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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Patrick Wruck, Commission Secretary

Dear Sirs/Mesdames:

**Re: FortisBC Energy Inc. - 2023 Cost of Service Allocation and Revenue Rebalancing ~
Project No. 1599563**

We enclose for filing in the above proceeding the Final Argument of FortisBC Energy Inc., dated February 1, 2024.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom*
*Law Corporation

Encl.



British Columbia Utilities Commission

FortisBC Energy Inc.

**2023 Cost of Service Allocation and Revenue Rebalancing
Application**

Final Submission of

of

FortisBC Energy Inc.

February 1, 2024

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PART ONE: INTRODUCTION

A. Overview

1. FortisBC Energy Inc. (FEI) respectfully submits that, based on the results of its 2023 Cost of Service Allocation (COSA) study and analysis of revenue rebalancing options, the British Columbia Utilities Commission (BCUC) should approve FEI's proposal to rebalance the rates for Rate Schedules (RS) 1, 2, 3/23, 4, 5/25, 7/27, and 22.

2. FEI conducted and filed the 2023 COSA study in response to Decision and Order G-4-18, dated January 9, 2018 (2016 COSA Decision), which directed FEI to file a comprehensive and updated COSA study for FEI and the Fort Nelson Service Area (FEFN) five years after the release of its final decision in the 2016 Rate Design Application (RDA). The BCUC issued its final Decision and Order G-135-18 (2016 RDA Decision) on July 20, 2018, which further directed that if FEI determined that rate design and/or rebalancing should take place, that FEI would file such proposals together with the COSA study. In addition, Order G-372-22, which accepted FEI's Transportation Service Report, directed FEI to include as part of its COSA study an analysis of the costs and revenue associated with its Transportation Service Model. FEI submits that it has filed a comprehensive COSA study and met the BCUC's directions from the 2016 COSA Decision, 2016 RDA Decision, and Order G-372-22.

3. FEI is requesting three key findings from the BCUC in this proceeding.

4. First, FEI submits that the BCUC should accept the results of the 2023 COSA study as reasonable and demonstrating that a full rate design is not required. FEI conducted the 2023 COSA study in accordance with standard utility practice and consistent with the methodology used in FEI's 2016 COSA study which was reviewed and approved by the BCUC in the 2016 COSA Decision. In addition to being approved by the BCUC, the 2016 COSA study methodology was reviewed and endorsed by two experts, Elenchus Research Associates Inc. (Elenchus)¹ and EES

¹ Exhibit B-7, Attachment 1.1A, Elenchus COSA Report and Attachment 1.1B, Elenchus Rate Design Report, filed with the BCUC as part of the 2016 COSA and RDA proceeding.

Consulting (EES).² The results of the 2023 COSA study show that, except for RS 5/25 (General Firm Sales and Transportation Service) and RS 22 (Large Volume Transportation Service), the revenue-to-cost (R:C) ratios for the applicable rate schedules are within the accepted range of reasonableness between 95 percent and 105 percent. The R:C ratios for RS 5/25 and RS 22 are 106.9 percent and 110.0 percent, respectively, and only a small revenue rebalancing is needed to move both rate schedules back to within the range of reasonableness.³

5. Second, FEI submits that its rebalancing proposal should be found to represent the best balancing of rate design considerations and should be approved. With all R:C ratios falling within the range of reasonableness after rebalancing, FEI's proposed rates will recover a fair allocation of costs for the service that each rate schedule is receiving.⁴

6. Third, FEI submits that the BCUC should find that the costs and revenues associated with the Transportation Service model have no material impact on FEI's 2023 COSA. Based on FEI's analysis, the average of actual balancing charges recovered from 2018 to 2022 was approximately 0.08 percent of FEI's total allocated cost of service included in the 2023 COSA study.⁵ As such, the Transportation Service Model has no material impact on FEI's 2023 COSA and does not result in any changes to the R:C ratio of any rate schedule.

7. FEI, therefore, submits that its proposed rebalancing option should be approved as being just and reasonable and not unduly discriminatory.

B. Approvals Sought and Implementation Date

8. To rebalance rates as proposed, FEI requests approval pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA) to implement the following rate changes, effective January 1, 2025:

² Exhibit B-7, Attachment 1.2, EES COSA Report filed as part of the 2016 COSA and RDA Proceeding.

³ Exhibit B-1, Application, Table 4-17, p. 48.

⁴ Exhibit B-5, BCOAPO IR1 11.1.

⁵ Exhibit B-1, Application, Table 6-1, p. 88.

Residential Rate Schedules (RS 1, 1U, and 1B):

1. Approval to increase the Delivery Charge by \$0.055 per GJ as a result of the revenue shifts and rebalancing of rates discussed in Section 5.2.1 of the Application.

Commercial Rate Schedules (RS 2, 2U, 2B, 3, 3U, 3B, and 23):

2. For Rate Schedules 2, 2U, and 2B:
 - Approval to adjust the basic charges and delivery charges to align with the 2,000 GJ threshold between small and large commercial customers discussed in Section 5.2.3 of the Application, as follows:
 - i. Increase the Basic Charge by \$0.2026 per day from \$0.9485 to \$1.1511 per day; and
 - ii. Decrease the Delivery Charge by \$0.225 per GJ.
3. For Rate Schedules 3, 3U, 3B, and 23:
 - Approval to adjust the basic charges and delivery charges to align with the 2,000 GJ threshold between small and large commercial customers discussed in Section 5.2.3 of the Application, as follows:
 - i. Increase the Basic Charge by \$0.4730 per day from \$4.7895 to \$5.2625 per day; and
 - ii. Decrease the Delivery Charge by \$0.050 per GJ.

Industrial Rate Schedules (RS 4, 5/25, 22, and 7/27):

4. For Rate Schedule 4:
 - Approval to decrease the Off-Peak Delivery Charge by \$0.309 per GJ and the Extension Period Delivery Charge by \$0.069 per GJ due to the proposed changes to RS 5/25 for maintaining the current discount from general firm service customers as discussed in Section 5.2.2.
5. For Rate Schedules 5, 5B, and 25:
 - Approval to adjust the Demand Charge and Delivery Charge as a result of the revenue shifts and rebalancing of rates discussed in Section 5.2.1 of the Application, as follows:
 - i. Decrease Demand Charge by \$1.989 per GJ per month, and
 - ii. Decrease Delivery Charge by \$0.071 per GJ.

6. For Rate Schedules 7 and 27:

- Approval to decrease the Delivery Charge by \$0.095 per GJ due to the proposed changes to RS 5 and RS 25 for maintaining the current discount from general firm service customers as discussed in Section 5.2.2.

7. For Rate Schedule 22:

- Approval to adjust the rates of RS 22 for all large industrial customers as a result of the revenue shifts and rebalancing discussed in Section 5.2.1 of the Application, as follows:
 - i. Decrease the Firm Demand Charge by \$0.505 per GJ per month;
 - ii. Decrease the Firm Monthly Transportation Quantity (MTQ) Delivery Charge by \$0.009 per GJ; and
 - iii. Decrease the Interruptible MTQ Delivery Charge by \$0.026 per GJ.

9. FEI requests that the above rate changes be effective January 1, 2025. Implementing rates at the beginning of the year will avoid potential customer confusion caused by mid-year rate changes and aligns with when FEI's delivery rate changes are typically approved. FEI has provided a Draft Order in Appendix A of the Application.

C. Organization of the Remainder of this Final Submission

10. FEI has organized the remainder of this Final Submission around the following points:

- Part Two: FEI's COSA methodology remains the same as that approved by the BCUC in 2016 and its results indicate that no comprehensive rate design is required at this time.
- Part Three: FEI's proposed revenue rebalancing reflects the balance of rate design principles and will bring all customer classes within the range of reasonableness.
- Part Four: The revenues and costs under the Transportation Service Model have no material impact on the COSA.
- Part Five: FEI proposes to file its next COSA study five years after the implementation of the 2023 COSA or earlier if there are significant changes impacting delivery rates.
- Part Six: concludes this final submission.

PART TWO: 2023 COSA STUDY METHODOLOGY REFLECTS STANDARD UTILITY PRACTICE

11. FEI submits that its 2023 COSA study should be accepted as reasonable. FEI has described the 2023 COSA study in detail in the Application. In the subsections below, FEI highlights the key points from the Application and IR responses, as follows:

- The 2023 COSA study encompasses all service areas.
- The 2023 COSA study reflects 2023 approved costs and revenues, as well as known and reasonable changes up to the proposed implementation date of January 1, 2025.
- FEI conducted the 2023 COSA study in accordance with standard utility practice and the methodology reviewed and approved by the BCUC in the 2016 COSA Decision.
- The 95 to 105 percent range of reasonableness was directed to be used by the BCUC in the 2016 COSA Decision and there is no basis for a change.
- A comprehensive redesign of FEI's rates is not required.
- FEI has comprehensively addressed all issues raised in the proceeding.
- The 2023 COSA study results are reasonable and should be accepted.

A. 2023 COSA Study Encompasses All Service Areas

12. FEI prepared the 2023 COSA study for all of FEI's service areas, including FEFN. In Decision and Order G-278-22, dated October 6, 2022 (FEFN Common Rates Decision), the BCUC approved the implementation of common delivery rates and cost of gas rates for FEI and FEFN, and the setting of FEFN's midstream rates at 5 percent of FEI's midstream rates, effective January 1, 2023. Therefore, a separate COSA for FEFN is no longer required.

B. 2023 COSA Study Reflects 2023 Approved Costs and Revenues and Includes Known and Measurable Changes

13. The 2023 COSA study reflects the costs and revenues approved by the BCUC for FEI's 2023 test year as part of FEI's Annual Review for 2023 Delivery Rates, plus any known and measurable changes expected by or soon after January 1, 2025, which is the effective date that FEI is seeking approval to implement the changes proposed in this Application. The known and measurable

projects include the Inland Gas Upgrades (IGU) Project CPCN, the Coastal Transmission System (CTS) Transmission Integrity Management Capabilities (TIMC) Project CPCN, and the Gibsons Capacity Upgrade (GCU) Project. Incorporating these known and measurable changes help ensure that rates that will be functional for the foreseeable future.⁶

C. 2023 COSA Study Methodology is in Accordance with Standard Utility Practice and Methodology Approved in 2016 COSA Decision

14. FEI conducted the 2023 COSA study in accordance with standard utility practice using the same methodologies as the 2016 COSA study, which was reviewed and approved by the BCUC in the 2016 COSA Decision, for the purpose of setting just and reasonable rates for the utility. FEI's 2023 COSA study follows the three industry standard steps to allocate the cost of service through functionalization, classification, and allocation.⁷

15. In the 2016 COSA Decision, the BCUC found that the 2016 COSA study generally followed standard practice, and both FEI's consultant (EES Consulting) and the BCUC's consultant (Elenchus) concluded that it was reasonable and acceptable for setting just and reasonable rates. Specifically, in its COSA Report, Elenchus stated that the classifications of demand, energy, and customer are the standard classifications used in COSA studies and that they agreed with the classifications used by FEI. Additionally, Elenchus was not aware of any other classification method used in COSA studies. Elenchus also agreed with the allocators as well as the gas cost allocation methodology used by FEI in the 2016 COSA study, stating that they are the standard allocators used by utilities in COSA studies.⁸

16. As the Tilbury 1A expansion is a new facility, the methodology for the allocation of costs related to this asset was not considered in 2016. However, FEI has allocated the costs of this asset to align with the treatment of associated revenues. Therefore, FEI submits that the methodology for allocating these costs is reasonable and appropriate.⁹

⁶ Exhibit B-1, Application, Section 4.2.3.

⁷ Exhibit B-1, Application, p. 15.

⁸ Exhibit B-1, Application, p. 15.

⁹ Exhibit B-1, Application, Section 4.2.2.5.

D. The 95 to 105 Percent Range of Reasonableness Remains Appropriate

17. FEI's use of a 95 to 105 percent range of reasonableness for the purpose of rebalancing rates is reasonable and appropriate. FEI used a range of reasonableness of 95 percent to 105 percent to evaluate the R:C ratio for each rate schedule, with the exception of RS 22A/B, 4, and 7/27. While RS 22A/B fall within the range of reasonableness, FEI would not hold these rate schedules within the range, as the BCUC approved these rate schedules to remain closed and to continue their grandfathered status. Consistent with the 2016 COSA study, FEI also did not hold RS 4 and RS 7/27 to the range of reasonableness as these seasonal and interruptible services are based on a discount from RS 5, rather than a cost of service allocation.¹⁰

18. The range of reasonableness was the topic of significant debate in FEI's 2016 COSA and RDA proceeding. In its 2016 COSA Decision, the BCUC reduced the range of reasonableness from the 90 to 110 percent range FEI had historically used to a 95 to 105 percent range. The size of the range of reasonableness depends on the precision of the cost allocation estimates and stability of those estimates over time. While the Panel provided extensive reasons for its decision to narrow the range of reasonableness, the BCUC essentially determined that the precision and stability of the estimates in FEI's COSAs had improved.¹¹ There is no evidence to suggest the precision of the estimates used in the 2023 COSA study have changed compared to those used in the 2016 COSA study. As such, FEI submits that the 95 to 105 percent range of reasonableness remains appropriate.¹²

E. A Comprehensive Redesign of FEI's Rates is Not Required

19. As shown in Table 1-1 of the Application, except for RS 5/25 (General Firm Sales and Transportation Service) and RS 22 (Large Volume Transportation Service), the R:C ratios for the applicable rate schedules are within the range of reasonableness between 95 percent and 105 percent. The R:C ratios of RS 5/25 and RS 22 are 1.9 and 5.0 percent over 105 percent, respectively, and only a small revenue rebalancing is needed to move both rate schedules back

¹⁰ Exhibit B-1, Application, Section 3.5; Exhibit B-5, BCOAPO IR1 3.2.

¹¹ 2016 COSA Decision, p. 35.

¹² Exhibit B-5, BCOAPO IR1 2.1 and 2.2.

to within the range of reasonableness. The results of the 2023 COSA study, therefore, confirm that FEI's existing rates and rate designs are working well and as intended. In consideration of the overall results of the 2023 COSA study, FEI's internal review of its rates and rate design, and the fact that the R:C ratios resulting from the 2023 COSA study show that only minor rebalancing is needed, FEI submits that a comprehensive redesign of FEI's existing rates is not required.¹³

F. FEI Has Addressed All Questions Raised

20. FEI responded to numerous IRs with respect to the 2023 COSA, providing further supporting information and addressing all concerns raised. An overview of the topics canvassed by the key IRs on the 2023 COSA and FEI's responses is set out below:

- **Impact of GCOC Decision:** FEI will incorporate the impact of the GCOC Decision into the final COSA results and rate rebalancing as part of the Compliance Filing to the BCUC's decision on this Application. The changes in R:C and margin-to-cost (M:C) ratios due to the GCOC Decision are minimal and the estimated bill impacts for the average residential and small commercial customer due to FEI's proposed rebalancing remain the same at 0.4 percent and 0.04 percent, respectively.¹⁴
- **Use of Activity View of Gross O&M:** Using the prior year actual activity view of gross O&M for the purposes of allocating O&M expenses in the COSA model is reasonable and consistent with the 2016 COSA study, which was accepted by the BCUC in the 2016 COSA Decision.¹⁵
- **Treatment of Working Capital:** The treatment of working capital in the 2023 COSA study is consistent with the approach taken in the 2016 COSA and RDA: inventories and refundable contributions have been functionalized to Distribution; transmission line pack/gas in storage has been functionalized to Transmission; and cash working capital has been functionalized based on the sum total of the functionalized O&M expense, property taxes, income tax and the cost of gas.¹⁶
- **Demand Side Management (DSM) Costs:** There is no change in the treatment of DSM costs from the 2016 COSA and RDA. FEI splits DSM costs based on the

¹³ Exhibit B-5, BCOAPO IR1 3.2.

¹⁴ Exhibit B-4, BCUC IR1 3.1.

¹⁵ Exhibit B-4, BCUC IR1 4.1 and 4.2.

¹⁶ Exhibit B-5, BCOAPO IR1 6.3.

incentive spending between residential, commercial and industrial; within each group, FEI then allocates DSM costs based on energy.¹⁷

- **Biomethane (RNG) Costs:** As there are no RNG-related costs recovered through FEI's delivery rates, all related costs and any offsetting revenue related to RNG are removed from the 2023 COSA for allocation purposes.¹⁸
- **Bypass and Special Contract Revenue:** Consistent with the treatment in the 2016 COSA study, the bypass and special contract revenues are functionalized as credits to transmission as these customers are generally in close proximity to the upstream transmission pipeline. The credits are allocated to all rate schedules based on the 2023 non-bypass delivery margin of each non-bypass rate schedule, and for presentation purposes, are grouped as demand-related classification.¹⁹
- **Known and Measurable Changes:** Including known and measurable changes in the 2023 COSA study is consistent with the methodology from past COSA studies, and this approach was supported by Elenchus as part of their review of FEI's 2016 COSA study. Excluding known and measurable changes would not be appropriate as the rates resulting from any rebalancing will not reflect FEI's expected cost of service in the near future.²⁰ As deployment of FEI's Advanced Metering Infrastructure (AMI) is not expected to complete until at least 2027, FEI did not include the AMI CPCN Project as a known and measurable change in the 2023 COSA study.²¹
- **Functionalization Treatment:** FEI confirmed that the functionalization treatment in the 2023 COSA study is consistent with the 2016 COSA study that was approved in the 2016 COSA Decision.²² Since FEI's inception, the functionalization between transmission and distribution has been based on the Canadian Standards Association (CSA) Z662:23, and its previous editions; distribution is comprised of assets whose purpose is distributing gas within an area, as opposed to transporting gas over long distances. Consistent with past COSA studies from 1993, 1996, 2001, and 2016, intangible and general plant has been functionalized based on the functionalized direct gross plant costs that include storage, transmission, and distribution assets.²³
- **Minimum System Study (MSS):** There is no change to the methodology between the 2016 and 2023 COSA studies used in the MSS to calculate the proportion of

¹⁷ Exhibit B-5, BCOAPO IR1 6.4; Exhibit B-7, RCIA IR1 11.1 and 11.2.

¹⁸ Exhibit B-5, BCOAPO IR1 6.8.

¹⁹ Exhibit B-5, BCOAPO IR1 7.1.

²⁰ Exhibit B-5, BCOAPO IR1 9.1.

²¹ Exhibit B-7, RCIA IR1 14.2.

²² Exhibit B-4, BCUC IR1 7.1.

²³ Exhibit B-5, BCOAPO IR1 4.3.

distribution costs that are customer-related versus demand-related. The only changes in the MSS are the underlying cost of steel and plastic (PE) pipe, the variations in total length of steel and plastic pipe between 2016 and 2023, and the valuation of 60 mm pipe in FEI's minimum system. The 2023 MSS also included the Fort Nelson service area, as common rates were implemented on January 1, 2023. The change to using both average unit costs of steel and PE for 60 mm or less pipe and the increase in steel prices are the main drivers that led to the change from the 30/70 percent split between customer-related and demand-related in the 2016 MSS to the 50 percent split in the 2023 MSS.²⁴

- **Peak Load Carrying Capacity (PLCC) Adjustment:** There is no change to the methodology used to calculate the PLCC adjustment between the 2016 and 2023 COSA studies.²⁵
- **Mt. Hayes LNG Facility:** In the 2016 COSA Decision, the BCUC approved the method for allocating the costs of the Mt. Hayes facility. The \$18 million amount that FEI credits Other Revenue and debits midstream costs reflects the storage value that Mt. Hayes provides and is based on the avoided cost of off-system storage and transportation. In the 2016 COSA and RDA, FEI updated the avoided storage and transportation cost calculation for Mt. Hayes to \$18 million and FEI was approved to continue to credit Other Revenue, thereby reclassifying \$18 million of Mt. Hayes costs from delivery to midstream. Since the Mt. Hayes facility is used in the same way as it was in 2016, FEI did not update the avoided storage cost calculation for this Application and has continued to treat \$18 million of Mt. Hayes costs as midstream costs.²⁶
- **Tilbury 1A LNG Facility:** The costs associated with the Tilbury 1A expansion are allocated based on the delivery margin of each rate schedule in the 2023 COSA to align with the treatment of the offsetting revenues from RS 46 LNG sales, which are treated as a credit to the delivery margin of all non-bypass customers. For the purpose of the classification, the Tilbury 1A expansion assets and related costs are grouped as demand related.²⁷
- **Southern Crossing Pipeline (SCP) Revenues:** The primary reason that the SCP revenues are functionalized as transmission is so that both the SCP costs and revenues are matched through the allocation process, leaving the net amount properly allocated in delivery rates.²⁸

²⁴ Exhibit B-4, BCUC IR1 9.1.

²⁵ Exhibit B-4, BCUC IR1 10.1.

²⁶ Exhibit B-7, RCIA IR1 8.2.

²⁷ Exhibit B-4, BCUC IR1 8.1, 12.1 and 12.2.

²⁸ Exhibit B-7, RCIA IR1 9.1.

- **Demand-Related Allocation:** The appropriate allocator on which to allocate FEI's demand-related (capacity-related) costs is the Coincident Peak (CP) method, as FEI's capacity infrastructure costs are incurred to meet firm service peak demand requirements, which occurs during winter and corresponds with the coincident peak of FEI's system.²⁹ FEI does not experience multiple design peak days throughout the year. There is a definite winter peak when extreme cold days occur and the daily demand declines into the summer period.³⁰ The peak day demand used to calculate the three-year weighted average load factor is the "estimated peak daily demand" calculated based on the design day temperature with a linear regression between actual average daily demand per customer and actual daily average temperature. This is different than the peak day demand used to allocate demand-related costs, which is calculated based on the three-year weighted average load factor and the 2023 forecast volume of each rate schedule.³¹
- **Weighting Factors for Customer-related Allocation:** There is no change to the type and number of customer weighting factors between the 2016 and 2023 COSA studies. In both COSA studies there is one customer weighting factor related to meters and services and another customer weighting factor related to customer administration and billing. The changes in the weighting factors between the rate schedules are primarily due to the relative increases in the underlying costs between residential customers and other customers between 2016 and 2023. The Customer Weighting Factor analysis and the Customer Admin & Billing Factor analysis are provided in Attachments 14.1A and 14.1B of Exhibit B-4.³² The Customer Weighting Factor for Administration & Billing used in the 2023 COSA study was developed through a more quantitative approach than in the past, using the 2022 Actual O&M related to the Key Account Managers from the Energy Solutions department as well as the Customer Service department for billing and contact centres. This approach is more accurate and more consistent with the time spent by FEI staff, particularly on the individual industrial sales rate schedules and transportation service rate schedules.³³
- **M:C Ratios:** Even if the M:C ratios were used to guide and inform revenue rebalancing, the 2023 COSA results would still demonstrate that a comprehensive redesign of FEI's existing rates is not warranted at this time. Using M:C ratios, only RS 3/23 and RS 5/25 would be outside of the upper bound of the range of

²⁹ Exhibit B-4, BCUC IR1 13.1.

³⁰ Exhibit B-7, RCIA IR1 6.1 and 6.2.

³¹ Exhibit B-4, BCUC IR1 13.3 and 13.4.

³² Exhibit B-4, BCUC IR1 14.1, 14.2, and 14.3.

³³ Exhibit B-6, CEC IR1 7.1.

reasonableness, with RS 3/23 only outside by 0.2 percent. All other rate schedules would remain within the range of reasonableness.³⁴

21. FEI submits that it has addressed all the questions posed and that the record does not indicate any flaws with the 2023 COSA study or reason to question FEI's conclusion that a comprehensive redesign of FEI's existing rates is not warranted at this time.

G. FEI's 2023 COSA Results Should Be Accepted as Reasonable

22. FEI submits that its 2023 COSA results are reasonable and that the results indicate that a comprehensive redesign of FEI's rates is not required.

³⁴ Exhibit B-4, BCUC IR1 17.3.

PART THREE: FEI'S PROPOSED REVENUE REBALANCING IS JUST AND REASONABLE

23. FEI submits that its proposed revenue rebalancing is just and reasonable, not unduly discriminatory and should be approved. FEI has organized its submissions below on this topic around the following points:

- FEI's use of R:C ratios as a guide for rebalancing is reasonable and consistent with the 2016 COSA Decision.
- Rebalancing to the nearest boundary of the range of reasonableness is standard utility practice and consistent with the 2016 COSA Decision.
- FEI has identified the rebalancing option that best balances competing rate design considerations.
- FEI's rate rebalancing proposal should be approved.

A. R:C Ratios Guide the Need for Rebalancing

24. The primary purpose of the R:C ratios is to serve as a guide as to whether rate design or rebalancing is needed, while the M:C ratios provide additional information.³⁵ FEI's decision to use the R:C ratios as opposed to the M:C ratios to inform its revenue rebalancing proposals was guided by the 2016 COSA Decision, where the Panel found that "the R:C ratio should be used to inform rate design and rate rebalancing proposals".³⁶ While the Panel directed FEI to present both the R:C and M:C ratios for each rate schedule in the next COSA study filing, the Panel also was persuaded that the most important point was to remain consistent with previous rate designs. As such, the BCUC clearly articulated that the M:C ratios did not serve the same function as the R:C ratios:³⁷

While the R:C ratios will inform rate design and rate balancing, the M:C ratios will provide useful context for stakeholders.

³⁵ Exhibit B-4, BCUC IR1 15.2.

³⁶ 2016 COSA Decision, p. 25.

³⁷ 2016 COSA Decision, p. 25.

25. Consistent with the BCUC's determinations in the 2016 COSA Decision, continuing to use the R:C ratios to inform FEI's rate design and rebalancing proposals is preferable because it is consistent with previous applications, including the 2016 COSA and RDA.³⁸

26. In any case, the M:C ratio results only confirm that FEI's rates are working as intended and that only minor rebalancing is needed. The range of reasonableness for the M:C ratios would need to be 89 percent to 111 percent in order to be equivalent to the 95 percent to 105 percent range of reasonableness for the R:C ratios. Only RS 3/23 and RS 5/25 would be outside of the upper bound of the range of reasonableness, with RS 3/23 only outside by 0.2 percent. All other rate schedules would remain within the range of reasonableness. This is not materially different than the results shown by the R:C ratios.³⁹

B. Rebalancing to the Nearest Boundary of the Range of Reasonableness is Standard Utility Practice and Consistent with the 2016 COSA Decision

27. FEI's approach to balancing by bringing rates back to the nearest boundary of the range of reasonableness is consistent with standard utility practice, the determinations of the BCUC in the 2016 COSA Decision, and minimizes rate impacts for all the customer classes used to rebalance RS 5/25 and RS 22 back to the range of reasonableness.

28. Balancing to unity would be inconsistent with the concept of the range of reasonableness. As unity does not necessarily measure the true cost to serve a particular customer class, balancing to unity would not achieve any benefit; as long as rates are within the range of reasonableness, they are sufficient to recover their fair or fully allocated costs to serve that rate schedule. This was recognized by the BCUC Panel in the 2016 RDA Decision (p. 41):

While the BCUC, in its COSA and R:C Ratios Decision, accepted that in theory an R:C ratio of 100 percent for each rate schedule would indicate that the revenues recovered from each rate schedule are equal to the cost to serve them, the assumptions, estimates and judgements involved in a COSA study, make it appropriate to use a range of reasonableness.

³⁸ Exhibit B-4, BCUC IR1 17.1. Also see Exhibit B-5, BCOAPO IR1 3.1.

³⁹ Exhibit B-4, BCUC IR1 17.1 and 17.3.

29. Moreover, rebalancing to the nearest boundary is standard utility practice and was determined to be appropriate by the BCUC in the 2016 RDA Decision. In the 2016 COSA and RDA proceeding, Elenchus opined: “If one or more ratios fall outside the accepted range, then rebalancing should be undertaken. Rebalancing should be undertaken to move all classes that are outside the approved range to the nearest boundary.”⁴⁰ In the 2016 RDA Decision the BCUC agreed, stating:⁴¹

In this decision, the Panel places weight on the evidence provided by Elenchus that:

- Any R:C ratio that is within the defined range of reasonableness can be considered to be full cost recovery;
- Rebalancing should be undertaken to move all classes that are outside the approved range to the nearest boundary;
- It is not appropriate to periodically rebalance to R:C ratios of 1.00; and
- Elenchus is not aware of any jurisdiction that periodically rebalances rates so that all R:C ratios are 1.00.

30. There have been no changes in circumstances since the BCUC’s determinations in the 2016 COSA and RDA which would suggest that a change in the approach to rebalancing is necessary or warranted.

31. This approach also minimizes rate impacts. The main impact of rebalancing the R:C ratios of RS 5/25 and RS 22 to unity will be additional bill impacts to residential (RS 1) customers, which will have to absorb a larger revenue shift.⁴²

32. Therefore, FEI submits that its approach to balancing to the nearest boundary remains representative of standard utility practice, is consistent with the range of reasonableness, minimizes rate impacts to customers, and is supported by the determinations of the Panel in the 2016 RDA Decision.

⁴⁰ Exhibit B-4, BCUC IR1 19.2.

⁴¹ 2016 RDA Decision, p. 42.

⁴² Exhibit B-4, BCUC IR1 19.2 and 19.3.

C. FEI Identified the Best Rate Rebalancing Option

33. To address the R:C ratios of RS 5/25 and RS 22 being above the upper bound of the range of reasonableness, FEI developed and analyzed five potential revenue rebalancing options:⁴³

- Option 1: Status Quo;
- Option 2: Revenue Rebalancing Only Using RS 1 (Residential Service) or RS 2 (Small Commercial Service);
- Option 3: Revenue Rebalancing Using RS 1 plus Maintaining Economic Crossover between RS 2 and RS 3/23 (Large Commercial Sales and Transportation Service), and between RS 3/23 and RS 5/25;
- Option 4: Revenue Rebalancing Using RS 2 plus Maintaining Economic Crossover between RS 2 and RS 3/23, and between RS 3/23 and RS 5/25; and
- Option 5: Revenue Rebalancing Using RS 1 plus Maintaining Economic Crossover between RS 2 and RS 3/23 Only.

34. FEI evaluated the five potential revenue rebalancing options above using the rate design principles identified by Dr. James C. Bonbright, which were the same rate design principles adopted by FEI for its 2016 COSA and RDA.⁴⁴ As part of the evaluation against the rate design principles, FEI considered the following issues that would have implications on FEI's customers:⁴⁵

- The bill impact of using RS 1 or RS 2 customer groups for rebalancing by absorbing the revenue shift from RS 5/25 and RS 22 customers;
- The impact on the economic crossover point between RS 2 and RS 3/23 customer groups due to any rebalancing; and
- The impact on the economic crossover point between RS 3/23 and RS 5/25 customer groups due to any rebalancing.

35. Based on the analysis set out in the Application, FEI submits that Option 5 (Revenue Rebalancing using RS 1 plus adjustments to RS 2 and RS 3/23 for maintaining the economic crossover point between RS 2 and RS 3/23) is the best option for revenue rebalancing. Option 5

⁴³ Exhibit B-1, Application, Section 5.3.

⁴⁴ Exhibit B-1, Application, pp. 50-51.

⁴⁵ Exhibit B-1, Application, Section 5.2.

preserves the economic crossover point between RS 2 and RS 3/23 customers while minimizing the bill impacts to both residential and commercial customers.⁴⁶ Option 5 either fully or partially aligns with the most applicable of Bonbright's rate design principles, and is more aligned with the principles overall compared to the other revenue rebalancing options:

- **Principle 2 – Fair appointment of costs among customers:** All R:C ratios of the applicable rate schedules fall within the range of reasonableness. Therefore, the cost recovery through each rate schedule closely reflects the fair appointment of costs from each customer group.
- **Principle 3 – Price signals that encourage efficient use and discourage inefficient use (Partially):** Under Option 5, the increase in the Basic Charge for both RS 2 and RS 3/23, plus the offset from the reduction of the variable charges, will move the economic crossover point back to 2,000 GJ and realign it with the segmentation threshold between RS 2 and RS 3/23. However, under Option 5, the adjusted rates will not address the reduced economic crossover point between RS 3/23 and RS 5/25 as shown in Table 5-20 of the Application. Since the economic crossover point between RS 3/23 and RS 5/25 is reduced, there would be potentially more RS 3/23 customers that could receive a lower annual bill under RS 5/25. However, the number of customers that would benefit from switching between the two rate schedules is limited and the overall impact to FEI's revenue requirement is small. For example, 734 customers represent approximately 0.07 percent of FEI's number of customers (2023 Approved) and \$2.4 million represents approximately 0.11 percent of FEI's 2023 Approved revenue requirement. FEI considers a small overall impact to its revenue requirement is warranted as a trade-off for the benefits of the much lower increase in the Basic Charge of RS 3/23 when compared to Options 3 and 4, as well as the lower bill impact to both RS 2 and RS 3/23 customers when compared to Options 3 and 4.
- **Principle 4 – Customer understanding and acceptance (Partially):** Although the Basic Charges of RS 2 and RS 3/23 will still be increased under Option 5, the level of the increases is much smaller than under the alternatives.
- **Principle 6 – Rate stability (Customer rate impact should be managed):** The bill impacts to the average RS 1 and RS 2 customer are relatively small under Option 5, i.e., 0.4 percent or \$4.95 per year for the average residential customer and 0.04 percent or \$1.65 per year for the average small commercial customer. In fact, the bill impact to RS 2 customers is the smallest out of all the options. And, for the average RS 3 large commercial customer, there will be a relatively small bill reduction of 0.04 percent or \$9.74 per year. Additionally, the bill impacts due to the increase in the Basic Charges of RS 2 and RS 3/23 are smaller than under

⁴⁶ Exhibit B-1, Application, p. 81.

Options 3 and 4. For RS 2 customers, the increased Basic Charge is approximately \$74 per year under Option 5, which is reduced from \$130 per year under Option 3. And for RS 3/23 customers, the increased Basic Charge is approximately \$173 per year, which is significantly less than \$680 per year under Option 3 and \$1,466 per year under Option 4. The reduced bill impact to commercial customers is an improvement from other revenue rebalancing options in terms of the rate design principle of rate stability.

36. Therefore, FEI submits that Option 5 represents the best balance of rate design considerations.

D. Other Rebalancing Options Explored Are Not Superior to FEI's Preferred Option 5

37. The three additional rebalancing options explored during the IR process are not superior to FEI's preferred Option 5. Each of these options is discussed in the subsections below.

(a) BCUC IR1 19.1: Revenue Shift Reallocated to RS 2 while Maintaining Economic Crossover between RS 2 and RS 3/23 Only

38. One option explored during IRs was to use RS 2 for revenue rebalancing with adjustments for maintaining the economic crossover between RS 2 and RS 3/23 only. This is not superior to Option 5 as this results in no bill impacts to RS 1 customers, but a bill impact for RS 2 customers of 1.21 percent, which is the highest out of all options explored. For the average RS 2 customer with 322 GJ of consumption annually, this is equivalent to an annual bill impact of approximately \$52. Further, the increase in the RS 2 Basic Charge under this option is \$0.3658 per day (an approximate increase of \$134 per year) versus an increase of \$0.2026 per day under the proposed Option 5 (an approximate increase of \$74 per year). This level of increase to the Basic Charge would impact the price signal for small commercial customers under RS 2 and would discourage the efficient use of energy, contrary to Bonbright's rate design principle 3.⁴⁷

(b) BCOAPO IR1 1.8: Reallocate Revenue Shift to all Rate Schedules (excluding RS 4 & 7/27) with R:C Ratios capped at 105%

39. A second option was to spread the rebalancing cost to each of the classes within the range of reasonableness (excluding Rate Schedules 4 and 7/27), to the extent possible without allowing

⁴⁷ Exhibit B-4, BCUC IR1 19.1.

any class's R:C ratio to exceed 105 percent, with the residual to be spread equally among the remaining classes within the range of reasonableness.⁴⁸ This option is not preferable for a number of reasons.

40. First, using rate schedules with R:C ratios less than 100 percent for absorbing revenue shifts is consistent with standard utility practice. FEI's proposal to shift revenue responsibility from RS 5/25 and RS 22 to RS 1 is consistent with past practice and was the same approach approved in the 2016 RDA Decision. Specifically, in the 2016 RDA Decision, the BCUC stated (at p. 41):

The Panel finds that FEI has made a reasonable case for allocating the responsibility for the rate design revenue impacts and rate rebalancing to RS1. FEI's approach is consistent with past practice and reflects standard utility practice. RS 1's R:C ratio is the only rate class below 100 percent and RS 1 customers have the capacity to absorb these amounts with the lowest bill impact to individual customers. All parties including BCOAPO accept that the allocation of the rate design revenue and rebalancing impacts to RS 1. The only issue among the parties is the quantum of the rebalancing amount that should be allocated to RS 1.

41. Second, the standard utility practice of using rate schedules that have R:C ratios lower than 100 percent to absorb revenue shifts moves these rate schedules further within the range of reasonableness and moves all rate schedules' R:C ratios closer together. In contrast, using rate schedules with R:C ratios over 100 percent to absorb a revenue shift pushes these rate schedules toward the edge of the range of reasonableness and results in a higher likelihood that they will need to be rebalanced when the next COSA study is undertaken.⁴⁹ This approach essentially creates a small, short-term benefit for RS 1 customers by reducing the bill impact by approximately \$3.53 per year; however, the longer-term impact will likely be a larger (negative) bill impact to RS 1 customers. For example, if the majority of the other rate schedules (RS 3/23, 5/25, 6, 22, 22A, and 22B) fall outside of the range of reasonableness, the resulting revenue shift

⁴⁸ Exhibit B-5, BCOAPO IR1 1.8.

⁴⁹ Exhibit B-5, BCOAPO IR1 1.7.

would need to be borne by the only remaining rate schedules within the range of reasonableness.⁵⁰

42. Third, shifting revenues among all rate classes that are within the range of reasonableness will cause larger bill impacts to all other customers, including an average bill impact to RS 6 customers of approximately 9.1 percent. In contrast, FEI's proposed approach of shifting revenue responsibility to RS 1 customers achieves the least overall bill impact to all customer classes.⁵¹

43. Finally, this rebalancing approach is also less transparent and more difficult to understand. Such an approach is impractical and unreasonable when other options, such as the option proposed by FEI, are available.

(c) RCIA IR1 19.1: Revenue Shift Reallocated to RS 1 & RS 2 Proportional to Delivery Revenue

44. A third option explored was to use both RS 1 and RS 2 to absorb the revenue shift proportionally based on their revenue. Overall, the difference between this option (i.e., distributing the revenue rebalancing proportionally between RS 1 and RS 2 based on their delivery revenues) and FEI's proposed Option 5 (i.e., revenue rebalancing to RS 1 only) is small. Under this option, the average bill impact to RS 1 customers would be slightly reduced by approximately \$1.19 per year when compared to FEI's proposed Option 5. The trade-off is that RS 2 and RS 3/23 have larger increases in their Basic Charge, at approximately \$82.50 per year and \$191.30 per year more, respectively, when compared to FEI's proposed Option 5.⁵²

45. This option would require the Basic Charge for RS 2 to increase by \$0.2260 per day, which is slightly higher than the increase in FEI's proposed Option 5. For RS 3/23 customers, the bill impact would be increased by approximately \$19 per year when compared to Option 5 due to RS

⁵⁰ Exhibit B-5, BCOAPO IR1 1.8.

⁵¹ Exhibit B-5, BCOAPO IR1 1.6.

⁵² Exhibit B-7, RCIA IR1 19.1.

2 absorbing the additional revenue shift; thus, the Basic Charge of RS 3/23 would also have to be adjusted upward to continue to maintain the segmentation threshold at 2,000 GJ.⁵³

46. The smaller changes in the Basic Charges of RS 2 and RS 3/23 under Option 5 are preferable because the increases in the Basic Charges would mostly impact the smallest commercial customers who consume very little volumes. Therefore, FEI submits that Option 5 is superior to the option of using both RS 1 and RS 2 to absorb the revenue shift proportionally. However, the difference between these options is small and FEI considers both options would be reasonable for revenue rebalancing.⁵⁴

E. FEI's Proposed Rebalancing Should be Approved

47. FEI submits that it has appropriately analyzed the need for revenue rebalancing based on the R:C ratios from the 2023 COSA study and that its proposed rebalancing reflects the best balancing of rate design considerations.

⁵³ Exhibit B-7, RCIA IR1 19.1.

⁵⁴ Exhibit B-7, RCIA IR1 19.1.

PART FOUR: TRANSPORTATION SERVICE REPORT

48. As directed by Order G-372-22, FEI has analyzed the costs and revenues associated with the Transportation Service Model and concluded that, given that the amount of balancing charges under the Transportation Service Model are minimal and are mostly offset by the incremental variable costs to balance the system, there is no material impact to FEI's midstream costs and also no material impact to the 2023 COSA.⁵⁵

49. Based on FEI's analysis, the average of actual balancing charges recovered from 2018 to 2022 was only approximately 0.08 percent of FEI's total allocated cost of service included in the 2023 COSA.⁵⁶ Further, the \$0.25 CAD/GJ average annual balancing charge under the Transportation Model is reasonably close to the 2018-2023 average annual incremental variable costs of \$0.26 CAD/GJ to balance the system as a whole.⁵⁷

50. The only material issue explored in the IR process was whether FEI should allocate to Transportation Service customers a portion of FEI's Midstream costs.⁵⁸ FEI submits that there is no basis for allocating FEI's midstream costs to T-service customers: FEI does not acquire midstream resources through the Annual Contracting Plan for T-service customers; rather, Shipper Agents are responsible for acquiring their own midstream resources for their customers in their groups to deliver the gas to the interconnect points to FEI's system. Further, the option of a balancing fee has been previously considered in detail and justifiably rejected for a number of good reasons:⁵⁹

- A charge applied to all throughput for all shipper agents would penalize the Transportation Service customers of shipper agents that are more proactively and closely managing balancing on FEI's system.
- A fee-based approach does not provide an incentive to balance more closely and removes the obligation for shipper agents to match supply and demand.

⁵⁵ Exhibit B-1, Application, p. 87.

⁵⁶ Exhibit B-1, Application, p. 88.

⁵⁷ Exhibit B-4, BCUC IR1 22.1.

⁵⁸ Exhibit B-4, BCUC IR1 22.4.

⁵⁹ Exhibit B-4, BCUC IR1 22.4.

- Calculating the balancing fee would be complex and controversial, as indicated by the concerns raised by shipper agents during consultation for the 2016 COSA and RDA.
- Shipper agents were of the view that applying tighter tolerances would provide a better incentive to improve balancing behaviour versus applying a fee or charge.

51. In the 2016 RDA Decision, the BCUC Panel did not direct a balancing fee but instead found that the tiered structure of balancing charges was just and reasonable, stating:⁶⁰

The Panel finds the resulting tiered structure of the balancing charges to be just, reasonable and not unduly discriminatory in that this rate structure is consistent with rate design principles of fair apportionment of costs among customers and price signals that encourage efficient use of resources.

52. The BCUC further affirmed the current balancing charges when it accepted FEI's Transportation Service Report pursuant to BCUC Decisions and Orders G-135-18 and G-210-20. FEI submits that there has been no change in circumstances or evidence in this proceeding that would warrant a change to the previous determinations of the BCUC on this matter.

53. In summary, FEI submits that it has responded to Order G-372-22 and shown that the costs and revenues associated with the Transportation Service Model have no material impact on the COSA.

PART FIVE: TIMING OF THE NEXT COSA STUDY

54. In its Reasons for Decision to Order G-21-24, the Panel requested submissions from parties on the appropriate timing of the next updated COSA study.⁶¹ FEI proposes to file its next COSA study on January 1, 2030, five years after the implementation of the 2023 COSA, i.e., January 1, 2025, or earlier if there is any significant change in circumstances impacting delivery rates.⁶²

⁶⁰ 2016 RDA Decision, p. 67.

⁶¹ Exhibit A-5, Appendix B, p. 3 of 3.

⁶² Exhibit B-4, BCUC IR1 1.1.

55. The results of the 2023 COSA study are instructive for determining the frequency of COSA studies. Many notable changes and external events occurred over the past five years, including FEI's implementation of common rates with Fort Nelson (effective January 1, 2023), the COVID-19 pandemic, and significant inflationary increases. However, despite all of these changes and impacts, the current rates and rate design are largely performing as intended and there have been limited shifts compared to the 2016 COSA study.⁶³ This demonstrates that there is no need to file COSA studies more frequently than 5 years, unless there are truly significant changes in the operational environment impacting delivery rates.

56. Therefore, if there is a truly significant change to the utility's operations or structure that effect its delivery rates, FEI will prepare a COSA study for review by the BCUC. However, in the absence of such change, FEI would file its next COSA study by January 1, 2030. By this time, FEI expects the impacts of climate policy and related legislation on FEI's operations to be more apparent, making it a good time to conduct the next COSA study. As a COSA study takes approximately 1 year to complete, FEI considers that filing it any earlier will not provide adequate time for changes in the operating environment on FEI's operations to be fully apparent.

⁶³ Exhibit B-5, BCOAPO IR1 2.1.

PART SIX: CONCLUSION

57. FEI submits that it has filed a detailed and comprehensive COSA study and analysis of rebalancing options and provided complete and compelling responses to the questions raised in this proceeding. FEI submits that its proposed rebalancing is just and reasonable and not unduly discriminatory and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: February 1, 2024 ***[original signed by Christopher Bystrom]***

Christopher Bystrom
Counsel for FortisBC Energy Inc.

Dated: February 1, 2024 ***[original signed by Courtney Gibbons]***

Courtney Gibbons
Counsel for FortisBC Energy Inc.