., transportation by truck) to receive RNG from Delta RNG.

With respect to permitting, the Delta RNG project falls within municipal and provincial jurisdictions, including the following:

- **City of Delta:** FEI requires a municipal permit from the City of Delta to install the proposed piping across a ditch and Ladner Trunk Road.
- **Agricultural Land Commission (ALC):** The proposed alignment falls within ALC and therefore requires a permit to install the proposed pipeline within the Agricultural Land Reserve (ALR).
- **BC Energy Regulator (BCER):** BCER is responsible for reviewing and approving the proposed installation. The application will include archaeological, soils, water treatment, and habitat studies and management plans.

10.3 Please provide further information on the reasons for the delays in finalizing agreements with Comox Valley LF, Andion-Semiahmoo, and Vernon LF.

10.3.1 Please discuss what FEI's expectations are with respect to finalizing agreements with each of these counterparties.

10.3.2 Please discuss any measures FEI has taken or plans to take to mitigate further delays with respect to finalizing agreements with each of these counterparties.

Response:

While FEI uses its best judgement based on experience to predict project timing, the timelines can vary greatly based on project- and supplier-specific factors, such as the complexity of the suppliers' development tasks, agreements, and early permitting requirements. The referenced projects required additional effort in the development stage and, as a result, finalizing the agreements has taken longer than anticipated. In certain cases, the supplier has needed additional time to evaluate the potential agreements with FEI, which has also impacted timelines.

FEI considers an agreement to be in advanced stages if the key business terms have been agreed on, and the supplier has been provided with an initial version of the agreement. In contrast, an agreement is in early stages where business terms are either in discussion or have not been incorporated into an initial agreement draft. Using this frame of reference, the status of the projects listed in Table 7-5 of the Application is as follows:

- **Comox Valley Landfill**: The agreement is in advanced stages. The expected filing date with the BCUC is Q4, 2023, with a potential project in-service date approximately 24 – 30 months later.
- **Andion – Semiahmoo**: The supplier (Andion) has needed additional time to develop its project and the agreements necessary to enable the project in the chosen location on the Semiahmoo First Nations Reserve. FEI is now finalizing key business terms with Andion. The agreement is in early stages. The expected filing date with the BCUC is Q1, 2024, with a potential in-service date approximately 30 - 36 months years later.
- **Vernon Landfill**: FEI has been in discussions with the Regional District of North Okanagan for more than two years about a potential project. Despite the relatively small size of the landfill, the project is promising. The agreement is in early stages. The expected filing date with the BCUC is Q2, 2024, with a potential in-service date approximately 24 – 30 months later.
- **Fraser Valley Biogas Expansion**: FEI is finalizing a new long-term agreement with Fraser Valley Biogas. The agreement is in advanced stages. The expected filing date with the BCUC is Q1, 2024, with an immediate in-service date as this project is already operational.
- **Ecowaste**: FEI's preliminary work indicates that this project is potentially feasible. The agreement is in early stages. The expected filing date with the BCUC is Q3, 2024, with a potential in-service date approximately 24 – 30 months later.

To help mitigate delays in agreements, FEI is always working to improve the robustness of its project development process and standardize it biomethane purchase agreements. The projects listed above have and will continue to benefit from these ongoing improvements. However, there is always an element of the timing that depends upon the specific project and supplier, and FEI therefore cannot guarantee adherence to these timelines.

11.0 Reference: RATE BASE

Exhibit B-2, Section 7.5, pp. 70–74

Provincial Sales Tax (PST) Rebate Deferral Account

On page 74 of the Application, FEI states:

> The BC PST Rebate on Select Machinery and Equipment is a provincial government program to help corporations recover from the financial impacts of the COVID-19 pandemic. Eligible businesses can receive as a rebate the PST paid on purchases of specified equipment and software during the <u>qualifying period between September 17, 2020, and March 31, 2022.</u> [Emphasis added]
>
> FEI is eligible to claim a BC PST Rebate on Select Machinery and Equipment on capital purchases of software and equipment and has filed for these rebates for the qualifying periods as set out by the Province of BC. To date, FEI has received $1.071 million ($0.782 million after-tax) in rebates and expects additional rebates of approximately $1.102 million ($0.804 million after-tax) to be received by December 31, 2023.
>
> FEI is requesting approval to establish a rate base deferral account to capture the PST Rebates on Select Machinery and Equipment received from the Province of BC. Further, FEI is proposing to amortize these rebates to customers over one year beginning January 1, 2024, to match the approximate qualifying period of eligible PST paid on purchases.

11.1 Please clarify what amount FEI is proposing to enter into the PST rebate deferral account.

<u>Response:</u>

FEI is forecasting to record rebates of $2.173 million ($1.586 million after-tax)[5] in the PST Rebate on Select Machinery and Equipment deferral account as of the end of December 31, 2023. As discussed in the Application, FEI is also proposing to amortize the rebates to customers over a one-year period beginning January 1, 2024. The amortization of the $1.586 million after-tax in 2024 is reflected in Section 11 of the Application, Schedule 11.1, Line 24, Column 6.

[5] $1.071 million received plus $1.102 million expected to be received by December 31, 2023, which equals $2.173 million in total. On an after-tax basis, the amounts are $0.782 million received plus $0.804 million expected to be received by December 31, 2023, which equals $1.586 million after-tax in total.

11.2 Please confirm, or explain otherwise, that the PST rebates were earned over the entirety of the qualifying period of September 17, 2020 and March 31, 2022, noted on page 74.

11.2.1 If confirmed, please discuss whether an amortization period of two years was considered given that the eligible period is approximately 1.5 years in length.

Response:

Confirmed. FEI has applied to receive the rebates for PST paid on all qualifying machinery and equipment during the entirety of the qualifying period from September 17, 2020 to March 31, 2022, as set out by the Province of BC.

FEI considered both one- and two-year amortization periods and determined that the difference in the delivery rate impact between the two options, i.e., approximately 0.1 percent, was minimal. Therefore, and in consideration that the qualifying period falls between one and two years in length, FEI selected a one-year amortization period to allow for the funds to be returned to customers sooner.

On page 70 of the Application, FEI states:

> In the absence of a deferral account, the rebate would be recorded as an offset in the applicable accounts where the original PST costs were recorded, whether those accounts were O&M or capital. FEI considers this to be a less transparent way of recording the rebates as it is the cost of service impacts of the amounts credited to capital that would be returned to customers over a longer timeframe, rather than the rebate amount itself over one year as proposed using the deferral account approach.

11.3 Please explain why the use of a PST rebate deferral account would be more “transparent” than the alternative approach discussed on page 70 of the Application.

11.4 Please quantify the “longer timeframe” noted on page 70 of the Application.

Response:

The recording of the BC PST Rebate on Select Machinery and Equipment in a deferral account is more transparent because it allows the BCUC and interveners to see the total amount of PST rebates received and flowed back through rates, as the amortization of the $1.586 million rebate (after-tax) is reflected as a standalone amount in Section 11, Schedule 11.1, Line 24, Column 6 in the Application.

Under the alternative approach discussed on page 70 of the Application, the PST rebate would be recorded back to either O&M or capital, depending on where the original PST costs were recorded. In both cases, the recording of the PST rebates would not be visible to the BCUC or interveners in the Application as the amounts would not be shown separately in the financial schedules provided in Section 11.

Further, in the case of PST credited back to capital, the PST rebate would be returned to customers over the expected service life of the assets through depreciation, earned return, and income tax, instead of over one year as proposed using the deferral account approach. This is the "longer timeframe" referenced in the Application and is referring to the expected service life of the capital assets where the original PST costs were recorded. FEI is not able to precisely quantify the longer timeframe, as it can range depending on the expected service life of the capital assets. For example, if the original PST costs were related to capital assets that have an expected service life of 20 years, then the PST rebates would be credited back to the capital assets and would be returned back to customers over a 20-year period through depreciation (plus the associated earned return and income tax of the capital assets).

An additional complexity of the alternative approach is that, if some or all of the original PST costs were related to O&M or capital expenses that were subject to the earnings sharing mechanism, the rebates would also be subject to earnings sharing and only returned 50 percent to customers. As such, FEI considers it simpler and more transparent to flow the full amount of the PST rebates back to customers through the use of the requested deferral account.

11.5 Please compare the administrative costs associated with the proposed deferral account approach versus the alternative approach discussed on page 70 of the Application.

Response:

The administrative impact of the alternative approach compared to the proposed deferral account approach would be related to the additional labour and effort required by existing FEI staff. This would not likely cause increased costs (though potentially there could be some overtime costs incurred if applicable) because the FEI staff would need to take on this additional work in addition to their existing responsibilities.

The use of a deferral account would require less administrative labour as the total rebate received would be recorded to one account and returned to customers over one year, whereas the alternative approach would require additional administrative labour to determine the original source of each individual PST cost that was associated with machinery and equipment and to credit the PST amounts back to those original sources. The latter option would also be onerous to determine the all-in impact to customers over the cumulative lives of the assets, should that amount ever need to be determined.

11.6 Please provide a breakdown of the PST rebates by PST rebates associated to O&M costs and PST rebates associated to capital costs.

Response:

Please refer to Table 1 below for the breakdown of the forecast BC PST Select Machinery and Equipment rebates of $2.173 million ($1.586 million after-tax) between O&M and Capital.

Table 1: Breakdown of the Forecast BC PST Rebates on Select Machinery and Equipment

	To Date of Application	Forecast to December 31, 2023	Total
Capital	$0.819 million ($0.598 million after-tax)	$0.922 million ($0.673 million after-tax)	**$1.741 million ($1.271 million after-tax)**
O&M	$0.252 million ($0.184 million after-tax)	$0.180 million ($0.131 million after-tax)	**$0.432 million ($0.315 million after-tax)**
Total	**$1.071 million ($0.782 million after-tax)**	**$1.102 million ($0.804 million after-tax)**	**$2.173 million ($1.586 million after-tax)**

On page 71 of the Application, FEI states: "FEI expects to return the rebates over the same period of time as the qualifying period to make the PST rebate claims. There are no intergenerational inequities in this practice."

11.7 For PST rebates related to capital expenditures, please explain how the proposed one-year amortization period beginning January 1, 2024, would match the expected timeframe of the benefits of the underlying asset (i.e. the expected service life of the capital asset(s)).

Response:

The proposed one-year amortization period is not designed to match the expected timeframe of the benefits of the underlying assets (or the expected service life of the capital assets). As explained in the responses to BCUC IR1 11.3 and 11.4, the proposed deferral account approach with a one-year amortization period is appropriate and reasonable as it ensures the return of the PST rebates back to customers in a timely and transparent manner. If the amortization of the rebate is to match the expected service life of the underlying capital assets, as suggested by this information request, then some of the PST rebates might not be fully returned to customers for at least 20 years or more, depending on the expected service life of the individual asset classes.

On page 71 of the Application, FEI states: "The final amount of PST rebates claimed by FEI are subject toapproval by the Province of BC."

11.8 Please explain the approval process for the PST rebates (i.e. length of time between application and receipt of funds, time spent by FEI personnel to prepare applications).

Response:

After receipt of FEI's BC PST Select Machinery and Equipment (SME) rebate application, the BC Ministry of Finance is responsible for reviewing and approving the PST application. There are no defined timelines regarding the completion of their review as this was a special BC rebate program. Furthermore, the BC Ministry of Finance was delayed in their response due to processing the high volume of rebates coming out of the COVID-19 pandemic.

As part of the approval process, the BC Ministry of Finance audits the rebate claims. The BC Ministry of Finance will verify FEI's documentation, including invoices, proof of payment, examination of tax returns, and journal entries. The time between the filing of the applications and payment for the rebate claims has varied significantly. Please refer to the response to BCUC IR1 11.10 for the date that each rebate application was filed and the dates that rebates have been received. To date, FEI's time spent to prepare the rebates and respond to the audit queries has totaled approximately 50 hours.

11.9 Please explain how many applications FEI has made to the Province of BC for PST rebates. If more than one application was made, please explain why.

Response:

FEI submitted three BC PST SME rebate claims as permitted under the *Provincial Sales Tax Rebate on Select Machinery and Equipment Regulation*. The information reviewed for the PST rebate was significant and managing it in segments facilitated a timely and efficient claim preparation process while allowing FEI to take advantage of an extension to the program that was announced in September 2021. FEI also considered that multiple rebate claims would facilitate a more expeditious review and resolution by the BC Ministry of Finance. By submitting more than one rebate claim (and staggering the claims), FEI was able to resolve the BC Ministry of Finance queries more quickly upon review of the initial application.

11.10 Please complete the following table for PST rebates:

		To date of Application	Forecast by December 31, 2023
Applied for	Date		
	Amount ($)		
Received	Date		
	Amount ($)	$1.071 million ($0.782 million after-tax) actual	$1.102 million ($0.804 million after-tax) forecast
Percentage Approved*			

* Please calculate this percentage as: Amount Received ($) / Amount applied for ($)

Response:

FEI has submitted three BC PST SME rebate claims, one on May 16, 2022, and two separate applications on August 10, 2022. Please refer to Table 1 below for the details of each application as requested. In summary, FEI has currently received approval of two of the PST rebate applications but has only received the rebates for the first application (i.e., total actual rebates received to date of $1.071 million). FEI is forecasting to receive the other two PST rebates by December 31, 2023.

Table 1: BC PST SME Rebate Applications

		To date of Application (July 28, 2023)	Forecast by December 31, 2023
BC PST SME Rebate Application #1			
Applied for	Date	May 16, 2022	
	Amount ($)	$0.572 million ($0.417 million after-tax)	
Received	Date		August 9, 2023
	Amount ($)		$0.530 million[6] ($0.387 million after-tax)
Percentage Approved			92.7%
BC PST SME Rebate Application #2			
Applied for	Date	August 10, 2022	
	Amount ($)	$1.398 million ($1.021 million after-tax)	
Received	Date	March 8, 2023	
	Amount ($)	$1.071 million ($0.782 million after-tax)	
Percentage Approved		76.6%	

[6] The May 16, 2022 Application was approved on August 9, 2023 (after the filing of the Application) but the PST SME rebates have not yet been received.

		To date of Application (July 28, 2023)	Forecast by December 31, 2023
BC PST SME Rebate Application #3			
Applied for	Date	August 10, 2022	
	Amount ($)	$0.530 million ($0.387 million after-tax)	
Received	Date		Not yet received but forecast to be received before December 31, 2023
	Amount ($)		Forecast $0.530 million ($0.387 million after-tax)
Percentage Approved			Approval Pending

As shown in Table 1 above, at the time of the Application, FEI projected a total of $2.173 million or $1.586 million after-tax (i.e., $1.071 million already received on March 8, 2023 plus the $1.102 million applied for) of PST SME rebates to be added to the deferral account by December 31, 2023. At this time, FEI is not proposing to change the 2023 projected additions to this deferral account using the actual PST rebates received on August 9, 2023. Any variances between the projected and forecast account balances and the actual incurred costs will be recognized in the following year.

11.11 For the PST rebates of $1.071 million that FEI has received to date, please discuss how this amount is currently being recorded.

11.11.1 If any amounts were received prior to January 1, 2023, please discuss how these amounts were recorded.

<u>Response:</u>

The $1.071 million received to date is being recorded at the after-tax amount of $0.782 million in the proposed deferral account.

There were no rebates received prior to January 1, 2023. Please refer to the response to BCUC IR1 11.10 for additional details on the timing of the rebates.

11.12 Please discuss whether the percentage of PST rebates applied for and subsequently received to date would result in forecastable PST rebate amounts for 2024.

Response:

FEI is projecting to receive rebates from all three of the applications that it has filed before the end of 2023; thus, FEI has not forecast any PST rebate amounts for 2024. However, as explained in the response to BCUC IR1 11.10, the variances between the actual rebate amounts received and the amounts projected for 2023 in the deferral account will be recognized through amortization in a subsequent year (i.e., amortized in 2025 rates).

11.13 Please discuss whether FEI expects to receive any PST rebates after December 31, 2023. If so, please state the dollar value of PST rebates expected after December 31, 2023 and how this would or would not affect the PST rebate deferral account.

Response:

FEI is not expecting to receive any of the PST rebates after December 31, 2023. Please also refer to the responses to BCUC IR1 11.10 and 11.12.

11.14 If the proposed PST rebate deferral account were not approved, please discuss how the 2023 rebates would be treated and quantify the impact, if any, on the 2024 revenue requirement and delivery rate increase.

Response:

If the proposed PST rebate deferral account is not approved, the 2024 proposed deficiency will increase by approximately $2.237 million and the proposed delivery rate impact will increase by approximately 0.21 percent, from 4.50 percent to 4.71 percent[7].

For the treatment of the 2023 rebates if the deferral approach is not approved, as discussed in the responses to BCUC IR1 11.3 and 11.4, the PST rebates will be recorded as a credit to either O&M or capital, depending on the original PST costs. The treatment would be as follows:

For O&M-related PST:

- If the PST rebates are related to formula O&M amounts, then the portion of the 2023 actual rebates that is to be shared with customers under the current earnings sharing mechanism

[7] Before consideration of the changes to FEI's return on equity and capital structure resulting from the recently issued Generic Cost of Capital (GCOC) Stage 1 Decision and Order G-236-23.

will be returned to customers through rates in 2025 through amortization of the Earnings Sharing deferral account.

- If the PST rebates are related to flow-through O&M amounts, then the 2023 actual rebates will be captured in the Flow-through deferral account in 2023 and returned to customers in 2025 through amortization of the Flow-through deferral account.

For capital-related PST:

- The 2023 actual rebates will be recorded as credits to the associated capital assets, and then the related cost of service impact (i.e., depreciation, income tax and earned return) will be returned to customers through rates. However:
    - If PST rebates are related to regular capital, then the 2023 and 2024[8] cost of service impact due to the PST rebates will be subject to the earnings sharing mechanism with the portion shared with customers to be returned in 2025 and 2026, respectively, through amortization of the Earnings Sharing deferral account.
    - If the PST rebates are related to flow-through capital, then the 2023 and 2024 cost of service impact due to the PST rebates will be fully returned to customers in 2025 and 2026, respectively, through the Flow-through deferral account.

8 Given regular capital is not subject to annual forecast re-basing during the MRP term, the cost of service impacts from any variances between actual and forecast capital additions will persist throughout the remainder of the MRP term.

12.0 Reference: RATE BASE

Exhibit B-2, Section 1.5, p. 10; FEI 2023 Annual Review of Delivery Rates, Exhibit B-2, Section 7.5, p. 84, Exhibit B-13, p. 3, Exhibit B-11, Slide 57

Carbon Credits

On page 10 of the Application, FEI notes that the reduced credit amortization from the Emissions Regulation deferral account was a result of reduced carbon credits available for monetization.

On page 84 of Exhibit B-2 in the FEI 2023 Annual Review of Delivery Rates proceeding, FEI explained that it had accumulated 80,149 in carbon credits since 2019.

On page 3 of Exhibit B-13 in the FEI 2023 Annual Review of Delivery Rates proceeding, FEI states that it had executed a contract with a buyer for the sale of these carbon credits for approximately $34.5 million in revenue near the end of 2022.

On slide 57 of Exhibit B-11 in the FEI 2023 Annual Review of Delivery Rates proceeding, FEI provided the following table showing the Carbon Credit Validation Timeline:

Compliance Period	2018	2019	2020	2021
Initial Report	29-Mar-19	27-Mar-20	25-Mar-21	22-Mar-22
Supplemental Report		6-Jul-20	4-Feb-22	
Supplemental Report		17-Feb-21		
Supplemental Report		4-Feb-22		
Approval	23-Sep-19	18-Feb-22	18-Feb-22	
Credits	26,521	28,918	24,710	2,419

12.1 Please update the above table with information to date. Please also add rows for (i) number of carbon credits submitted for approval; (ii) number of carbon credits approved; and (iii) percentage of carbon credits submitted that were approved (i.e. item (ii) / item (i)).

12.1.1 If there have been no carbon credits submitted for approval since March 22, 2022, please explain why.

<u>Response:</u>

Please refer to Table 1 below for the most up-to-date information available, including the number of credits submitted and approved, and the percentage of credits approved in each compliance period from 2018 to 2022. FEI notes that the initial report submitted for each compliance period is due to the Ministry by March 31 of the following year (e.g., for the 2022 compliance period, the initial report was due by March 31, 2023).

Table 1: Summary of Carbon Credit Validation as of March 2023

Compliance Period	2018	2019	2020	2021	2022
Initial Report	29-Mar-19	27-Mar-20	25-Mar-21	22-Mar-22	31-Mar-23
Supplemental Report		6-Jul-20	4-Feb-22	31-Mar-23	
Supplemental Report		17-Feb-21			
Supplemental Report		4-Feb-22			
Approval	23-Sep-19	18-Feb-22	18-Feb-22	Awaiting Approval	Awaiting Approval
i) Credits Submitted for Approval	26,521	28,918	24,710	2,415	1,008
ii) Credits Approved	26,521	28,918	24,710		
iii) % of Credits Approved	100%	100%	100%		

As Table 1 above shows, FEI is awaiting approval of its credits from the 2021 and 2022 Compliance periods and there have been no new approvals since February 18, 2022. For the 2021 Compliance period, FEI submitted a supplemental report on March 31, 2023 following discussions with staff at the Ministry. As a result of the discussions, FEI removed four credits related to its electric vehicle charging station located at FEI's Surrey Operations, to be consistent with BC-LCFS Information Bulletin RLCF-020.[9]

12.2 Please provide the dollar value of the unsold carbon credits accumulated to date from the table in IR 12.1, if any. Please provide the market price of carbon credits used with supporting reference.

Response:

As shown in Table 1 of the response to BCUC IR1 12.1, FEI currently has a total of 3,423 (2,415 + 1,008) unsold credits pending validation by the Ministry from the 2021 and 2022 Compliance periods. The dollar value of FEI's unsold credits that are pending validation by the Ministry is approximately $1.565 million, calculated based on the Q3 2023 average credit price ($ per credit) of $457.28.[10] The actual dollar value that FEI can monetize will depend on the timing of when the credits are validated by the Ministry and the actual bids received from potential buyers.

As part of this Application, FEI is only projecting to monetize the 2,415 carbon credits submitted for the 2021 Compliance period (pending validation). This equates to a 2023 addition to the

9 https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/transportation/renewable-low-carbon-fuels/rlcf020_-_electricity_supply_and_reporting_requirements_20230117.pdf.

10 https://www2.gov.bc.ca/gov/content/industry/electricity-alternative-energy/transportation-energies/renewable-low-carbon-fuels/credits-market.

Emissions Regulations deferral account of $0.759 million[11] and the resulting credit amortization to customer rates in 2024 (see Section 11, Schedule 11, Line 16 of the Application). As further discussed in the response to BCUC IR1 12.3, FEI expects the credits from the 2021 Compliance period to be validated by the Ministry in 2023 and FEI will complete the sale of the validated credits before the end of 2023. However, FEI did not include the monetization of the 1,008 carbon credits from the 2022 Compliance period as a forecast addition to the Emissions Regulations deferral account because FEI is uncertain on the timing of when the credits from the 2022 Compliance period will be validated.

12.3 At a high level, please discuss what approach FEI is taking to the monetization of carbon credits (e.g. accumulating for several years and then selling in bulk, selling as earned annually, etc.).

12.3.1 Please discuss how the approach described in the preceding IR is, or is not, informed by past experience with the monetization of carbon credits in 2022.

Response:

FEI generally monetizes all credits within a year from the date that the credits are validated. However, as shown in the response to BCUC IR1 12.1, there was a lapse in credit validation by BC-LCFS since 2019 which resulted in the credits from the 2019 and 2020 Compliance periods not being validated until 2022. As such, FEI was not able to monetize the accumulated credits until 2022, which resulted in FEI applying for, and receiving approval to, amortize the full balance of monetized credits into customers' 2023 rates as part of the Annual Review for 2023 Delivery Rates.

FEI continues to expect that the credits from the 2021 Compliance period will be validated in 2023 and that FEI will sell these validated credits before the end of 2023. As such, as explained in the response to BCUC IR1 12.2, FEI included a forecast of the monetized carbon credits from the 2021 Compliance period as an addition to the Emissions Regulations deferral account in 2023 and thus the credits are included as credit amortization in 2024 delivery rates.

FEI anticipates that the carbon credits for the 2022 Compliance period will be validated in 2024; however, the timing remains uncertain given the recent lapse in credit validation by the BC-LCFS. If the credits are validated in 2024, FEI would likely attempt to monetize the credits in 2024, and the credits would thus be amortized into delivery rates in 2025.

[11] Calculated based on the Q1 2023 average market credit price of $449.20, which is equivalent to approximately $1.085 million. FEI used the Q1 2023 average market credit price because it was the most current market data available at the time when FEI was preparing the Application. The amortization of the credit of $1.085 million, less expenses related to credit validations and after-tax, is $0.759 million.

However, while these are general guidelines, FEI will consider the actual sale of these credits after they have been validated based on the actual bids received from potential buyers.

G. FINANCING AND RETURN ON EQUITY

13.0 Reference: FINANCING AND RETURN ON EQUITY

Exhibit B-2, Section 8.3, Table 8-1, p. 78

Short Term Interest Rate

On page 78 of the Application, FEI provides Table 8-1 showing the Short Term Interest Rate Forecast as follows:

FEI Short Term Interest Rate	Approved 2023	Projected 2023	Forecast 2024
3-Month T-Bill Rate [1]	3.14%	5.04%	4.27%
Spread to CDOR	0.36%	0.41%	0.41%
CDOR Rate	3.50%	5.45%	4.69%
Spread to CP	-0.34%	-0.22%	-0.22%
CP Dealer Commission	0.10%	0.10%	0.10%
ST Interest Rate on Credit Facilities	**3.26%**	**5.34%**	**4.57%**
Fixed Financing Fees [2]			
Standby fee on Undrawn Credit [3]	0.44%	0.72%	0.57%
Renewal Fee on Undrawn Credit	0.16%	0.26%	0.20%
Other Financing Fees [4]	0.10%	0.26%	0.22%
ST Interest Rate on Fixed Financing Fee	**0.69%**	**1.24%**	**0.99%**
FEI Short Term Rate	**3.95%**	**6.58%**	**5.56%**

13.1 Given the variances in short-term interest rates between Approved 2023 and Projected 2023, please discuss whether FEI has considered alternative forecast methodologies for short-term interest rates.

<u>Response:</u>

The primary reason for the large variance in the short-term interest rate for 2023 is the fact that FEI continues to operate in extraordinary economic conditions whereby the Bank of Canada has raised its target for an overnight rate 10 times since March 2022 to combat unprecedented inflation in Canada, with six of the increases occurring between FEI's filing of the Annual Review for 2023 Delivery Rates and the filing of this Application. This has significantly impacted the short-term interest rate for 2023.

Nonetheless, FEI considers the current methodology to be appropriate, supportable through economic forecasts received from major Canadian banks and historically consistent; therefore, FEI has not considered alternative forecast methodologies for short-term interest rates. In addition, the flow-through mechanism is used to capture variances caused by changes in the short-term interest rate, so differences between the approved/projected rates and the actual rates will be recovered from or returned to customers in a subsequent period.

13.2 Please discuss the impact to the 2024 revenue requirement and delivery rate increase under a change of +/- 1 basis point to the FEI Short Term Rate of 5.56 percent forecast for 2024.

Response:

FEI interprets this information request to be looking for the impact of a +/- 100 basis point (i.e., 1 percent) change to the short-term debt rate, as a +/- 1 basis point (i.e., 0.01 percent) change would have almost no impact on FEI's 2024 revenue requirement and delivery rate increase. Accordingly, please refer to Table 1 below which shows the impact to the 2024 revenue requirement and 2024 delivery rate increase as a result of both a +/- 1 basis point and +/- 100 basis point change to FEI's 2024 forecast of the short-term debt rate of 5.56 percent, assuming all else being equal.

Table 1: Impact to FEI 2024 Revenue Requirement and Delivery Rate Increase with a +/- 1 and +/- 100 Basis Point Change

Short Term Debt Rate Change	+/- 1 Basis Point (i.e., +/- 0.01%)	+/- 100 Basis Point (i.e., +/- 1%)
Impact to 2024 Revenue Requirement ($ million)	+/- $0.020	+/- $1.973
Impact to 2024 Delivery Rate Increase (%)	No Change*	+/- 0.19%

**No change when rounded to two decimal places.*

FEI notes that as part of the BCUC's Decision and Order G-236-23[12] regarding Stage 1 of the BCUC-initiated Generic Cost of Capital (GCOC) proceeding, FEI is approved a deemed equity component of 45.0 percent, effective January 1, 2023. The increase to FEI's deemed equity percentage effectively reduces FEI's short-term debt component under FEI's capital structure; thus, the impact of varying +/- 1 or +/- 100 basis points to FEI's short term debt rate of 5.56 percent would be less than the impacts shown in Table 1 above.

12 Decision issued on September 5, 2023.

H. TAXES

14.0 Reference: TAXES

Exhibit B-2, Section 9.2, Table 9-1, pp. 81–82

Property Taxes

In Table 9-1 on page 81 of the Application, FEI provides a breakdown of property taxes by asset type, reproduced in part below:

Line No.	Description	Approved 2023	Projected 2023	Forecast 2024
6	In-Lieu	16.323	12.820	16.510

On page 81 of the Application, FEI states:

> […] 2024 property taxes are forecast to increase by 5.3 percent from 2023 Approved and increase by 7.2 percent compared to 2023 Projected. Approximately two-thirds of the increase in the 2024 Forecast compared to 2023 Projected is due to higher in-lieu taxes […]

On page 82 of the Application, FEI states:

> […] Revenues reported to municipalities are expected to increase by 28.8 percent compared to 2023 Projected based on actual revenues applicable to the taxation year. Increases in the cost of gas led to higher revenues used to derive the 2024 grants in-lieu. Grants in-lieu of taxes are based on a fixed percentage of revenues; the overall increase in revenues reported to municipalities increases the grants in-lieu of taxes due.

14.1 Please confirm, or explain otherwise, that the methodology FEI used to forecast property taxes for 2024 is consistent with previous years.

14.1.1 If not confirmed, please explain why not and describe the differences in methodology.

Response:

Confirmed. However, FEI has identified an error in the calculation of the In-Lieu payments in the Application (Table 9-1, Line 6) for 2023 Projected. FEI is required to make a manual adjustment to its calculation of In-Lieu payments for the City of Vancouver because, unlike the rest of the municipalities in BC, the City of Vancouver's in-lieu payment is based on the previous year's revenues (whereas the rest of the municipalities are based on revenues from two years ago). FEI inadvertently excluded the City of Vancouver's In-Lieu payments from the 2023 Projected amount in the Application, resulting in an under-reporting of 2023 Projected In-Lieu payments. Please see the corrected Table 9-1 below. The impact of this error on the 2024 revenue requirement will be incorporated into the Evidentiary Update which FEI will be filing in early October.

Corrected Table 9-1: Property Tax Components ($ millions)

Line No.	Description	Approved 2023	Projected 2023	Forecast 2024
1	Distribution Assets	$ 27.938	$ 29.252	$ 30.247
2	Transmission Assets	20.167	20.951	21.434
3	Gas Storage Assets	7.818	8.408	8.597
4	Manufactured Gas Assets	0.051	0.062	0.065
5	General Assets	6.652	6.092	6.289
6	In-Lieu	16.323	16.328	16.510
7	BCER Fees	0.287	0.292	0.295
8	Total Property Taxes	79.236	81.385	83.436
9	Less: Property Tax Transferred to BVA	(0.092)	(0.092)	(0.077)
10	Net Property Tax	79.144	81.293	83.359
11				
12	Forecast Change from 2023 Approved			5.3%
13	Forecast Change from 2023 Projected			2.5%

14.2 Please explain how FEI determined the expected 28.8 percent increase in revenues reported to municipalities in 2024 and any related assumptions.

Response:

As explained in the response to BCUC IR1 14.1, the large increase in 2024 Forecast In-Lieu payments compared to 2023 Projected was primarily the result of FEI inadvertently excluding the City of Vancouver from the payment amount. Based on the Corrected Table 9-1 in BCUC IR1 14.1, the increase in 2024 Forecast compared to 2023 Projected is $0.182 million, which is relatively consistent with both 2023 Approved and 2023 Projected levels. Please refer to the response to BCUC IR1 14.1 for a further explanation of how the In-Lieu payments are calculated.

14.3 Please confirm, or explain otherwise, that the methodology used to calculate the 2024 Forecast in-lieu taxes was applying a 28.8[13] percent increase to 2023 Projected in-lieu taxes. If not confirmed, please provide the calculation and any related assumptions.

Response:

Please refer to the response to BCUC IR1 14.1.

[13] Calculated as: ($16.510 million - $12.820 million) / $12.820 million.

14.4 Please explain the $3.503 million[14], or 21.46[15] percent, variance in in-lieu taxes for 2023 Projected as compared to 2023 Approved.

Response:

Please refer to the response to BCUC IR1 14.1.

14.5 Please provide a comparison of the actual versus forecast 2020, 2021 and 2022 in-lieu taxes paid and provide explanations for any variances greater than 10 percent.

Response:

The 2020 through 2022 actual and forecast in-lieu amounts are provided in the table below.

Table 1: 2020, 2021 and 2022 Actual and Forecast In-Lieu Taxes ($ millions)

	Actual	Forecast	Variance %
2022	$13.507	$13.368	1.0%
2021	$12.532	$12.423	0.9%
2020	$11.422	$11.293	1.1%

14 Calculated as: $16.323 million - $12.820 million.
15 Calculated as: ($16.323 million - $12.820 million) / $16.323 million.

15.0 Reference: TAXES

Exhibit B-2, Section 9.3, p. 83, Section 11, Schedules 24 and 25, pp. 131–132

Income Tax

On page 83 of the Application, FEI states:

> Income tax for 2024 is forecast to increase by $16.653 million or 32.2 percent compared to 2023 Approved. The largest driver of the increase in 2024 is lower income tax deductible through capital cost allowance (CCA) by approximately $12.284 million. The lower deductibility is partly due to reduced undepreciated capital cost (UCC) additions in higher rate CCA classes in the 2024 Forecast compared to 2023 Approved, and partly due to the phase-out of Canada's Accelerated Investment Incentive starting from 2024 (i.e., enhanced 50 percent first-year allowance to be phased out in 2024). [Emphasis added]

On pages 131 to 132 of the Application, FEI provides Schedules 24 and 25 showing income taxes and capital cost allowances.

15.1 Please provide a calculation showing how FEI calculated the $12.284 million lower income tax deductible through CCA and distinguish the approximate amount attributable to (i) reduced UCC additions in higher rate CCA classes and (ii) the phase-out of Canada's Accelerated Investment Incentive. Please include references to Schedules 24 and 25 as appropriate.

Response:

Please refer to Table 1 below for the calculation of the $12.284 million of increased income tax due to the reduction in deductible CCA.

Table 1: Calculation of Increased Income Tax Expense resulting from Reduced CCA Deductibles

Line	Particular	Reference	Amount ($000s)
1	2023 Approved CCA Deductible	Section 11 - Schedule 24, Line 27, Column 2	330,330
2	2024 Forecast CCA Deductible	Section 11 - Schedule 24, Line 27, Column 3	297,117
3	**Reduction in CCA**	**Line 2 - Line 1**	**(33,213)**
4			
5	Increase in Accounting Income After Tax	-Line 3	33,213
6			
7	1 - Current Income Tax Rate	1 - Line 10	73%
8	Change in Taxable Income	Line 5 / Line 7	45,497
9			
10	Current Income Tax Rate	Section 11 - Schedule 24, Line 9	27%
11	**Increase in Income Tax Expense**	**Line 8 x Line 10**	**12,284**

As discussed on page 83 of the Application and referenced in the preamble above, the reduced CCA deductible is partly due to the phase-out of Canada's Accelerated Investment Incentive (AII) starting from 2024. Please refer to Table 2 below which shows the 2024 Forecast CCA calculation (i.e., in the same format as Section 11, Schedule 25 of the Application) if the AII remained in place for 2024. If there was no phase-out of AII starting in 2024, the 2024 forecast CCA deductible would have been approximately $313.400 million, instead of $297.117 million as shown on Line 2 of Table 1 above.

Table 2: 2024 Forecast of CCA if AII Remained in Place for 2024 ($000s)

Line No.	Class	CCA Rate	12/31/2023 UCC Balance	2024 Additions	UCC Adjustments for AII	2024 CCA	Forecast 12/31/2024 UCC Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	1	4%	$ 975,015	$ -	$ -	$ (39,000)	$ 936,015
2	1(b)	6%	15,886	27,802	13,901	(3,455)	54,134
3	2	6%	72,294	-	-	(4,338)	67,956
4	3	5%	1,456	-	-	(73)	1,383
5	6	10%	193	-	-	(19)	174
6	7	15%	19,681	2,898	1,449	(3,604)	20,424
7	8	20%	32,340	9,852	4,926	(9,424)	37,694
8	10	30%	15,646	7,941	3,971	(8,267)	19,291
9	10.1	30%	63	-	-	(19)	44
10	12	100%	-	18,365	-	(18,365)	-
11	13	manual	1,991	-	-	(764)	1,227
12	14.1 (pre 2017)	7%	13,207	-	-	(924)	12,283
13	14.1 (post 2016)	5%	4,809	-	-	(240)	4,569
14	17	8%	814	-	-	(65)	749
15	38	30%	735	-	-	(221)	514
16	43.2	50%	49	18,917	9,459	(14,212)	4,754
17	47	8%	129,475	-	-	(10,358)	119,117
18	47 (LNG Plant - post Feb 2015)	8%	136,374	-	-	(10,910)	125,464
19	49	8%	522,493	129,640	64,820	(57,356)	659,597
20	50	55%	3,396	9,183	4,592	(9,444)	7,727
21	51	6%	1,771,792	178,156	89,078	(122,342)	1,916,684
22							
23	Total		$ 3,717,709	$ 402,754	$ 192,195	$ (313,400)	$ 3,989,799

Table 3 below shows the calculation that if the AII remained in place for 2024, then the 2024 income tax expense would have been reduced by approximately $6.022 million. To clarify, approximately $6.022 million of the total income tax increase of $12.284 million is due to the phase-out of the AII while the remaining $6.262 million is due to the reduced UCC additions in higher rate CCA classes in the 2024 Forecast when compared to 2023 Approved. Please refer to the response to BCUC IR1 15.2 for further details about the reduced UCC additions in higher rate CCA classes.

Table 3: Comparison of Increased Income Tax Expense for 2024 with and without AII for CCA

Line	Particular	Reference	Without AII - As Filed ($000s)	With AII - As Filed ($000s)	Income Tax Savings due to AII ($000s)
1	2023 Approved CCA Deductible	Table 1 of BCUC IR1 15.1, Line 1	330,330	330,330	-
2	2024 Forecast CCA Deductible	Table 1 of BCUC IR1 15.1, Line 2	297,117	313,400	(16,283)
3	**Reduction in CCA**	**Line 2 - Line 1**	**(33,213)**	**(16,930)**	**(16,283)**
4					
5	Increase in Accounting Income After Tax	-Line 3	33,213	16,930	16,283
6					
7	1 - Current Income Tax Rate	1 - Line 10	73%	73%	73%
8	Change in Taxable Income	Line 5 / Line 7	45,497	23,191	22,306
9					
10	Current Income Tax Rate	Table 1 of BCUC IR1 15.1, Line 10	27%	27%	27%
11	**Increase in Income Tax Expense**	**Line 8 x Line 10**	**12,284**	**6,262**	**6,022**

15.2 Please discuss the main differences in FEI's capital additions in 2023 compared to 2024 Forecast that drive the lower income tax deductible available in 2024.

15.2.1 At a high level, please discuss the types of assets where FEI notes "undepreciated capital cost (UCC) additions in higher CCA classes in the 2024 Forecast compared to 2023 Approved".

<u>Response:</u>

Please refer to Table 1 below which compares the undepreciated capital cost (UCC) additions by CCA rate classes between 2023 Approved and 2024 Forecast.

Table 1: Comparison of UCC Additions by CCA Rate Class for 2023 Approved and 2024 Forecast

Line No.	Class	CCA Rate	2023 Approved UCC Additions ($000s)	2024 Forecast UCC Additions ($000s)	Change ($000s)
1	1	4%	(1)	-	1
2	1(b)	6%	14,625	27,802	13,177
3	2	6%	-	-	-
4	3	5%	-	-	-
5	6	10%	-	-	-
6	7	15%	1,530	2,898	1,368
7	8	20%	10,962	9,852	(1,110)
8	10	30%	9,145	7,941	(1,204)
9	10.1	30%	-	-	-
10	12	100%	23,036	18,365	(4,671)
11	13	manual	2,949	-	(2,949)
12	14.1 (pre 2017)	7%	-	-	-
13	14.1 (post 2016)	5%	-	-	-
14	17	8%	-	-	-
15	38	30%	1,720	-	(1,720)
16	43.2	50%	31,224	18,917	(12,307)
17	47	8%	-	-	-
18	47 (LNG Plant - post Feb 2015)	8%	21,379	-	(21,379)
19	49	8%	36,692	129,640	92,948
20	50	55%	11,515	9,183	(2,332)
21	51	6%	228,394	178,156	(50,238)
22					
23	Total		$ 393,170	$ 402,754	$ 9,584

It can be seen from Table 1 above that although the overall UCC additions are higher in the 2024 Forecast (i.e., $402.754 million) when compared to 2023 Approved (i.e., $393.170 million), the majority of the increase is driven by the additions in CCA Class 49, which is mostly related to FEI's transmission plant assets with a CCA rate of only 8 percent. In contrast, there are significant decreases from 2023 Approved to 2024 Forecast in classes that have higher CCA rates (e.g., above a 30 percent CCA rate) such as Classes 10 (Vehicle), 12 (Software), 38 (Heavy Mobile Equipment), 43.2 (Biogas)[16], and 50 (Computer Hardware). These classes are highlighted in orange in Table 1 above. Due to the much higher CCA rates in these classes, the reduction in UCC additions in these classes have a significant contribution to the reduction in the 2024 Forecast of deductible CCA. Additionally, there are large reductions in UCC additions from Class 47 (LNG)[17] and Class 51 (Distribution assets) which have CCA rates of 8 percent and 6 percent,

[16] Please refer to Table 7-5 and Section 7.2.3.1 of the Application for a discussion on the overall reduction of biomethane capital expenditures from 2023 Approved to 2024 Forecast.

[17] The reduction in Class 47 (LNG) is mostly related to the delay of the T1A truck load-out project. The 2023 Approved

respectively. The reduction of UCC additions in the higher CCA rate classes, plus the reductions in Classes 47 and 51, more than offset the increases in CCA from Class 49 (Transmission assets), resulting in an overall decrease of CCA deductible, regardless of the phase-out of Canada's Accelerated Investment Incentive (as discussed in the response to BCUC IR1 15.1).

UCC additions assumed the T1A truck load-out would be completed in 2023, however for reasons discussed in Section 7.2.3.1, the completion of this project is now delayed and, therefore, no UCC additions are forecast for 2023 and 2024.

I. EARNINGS SHARING AND RATE RIDERS

16.0 Reference: EARNINGS SHARING AND RATE RIDERS

Exhibit B-2, Section 10.2, p. 84

Earnings Sharing Mechanism

On page 84 of the Application, FEI states:

> For 2024, FEI proposes to distribute a $6.989 million pre-tax credit ($5.102 million after-tax) to customers, comprised of:
>
> - The $4.579 million credit difference between the projected 2022 deferral account after tax credit addition of zero embedded in 2023 delivery rates, and the actual 2022 deferral account after-tax credit addition of $4.579 million as provided in FEI's 2022 Annual Report to the BCUC; […]

16.1 Please discuss the driver(s) of the actual 2022 deferral account after-tax credit addition of $4.579 million.

Response:

Please refer to Table 1 below for the breakdown of the 2022 deferral account after-tax credit addition.

Table 1: Breakdown of the 2022 Earnings Sharing Deferral Account After-Tax Credit Additions

Drivers	Amount ($ million)
Index-Based O&M	$1.743
Depreciation/Amortization	$0.615
Other Revenues	$0.827
Interest Expense	$0.049
Income Taxes	$1.229
Rate Base	$0.214
Total (Credit)	$4.579

The main drivers of the variance were Index-based O&M and Income Taxes, with Other Revenues and Depreciation/Amortization being less significant drivers. Each of these are explained below.

The 2022 index-based (formula) O&M was lower than the approved amount due to the savings discussed in Section 1.4.1 of the Application. Income taxes were lower than the approved amount due to higher deductible tax timing differences, specifically related to CCA, Major Inspection costs, and Removal costs. Other Revenue was higher than the approved amount due to more late payment charge recoveries in 2022 actuals compared to approved. This was mainly due to the ending of the late payment charge suspension in 2021 as part of the COVID-19 customer relief measures, as well as the higher cost of gas and carbon tax on customer bills throughout 2022, which led to an increased amount of late payment charges. Depreciation was lower than the approved amount primarily due to lower opening actual 2022 gross plant asset values in certain asset categories, such as software and transmission mains, compared to the opening approved 2022 gross plant asset values.

17.0 Reference: EARNINGS SHARING AND RATE RIDERS

Exhibit B-2, Section 10.3, Table 10-8, pp. 92–96

Clean Growth Innovation Fund (CGIF)

On page 92 of the Application, FEI states:

> […] In total, approximately $3.681 million of actual expenditures have been invested up to June 2023, with a further $3.267 million projected to the end of 2023, and $5.773 million for 2024.

17.1 Please explain why FEI is forecasting expenditures that are 157 percent[18] and 177 percent[19] above the actual expenditures to June 2023 and projected expenditures to the end of 2023, respectively.

Response:

Portfolio approvals have continued to ramp upward. After averaging approximately $1.7 million annually from 2020-2022, portfolio approvals are expected to exceed $5 million in 2023 due to:

1. The increasing Technology Readiness Level of proposals received. As technologies get nearer to commercialization, they require more funding to continue development.
2. Increased R&D activity in the gaseous clean fuel technologies. In particular, there is increased interest in low-carbon hydrogen as it can be used to decarbonize energy systems in a variety of ways.
3. Increased direct collaborations with BC-based funding organizations. FEI has established new relationships with organizations such as the Centre for Innovation and Clean Energy and Foresight Canada as well as institutions such as Simon Fraser University.

Although expenditures lag portfolio approvals, expenditures are exhibiting a similar profile. Expenditures averaged approximately $1 million from 2020 through 2022, but are expected to increase to nearly $4 million in 2023. The factors noted above driving increased approvals also drive increased expenditures.

On page 93 of the Application, FEI provides Table 10-8 showing Approved and Actual/Forecast Expenditures ($ millions) as follows:

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[18] Calculated as: ($5.773 million / $3.681 million) x 100 percent.

[19] Calculated as: ($5.773 million / $3.267 million) x 100 percent

	Actual 2020	Actual 2021	Actual 2022	Actual Jan-June 2023	Projected July-Dec 2023	Forecast 2024
Portfolio Approvals	$ 1.500	$ 2.200	$ 1.526	$ 3.348	$ 2.850	$ 8.000
Portfolio Expenditures	$ 1.022	$ 1.127	$ 0.972	$ 0.560	$ 3.267	$ 5.773

17.2 Please discuss any year-over-year trends in portfolio approvals and portfolio expenditures in Table 10-8 above.

Response:

Please refer to the response to BCUC IR1 17.1.

On page 93 of the Application, FEI states: "As is common during the evaluation of CGIF portfolios, a number of proposals were rejected at various stages of review because they did not meet CGIF criteria."

17.3 At a high level, please discuss the rejected projects and reasons they did not meet the CGIF criteria.

Response:

FEI provides the CGIF funding criteria for reference:

1. Amount of co-funding secured (from applicant and third parties)
2. Estimated CO2e reduction in British Columbia
3. Estimated criteria air contaminant reduction (e.g. NOx, SOx) in British Columbia
4. Estimation of energy cost reductions for customers
5. Relevant experience of the applicant project team

FEI receives funding requests on a frequent basis throughout the year from various sources, including through funding partnerships such as the Natural Gas Innovation Fund (NGIF) and direct grant requests from innovative organizations and companies.

Project funding requests received through the NGIF and other funding partnerships are already pre-screened to be of interest broadly to gas utilities and other companies in the gaseous fuel value chain. When projects received through these channels are rejected, it is generally because they do not meet BC-specific needs. For example, some proposals received may use waste heat from industrial processes to generate low-carbon electricity; however, because the BC electric grid is already relatively low-carbon, the associated CO2-equivalent emissions reductions may be small or zero in BC and therefore the projects do not meet the CGIF criteria.

With regard to CGIF grant requests that FEI receives directly from innovative organizations and companies, the innovations are sometimes unrelated to reducing the emissions profile of gas distribution. An example is a technology for creating liquid biofuels that does not use methane or hydrogen.

Finally, the CGIF receives a number of proposals that reduce the use of gaseous fuel consumption. These types of innovations are referred to FEI's Conservation and Energy Management team.

On page 94 of the Application, FEI notes:

> […] FEI has also initiated its first collaborative call for innovation with the BC Centre for Innovation and Clean Energy (CICE). As part of a $6 million Forest Residue Management challenge, CICE and the CGIF are encouraging proposals that will help promote the sustainable utilization of wood waste and in the process reduce wildfire risks. In particular, FEI will invest up to $3 million in proposals that meet CGIF criteria and create biomethane, hydrogen and syngas or provide nature-based carbon sequestration. […]

On pages 95 to 96, FEI outlines the five areas of investment as production (upstream), distribution, end-use, carbon capture, and generalized low-carbon.

17.4 Please explain how the "Forest Residue Management" challenge meets the CGIF criteria.

<u>Response:</u>

The Forest Residue Management challenge is consistent with CGIF criterion #2, reducing CO2e emissions in British Columbia. Forest residues are a potential supply of waste biomass that can be used to create syngas, biohydrogen, or biomethane through pyrolysis or gasification. These low-carbon intensity fuels would displace conventional natural gas.

Forest residue management refers to techniques that are used to process the left-over material from logging operations, referred to as slash, and techniques to prune or thin forests between replanting and a commercial harvest. Current practices for slash management typically involve piling slash and open burning. Thinning and pruning are techniques that can help with forest regeneration and improve carbon storage in forests. Both techniques produce forest residues that have low economic value and are frequently treated as waste.

It is preferable to use forest residues because they are a waste product, but this approach comes with several challenges and opportunities. Forest residues are more difficult to collect and transport than commercial logs. Forest residues also have greater variability of composition than commercial logs. Finally, the conversion of forest residues into bioenergy also produces biochar as a byproduct. Biochar is a solid material that is used as a soil amendment to improve carbon, nutrient, and water retention in soils.

The CGIF is therefore investing in technologies that reduce the cost of collection and transportation and improve the tolerance of pyrolysis/gasification technology to forest residues, as well as studies on BC-specific applications for biochar. The CGIF is also looking to support Indigenous economic development to leverage traditional knowledge and develop technologies that are supported by the communities that they are deployed in. Through strategic investments in forest residue management, the CGIF aims to develop technologies for a supply chain that will provide a low-cost source of waste biomass for renewable gas production in BC.

17.5 Please explain under which of the five areas of investment the "Forest Residue Management" challenge would fall.

Response:

Forest residue management is primarily related to upstream production of renewable gases. Research in this area aims to develop a cost-effective supply chain for biomass from slash, forest thinning, and forest pruning that can be used as feedstock to produce renewable gas.

Forest residue management also has overlap with carbon capture, end-use, and generalized low carbon development.

- **Carbon capture**: The production of renewable gases from forest residues will involve upgrading syngas, which will produce a high purity stream of biogenic carbon dioxide that can be a target for capture and storage. Pyrolysis of forest residues also produces biochar, which when added to soils can store carbon for hundreds of years.
- **End-use**: Syngas can be used directly as a fuel for certain industrial processes such as lime kilns. Collaboration with industrial partners is needed to develop syngas specifications and burners. The use of syngas directly rather than reforming syngas into biohydrogen or biomethane is lower cost and is a preferred end-use where feedstock availability and industrial consumption overlap.
- **Generalized low-carbon development**: Sustainable collection of materials from forest ecosystems and introduction of biochar back into these ecosystems requires studies to develop best practices. These best practices are based on minimizing ecosystem disturbance, maximizing forest regeneration, maximizing carbon uptake in forests, and minimizing fire risk. Understanding these factors requires in-forest studies, engagement

with Indigenous nations who have traditional knowledge of the territory, and partnership with academic institutions.

J. ACCOUNTING MATTERS AND EXOGENOUS FACTORS

18.0 Reference: ACCOUNTING MATTERS AND EXOGENOUS FACTORS

Exhibit B-2, Section 12.2.1, p. 136

2021 Flooding Damage

On page 136 of the Application, FEI provides an update on the current status of the flood damage claim and explains that the claim submission is currently under review by the Insurers and that "FEI is expecting a final decision before the end of 2023."

18.1 Please provide an update to the status of the claim since filing the Application, if any.

Response:

FEI is in final negotiations with the Insurers with respect to the value of the settlement and expects the claim to be concluded and the settlement to be received by the end of 2023.

K. SERVICE QUALITY INDICATORS

19.0 Reference: SERVICE QUALITY INDICATORS

Exhibit B-2, Section 1.6, p. 11

Service Quality Indicator (SQI) Timing

On page 11 of the Application, FEI states:

> […] In 2022, for the nine SQIs with benchmarks, seven performed at or better than the approved benchmarks, with two, Meter Reading Accuracy and Telephone Service Factor (Non-Emergency), lower than the threshold due to the broader impacts of the COVID-19 pandemic, higher than normal attrition levels being experienced at the contact centre, and an increased amount of high bill inquiries over the year.

19.1 Please discuss the date when FEI expects to have the Meter Reading Accuracy and Telephone Service Factor (Non-Emergency) SQIs performance back to above threshold performance.

Response:

Both SQIs have already achieved performance in 2023 above the respective threshold level as shown in Tables 1 and 2 below.

- The Meter Reading Accuracy SQI is performing better than the threshold and just below the benchmark (benchmark is 95.0 percent) year-to-date, as shown in Table 1 below. Meter Reading Accuracy has been performing better than the threshold on a monthly basis as of February 2023, and has generally been meeting the benchmark on a monthly basis as of May 2023.
- The Telephone Service Factor (Non-Emergency) SQI is at the benchmark of 70 percent on a year-to-date basis, as shown in Table 2 below. Telephone Service Factor (Non-Emergency) has been better than the threshold and the benchmark as of March 2023 on a monthly basis.

Please refer to the tables below for a monthly breakdown of Meter Reading Accuracy and Telephone Service Factor (Non-Emergency) performance over 2022 and 2023 year-to-date.

Table 1: Meter Reading Accuracy SQI 2022 and 2023 Monthly and Year-to-Date Results

Meter Reading Accuracy	January	February	March	April	May	June	July	August	September	October	November	December	Year-to Date
2022	76.0%	84.2%	86.0%	91.3%	89.2%	91.3%	86.9%	90.5%	93.9%	93.9%	91.7%	78.8%	87.8%
2023	91.5%	93.2%	94.9%	96.7%	97.0%	97.1%	95.2%	91.8%					94.6%

Table 2: Telephone Service Factor (Non-Emergency) SQI 2022 and 2023 Monthly and Year-to-Date Results

Telephone Service Factor (Non-Emergency)	January	February	March	April	May	June	July	August	September	October	November	December	Year-to Date
2022	37%	48%	58%	63%	83%	79%	66%	76%	67%	69%	72%	34%	62%
2023	25%	46%	83%	83%	85%	84%	86%	81%					70%

19.2 Please discuss whether the below-threshold performance of the Meter Reading Accuracy and Telephone Service Factor (Non-Emergency) SQIs represents a transitory or sustained deterioration of service.

Response:

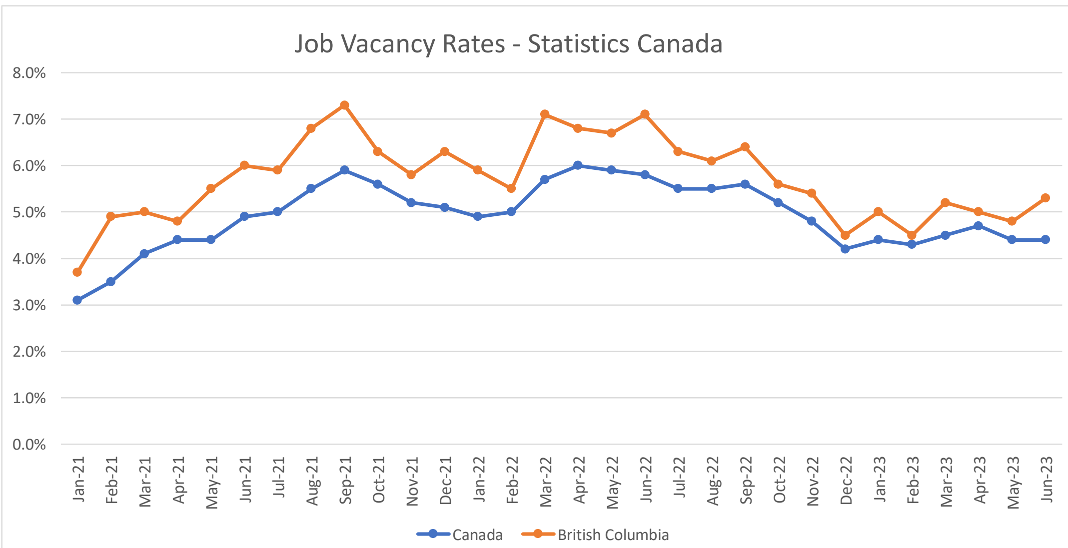
FEI does not consider the below-threshold performance of the Meter Reading Accuracy and Telephone Service Factor (Non-Emergency) SQIs to represent a sustained deterioration of service. FEI considers the challenges faced to be transitory and this is demonstrated in the response to BCUC IR1 19.1, where the results for both SQIs have improved in 2023, with both SQIs performing better than the threshold (and in most months better than the benchmark) on a monthly basis since early in 2023.

With regard to Meter Reading Accuracy, the below-threshold performance in 2022 was due to factors largely outside of FEI's control, including the continued impacts of the COVID-19 pandemic, the active labour market, and severe weather events, as well as challenges faced by Olameter with staffing. Due to the nature of the contract with Olameter, FEI has limited ability to influence or improve the meter reading accuracy metric beyond interactions with Olameter and the application of performance standards. However, and as described in the response to RCIA IR1 9.4 in the Annual Review for 2023 Delivery Rates proceeding, FEI implemented several mitigation actions and activities from 2021 to 2023 to reduce potential negative impacts on service quality associated with higher volumes of estimated meter reads on customers:

- FEI proactively contacts customers with multiple estimates in a row to determine if a customer-provided read is possible to support the estimation;
- FEI proactively reaches out to customers with meters that have been identified as hard to access to arrange for a special read and to work with the customer for future access to the meter;
- Where a customer has received a higher than expected bill, either as a result of the estimated consumption or any true-up once the actual read is available, FEI works with the customer on a one-on-one basis, providing flexible payment arrangements where appropriate; and
- FEI continues to work closely with Olameter. FEI has several touch points with Olameter which include daily exchange of information with frontline staff and a regularly scheduled weekly and monthly meeting between Olameter and FEI's frontline leadership.

The BCUC recognized the external factors impacting the Meter Reading Accuracy SQI in the Annual Review for 2023 Delivery Rates Decision and Order G-352-22 (page 32), stating "…coming out of two pandemic years, there are other factors at play including the COVID-19 pandemic and 'extreme climate change-driven weather events' that have adversely impacted this particular SQI." Further, the BCUC accepted the "FEI evidence that its performance on meter reading over the past two years has not had a measurable impact on overall customer satisfaction and service quality."

With regard to the Telephone Service Factor (Non-Emergency) SQI, the transitory below-threshold performance in 2022 was due to labour challenges, extreme weather events and changes in customer behaviour which made forecasting call volumes more challenging. The labour challenges were widespread and experienced across BC and Canada since the COVID-19 pandemic began to subside in 2021. The active labour market caused job vacancies to nearly double from early 2021 into 2022 as demonstrated in the chart below.[20] The associated low unemployment rate and reduced availability of skilled talent created challenges that were beyond the control of FEI, with many employers experiencing similar difficulties retaining and hiring qualified staff.



FEI has implemented measures to mitigate and manage the impacts of these factors to the extent possible. These activities/measures include adjustments to hiring, utilizing overtime, an increased focus on First Contact Resolution (FCR), and a continued emphasis on ensuring that overall service quality to customers is maintained. The FCR SQI continues to be at or close to the benchmark and FEI continues to maintain a high Customer Satisfaction Index.

19.3 Please discuss whether FEI has experienced a reduction in operating costs as a result of the below-threshold performance of the Meter Reading Accuracy and Telephone Service Factor (Non-Emergency) SQIs.

19.3.1 If yes, please quantify the reduction in operating costs.

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[20] This is aligned with data from Stats Canada on vacant jobs showing an elevated number of vacancies since the start of 2021. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410037101&cubeTimeFrame.startMonth=01&cubeTimeFrame.startYear=2021&cubeTimeFrame.endMonth=07&cubeTimeFrame.endYear=2023&referencePeriods=20210101%2C20230701.

19.3.2 If no, please explain why not.

Response:

FEI did not experience a net reduction in operating costs as a result of the performance of the Meter Reading Accuracy and Telephone Service Factor (Non-Emergency) SQIs.

With regard to Meter Reading Accuracy, the penalties paid by Olameter (which resulted in cost reductions of approximately $285 thousand) slightly offset the overall higher contract costs due to inflation in the renegotiated contract as compared to the historic cost embedded in indexed-based O&M. Further, with regard to the Telephone Service Factor (Non-Emergency), labour savings in months with lower FTEs is offset by additional costs for overtime, training and hiring.