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

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. – 2023 Cost of Service Allocation and Revenue Rebalancing – Reply Submissions

In accordance with the regulatory timetable in the above proceeding, we enclose for filing the Reply Submissions of FortisBC Energy Inc., dated February 29, 2024.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[Original signed by]

Christopher Bystrom*
* Law Corporation

Encl.

cc (email only): Registered Interveners.

British Columbia Utilities Commission

FortisBC Energy Inc.
2023 Cost of Service Allocation and Revenue Rebalancing Application

Reply Submissions of
of
FortisBC Energy Inc.

February 29, 2024

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PART ONE: INTRODUCTION

1. Three interveners filed final arguments in this proceeding, providing a range of positions on the issues:

- The Commercial Energy Consumers of BC (CEC) recommends that the BCUC grant the approvals sought by FEI in the Application,[1] subject to various recommendations for FEI's next COSA study.[2]
- The Residential Consumers Intervener Association (RCIA) accepts the results of FEI's COSA study but makes recommendations for the next COSA study and argues for a new rebalancing proposal shifting revenue to RS 1, RS 2 and RS 6.
- The British Columbia Old Age Pensioners et al. (BCOAPO) takes issue with aspects of FEI's COSA study and argues for a rebalancing proposal shifting revenue to all rate classes with an R:C ratio below 105 percent, without regard to the economic cross-over points.

2. In this Reply Submission, FEI responds to the arguments filed by interveners, organized around the following main points:

- FEI's COSA study results are reasonable and consistent with standard utility practice, and intervener recommendations for the next COSA study are not warranted.
- FEI's proposed rebalancing reflects the best balance of rate design considerations. The alternatives proposed by RCIA and BCOAPO do not reflect standard utility practice and result in greater overall rate impacts.
- CEC's recommendation for a midstream charge to transportation customers is not reasonably supported and runs counter to the many reasons why such a charge has been rejected in the past.
- 2030 is the appropriate time for the filing of the next COSA study as it leaves enough time for capital projects and changes in the operating environment to impact FEI's revenue requirements so that they will be reflected in the next COSA study.

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[1] All terms in this Reply Submission have the same meaning as defined in FEI's Final Argument filed with the BCUC on February 1, 2024.

[2] CEC Final Argument, para. 2.

3. While FEI has sought to be comprehensive in responding to the issues raised in this proceeding, silence in this Reply Submission on any particular point should not be taken as agreement.

PART TWO: 2023 COSA STUDY METHODOLOGY REFLECTS STANDARD UTILITY PRACTICE

A. Introduction

4. In this Part, FEI responds to the submissions of CEC and BCOAPO on the 2023 COSA study, which mostly relate to recommendations for the next COSA study.

B. COSA Study Topics Canvassed by CEC

(a) Presentation of Net O&M Activity View Is Not Possible

5. CEC submits that the BCUC should direct FEI to present in future rate applications FEI's net O&M split into an activity view.[3] FEI submits that this direction should be rejected. First, this is not possible because there is no activity view of net O&M. FEI explained:[4]

> It is important to note that there is no activity view of net O&M. The activity view of O&M is always on a gross basis with a single line item that removes capitalized overheads. For clarity, FEI does not remove capitalized overheads from each individual O&M activity view line item and it would be inconsistent with past practice to do so. The line items in the O&M activity view sum to yield gross O&M. The Overhead Capitalized credit, to go from the gross O&M to the net O&M, has its own specific allocation to the various COSA functions based on the total allocated Gas Plant in Service.
>
> Additionally, to determine net O&M, biomethane O&M costs are reversed out as a single line item and accounted for in the Biomethane Variance Account (BVA). This is because there is a separate regulatory process for determining biomethane recoveries. Attempting to allocate the biomethane credit to all O&M activity view line items would be inconsistent with past practice and illogical because it would be impossible to track and see that biomethane O&M costs have in fact been reversed out for the COSA study.
>
> Further, splitting the 2023 net O&M using a 2022 actual activity view net O&M, which does not exist, would result in incorrect amounts of 2023 biomethane costs

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[3] CEC Final Argument, para. 5.

[4] Exhibit B-4, BCUC IR1 4.2.

being transferred to the BVA and an incorrect 2023 capitalized overhead being used for allocation purposes in the COSA study.

6. Second, since the majority of FEI's O&M at this time is determined using a formula, FEI has an activity view only for its actual O&M (i.e., not on a forecast basis). For this reason, FEI uses the prior year actual activity view O&M for the purposes of allocating its 2023 O&M expenses in the COSA model.[5] CEC has not identified any error or flaw with this approach. To the contrary, this is a reasonable approach and consistent with the 2016 COSA study methodology.

7. Third, the CEC's requested direction is out of scope as it relates to FEI's *rate* applications, not its COSA studies. The presentation of FEI's O&M in future rate applications will depend on the rate framework approved by the BCUC. Most importantly, if the BCUC continues to approve a formula-based approach to the majority of FEI's O&M costs, then FEI should not be presenting an activity view of its net O&M as that would be inconsistent with a formula approach.

(b) FEI Has Appropriately Allocated Tilbury 1A Costs

8. CEC submits that the BCUC should direct FEI to consider the liquefaction capacity of Tilbury 1A to be a peak demand-related cost and "perhaps the RS46 revenues net of operating costs could be credited to all non-bypass customers on an energy basis."[6] FEI submits that CEC's recommendation is unsupported and should be rejected. The Tilbury 1A facility was built to serve RS 46 customers, not serve peak demand.[7] FEI followed standard practice and used the 2023 forecast cost of service and RS 46 revenue that was included in FEI's approved 2023 delivery rates, with any surplus or deficit allocated to all of FEI's non-bypass customers. However, for the portion of the liquefication capacity of Tilbury 1A that is reserved to serve peak demand, FEI allocated the related costs based on peak demand, consistent with the Tilbury Base Plant.[8] FEI explained in the Application:[9]

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5 Exhibit B-4, BCUC IR1 4.1.

6 CEC Final Argument, paras. 8 and 38.

7 Exhibit B-1, Application, p. 23.

8 Exhibit B-1, Application, p. 32.

9 Exhibit B-1, Application, pp. 23-24.

> Additionally, FEI notes that approximately 5 mmcfd of Tilbury 1A's liquefaction capacity out of the total of 33 mmcfd is currently reserved for the Tilbury Base Plant for peak shaving purposes through the interconnect between the Tilbury 1A tank and the Tilbury Base Plant tank, as such the costs related to this 5 mmcfd of Tilbury 1A liquefaction as well as the interconnect between the two facilities are considered to be part of the Tilbury Base Plant for the purpose of the 2023 COSA.

9. Therefore, FEI has reasonably allocated the Tilbury 1A liquefaction capacity.

10. CEC offers no rationale for its suggestion that RS 46 revenue be allocated based on energy, which would not be reasonable.[10] RS 46 was authorized by Direction No. 5 to the BCUC and is set separately from FEI's delivery rates. Therefore, the revenue from RS 46 LNG sales is treated as a credit allocated to each non-bypass rate schedule based on each rate schedule's delivery margin.[11] The delivery margin includes fixed and variable charges, as well as demand charges, not just energy. Therefore, allocating RS 46 revenue based on energy would be inappropriate.

(c) FEI Has Explained Changes to the Minimum System

11. CEC submits that FEI's explanation of the changes in what constitutes the minimum system is unclear, and submits that the BCUC should "direct FEI (as part of its next COSA study) to revisit and solicit intervening parties' input into what ought to constitute 'minimum system' for purposes of its COSA studies."[12] FEI submits that it has provided a reasonable explanation of the changes to the minimum system, and that the CEC's requested direction is not warranted.

12. First, what constitutes the minimum system for the purpose of the minimum system study (MSS) is not a subjective exercise that FEI should be seeking input from interveners on, as CEC suggests. Rather, the MSS is a tried and tested method. In the Elenchus COSA Report on FEI's 2016 COSA study, Elenchus stated that the use of an MSS with a PLCC adjustment is an accepted method for classifying distribution related assets and costs based on Elenchus' experience and used more often than the alternative zero-intercept method. In the 2016 COSA Decision, the

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10 CEC Final Argument, paras. 8 and 38.

11 Exhibit B-4, BCUC IR1 8.1.

12 CEC Final Argument, para. 9.

BCUC determined the method to be reasonable for use in COSA studies.[13] FEI has used the same MSS method in its 2023 COSA study.

13. Second, FEI has explained that, compared to the 2016 COSA study, there are three changes in what constitutes the minimum system for the purposes of the MSS:

- the underlying cost of steel and plastic 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.[14]

14. FEI has explained that, as it has continued to use both plastic (PE) and steel pipe in its system, it has reflected both steel and PE pipes in its calculation of the minimum system. FEI has also explained that the change to using both average unit costs of steel and PE for 60 mm or less, 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.[15]

15. In summary, FEI has continued to use the MSS method which is widely used in the industry and previously approved by the BCUC. The changes in the minimum system for the purpose of the MSS are primarily related to updating the costs and length of pipe in the minimum system. These are factors that are expected to change and, therefore, need updating with each COSA study. Accordingly, FEI submits that it has reasonably explained the changes to the minimum system calculation and CEC's request should be denied.

(d) Cost of Gas

16. CEC submits that the BCUC should require FEI to provide alternative forecasting of its gas costs, based on annual costs rather than seasonal costs.[16] CEC's suggestion is misguided as FEI already bases its cost of gas on an annual forecast, not seasonal costs. As FEI stated in the

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13 Exhibit B-1, Application, p. 33.

14 Exhibit B-4, BCUC IR1 12.2.

15 Exhibit B-4, BCUC IR1 9.1.

16 CEC Final Argument, para. 10.

Application, FEI's gas costs in the COSA study are taken directly from the 2023 Test Year as determined using the approved commodity charge and storage & transportation charge at that time.[17] CEC provides no reference to any evidence suggesting that FEI uses seasonal-based gas costs. If CEC is referring to the quarterly commodity cost recovery charges approved by the BCUC, the CEC points to no evidence that these are seasonal. The BCUC reviews and approves FEI's quarterly commodity cost recovery charges, which can move up or down each quarter depending on a variety of factors, including the price for natural gas at market hubs based on the latest forecast, not seasonal variability.

17. CEC relies on its submissions in FEI's Annual Review for 2024 Delivery Rates, stating:[18]

> In the proceeding for FEI's Annual Review for 2024 Delivery Rates, the CEC expressed concern that the forecast cost of gas for FEI's Annual Review processes might not fully reflect the seasonal variability of gas commodity costs.

18. However, CEC's submissions in the annual review proceeding are not evidence. Moreover, in BCUC Decision and Order G-334-23 on FEI's Annual Review for 2024 Delivery Rates (2024 Rates Decision) (p. 28), the Panel declined to accept CEC's recommendations, consistent with FEI's position that there is no basis for CEC's concern.

19. CEC also submits that "to the extent that FEI's actual cost of the gas commodity for the 2023 test year is materially different from the approved forecast cost of gas, there may be intergenerational inequities."[19] However, a COSA study is based on a snap shot in time and, as noted above, FEI determined its cost of gas using the approved commodity charge and storage & transportation charge for the 2023 test year. This is reasonable and appropriate because rates are set based on approved costs. This is also consistent with past practice approved by the BCUC.

20. Finally, CEC also recommends that the BCUC direct FEI to provide a "full quantitative analysis" of the impact of the growth of FEI's renewable natural gas (RNG) offering.[20] FEI submits

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17 Exhibit B-1, Application, p. 45, lines 10-12.

18 CEC Final Argument, para. 10.

19 CEC Final Argument, para. 10.

20 CEC Final Argument, para. 11.

that this direction is again not warranted. FEI's RNG costs are recovered through the BVA rider, not delivery rates. As such, all RNG-related costs and offsetting revenue are removed from the COSA for allocation purposes.[21] Therefore, RNG has no impact from a COSA perspective. If the CEC is concerned about the bill or other impacts of RNG-related costs, this is reviewed regularly in other proceedings, including in FEI's revenue requirements (e.g., annual reviews), biomethane purchase agreement filings, the long-term resource plan, and RNG rate-related filings (e.g., the current BERC Rate Methodology and Review of Revised RNG Program proceeding).

(e) DSM Costs Do Not Significantly Impact Peak Demand

21. CEC agrees with FEI's approach to DSM, but submits that the BCUC should direct that FEI, in its next COSA study, propose an approach that classifies DSM that has a significant impact on peak demand requirements as demand related.[22] FEI submits that CEC's requested direction is not warranted. FEI's DSM costs within each subgroup are allocated using energy, as the intent of DSM is to achieve conservation of energy and the result is mostly energy conservation and reduction, not peak demand reduction. Further, the resulting GHG reduction benefits of DSM are directly tied to energy reduction and conservation.[23] Using energy for allocation ensures that all customers are funding the DSM programs for the purpose of energy conservation/reduction and GHG reductions, whereas using a demand classification would result in no costs being allocated to interruptible customers who are also benefiting from conservation and GHG reductions. CEC agrees with this approach, which is the same approach reviewed and approved in the 2016 COSA Decision. If FEI's DSM costs have changed materially when FEI conducts its next COSA study, FEI can investigate other allocation options. However, at this time, there is no basis for such a change and therefore no basis for the CEC's requested direction.

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21 Exhibit B-5, BCOAPO IR1 6.8.

22 CEC Final Argument, para. 7.

23 Exhibit B-7, RCIA IR1 11.1.

C. Topics Canvassed by BCOAPO

(a) FEI's Allocation of DSM Costs Follows Cost Causation

22. BCOAPO submits that FEI's approach to allocating DSM costs is "no longer compatible or fair given the overall intent and benefits of the Utility's DSM investments" and "will be borne disproportionately by its residential rate class".[24] FEI submits that BCOAPO has not constructed a logical foundation for its position and that FEI's allocation methodology follows the principle of cost causation, the methodology approved by the BCUC in the 2016 COSA Decision, and is just and reasonable for the following reasons.

23. First, FEI submits that BCOAPO does not establish how the changes in FEI's DSM programs brought about by the amendments to the *Demand-Side Measures Regulation* impact allocation methods in the COSA Study. BCOAPO spends considerable space citing evidence from FEI's 2024-2027 DSM proceeding, which is not on the record in this proceeding. Nonetheless, BCOAPO's point appears to be that DSM costs are increasing, and that DSM is needed to reduce GHG emissions. However, DSM has always resulted in GHG emission reductions, and an increase in costs does not mean that a different allocation approach is needed. In short, the nature of DSM has not changed—its purpose remains to increase efficiency and reduce demand for natural gas, which leads to reductions in GHG emissions. Therefore, no change in the cost allocation method is required.

24. Second, BCOAPO has not established how FEI's allocation methodology disproportionately impacts residential customers. Consistent with past practice, FEI splits DSM costs based on the incentive spending between residential, commercial and industrial customers and then, within each group, FEI allocates DSM costs based on energy.[25] This approach follows the principle of cost causation, as each group is responsible for the DSM costs spent to serve them.

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[24] BCOAPO Final Argument, p. 15.

[25] Exhibit B-7, RCIA IR1 11.1 and 11.2.

25. Third, while all customers—and the Province generally—benefit from GHG reductions through DSM, DSM costs also directly benefit the customers that participate in DSM Programs. That is, participating customers receive the direct benefit of reduced costs to install energy efficiency measures, as well as reduced energy costs due to increased efficiency. FEI's approach of allocating DSM costs based on the groups that benefit from them, therefore, remains appropriate.

26. Fourth, BCOAPO's proposal that FEI use a "straight (or weighted) energy allocator to all customers classes that will apply for the entire duration (i.e., until 2027)" is unclear.[26] Specifically, it is not clear how this approach differs materially from FEI's approach which is, in essence, a weighted energy allocator, with the weights being determined by the DSM spending for residential, commercial and industrial sectors. It is also not clear what the relevance of the duration is, or how that impacts the allocation.

27. Finally, BCOAPO also submits that the increased costs of DSM for low-income customers should be borne by all of FEI's customers, not just residential customers.[27] BCOAPO's position appears to be that all customers should pay for the costs of low-income customers because they are low income. However, the BCUC has previously determined,[28] and the Court of Appeal has confirmed,[29] that it does not have the jurisdiction to set rates on such a basis as it would be unduly discriminatory under the UCA.

(b) Impact of Dual-Fuel Heat Pumps

28. BCOAPO submits that the BCUC should direct FEI to assess the impact of a dual-fuel heating system on lowering the load factor to residential customers in its next COSA.[30] FEI submits that this direction is not required. When FEI conducts its next COSA, the data will reflect whatever the load factor is at that time, based on whatever heating systems customers have in

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26 BCOAPO Final Argument, p. 15.

27 BCOAPO Final Argument, p. 16.

28 BCUC Decision and Order G-5-17 (BC Hydro's 2015 RDA); Reconsideration Request denied: Order G-87-17.

29 *British Columbia Old Age Pensioners' Organization v. British Columbia Utilities Commission,* 2017 BCCA 400.

30 BCOAPO Final Argument, p. 16.

place at that time, including any dual-fuel heating systems. Therefore, FEI will consider the load factor of its customer classes, which will include an impact of dual-fuel heating systems, in the ordinary course of conducting its studies, consistent with standard utility practice. There is no need for a direction in this regard.

(c) Appropriateness of Discount from Firm Rates

29. BCOAPO states that a "cursory review" of the evidence raises questions about the appropriateness of the absence of any current analysis that supports the discount from firm rates provided to interruptible customers.[31] FEI submits that there is no basis to question the discount from firm rates for RS 4 and RS 7/27. For clarity, the fact that RS 4 and RS 7/27 are being set at a "discount" to firm rates does not mean that their rates are below a cost-based rate. To the contrary, if the rates for RS 4 and RS 7/27 were set on a strictly cost basis, their rates would be much lower because they do not contribute to peak demand, and they would essentially be free riders on the system.[32] It is for this reason that the BCUC approved the rates for these customers based on a discount from firm rates.

30. FEI provided a significant level of detail in this proceeding regarding the discount for the interruptible and seasonal services in RS 4 and RS 7/27. As explained in the response to CEC IR1 10.2:[33]

> The discount is meant to extract a value for FEI's interruptible service. Customers that take interruptible service, as opposed to firm service, allow FEI to avoid system upgrades. The avoidance of the incremental cost of service impacts of these incremental system upgrades benefits all of FEI's customers. The current approach, which was approved as part of the 2016 RDA Decision, continues to be reasonable, and there have been no changes in circumstances since the 2016 RDA Decision which would indicate that changes to the discounting method for setting the rates for RS 4 and RS 7/27 are needed or warranted.

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31 BCOAPO Final Argument, p. 19.

32 Exhibit B-7, RCIA IR1 3.1.

33 Exhibit B-6, CEC IR1 10.2.

31. The response to BCUC IR1 19.6 provides the specific calculations for each rate element of RS 4 and RS 7/27, and Attachment 3.1 to the response to RCIA IR1 3.1 further explains the rate design principles for RS 4 and RS 7/27 rates.[34]

32. Therefore, FEI submits that there is ample support for the continuation of the discount for interruptible and seasonal services.

(d) Full Rate Design is Not Warranted

33. BCOAPO disagrees with FEI's conclusion that a full rate design is not warranted on the basis that there were "sizable changes to the cost allocation results in 2023 when compared to 2016, prior to any rate rebalancing".[35] However, the only "sizable" changes are to RS 4 and RS 7/27, which are not held to a range of reasonableness as these interruptible and seasonal services are priced at a discount to RS 5, rather than a cost allocation.[36] Furthermore, the only rate schedules that are outside of the range of reasonableness are RS 5/25 and RS 22.[37] With respect to changes to R:C ratios within the range of reasonableness, BCOAPO has been clear that it agrees with FEI that "there is no distinction to be drawn amongst RCCs within a range of reasonableness."[38] FEI, therefore, submits that BCOAPO has not identified any need for a full rate design to take place at this time.

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

A. Introduction

34. In this section, FEI responds to the submissions of BCOAPO and RCIA with respect to FEI's proposed revenue rebalancing, as well as CEC's submissions on the range of reasonableness.

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34 Exhibit B-4, BCUC IR1 19.6; Exhibit B-7, RCIA IR1 3.1.

35 BCOAPO Final Argument, p. 17.

36 Exhibit B-1, Application, pp. 48-49.

37 Exhibit B-1, Application, Table 4-17.

38 BCOAPO Final Argument, p. 8.

B. FEI's Submissions Should Be Considered Based on the Merits

35. RCIA submits that the BCUC should give greater weight to the submissions of affected customers because FEI should be indifferent as to rebalancing options, as it will recover its revenue requirement regardless.[39] FEI submits that this position has no merit. RCIA has cited no authority for its proposition that the BCUC should ignore the submissions of a party on the merits of that party's own application, when the BCUC's own process has, in fact, invited those submissions. On its face, this would be procedurally unfair.

36. Further, FEI as the regulated utility whose rates constitute the subject of this proceeding, has a detailed understanding and lengthy experience with the design of its rates. FEI also has a significant and meaningful interest in its rate design, including to ensure that it recovers its costs, facilitates the ongoing proper functioning of its business, and, most importantly, treats all of its customers fairly, whether or not they participate in this proceeding. Ultimately, FEI submits that its submissions should be considered by the BCUC based on the merits, and FEI hopes and expects that its submissions will be useful and persuasive to the BCUC in reaching its conclusions in this proceeding.

C. Consideration of Cost Increases Impacting Residential Rate Class

37. BCOAPO submits that "the BCUC should consider not only the rate rebalancing proposed in this Application but also the ongoing cost increases impacting the Residential rate class."[40] FEI understands BCOAPO's concerns with respect to cost increases, and the BCUC has already recommended that rate mitigation be considered in FEI's upcoming rate application.[41] However, there are limits to the scope of regulatory proceedings, which are necessary for efficiency and cost-effectiveness, and such scope limits should be respected. Cost increases due to factors other than the proposals of this proceeding are not necessarily relevant to the determinations to be made by the BCUC in this Application.

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39 RCIA Final Argument, p. 12.

40 BCOAPO Final Argument, p. 7.

41 Decision and Order C-1-24, p. 38: https://docs.bcuc.com/documents/other/2024/doc_75681_c-1-24-fei-its-timc-cpcn-decision.pdf.

38. For example, BCOAPO submits that there are negative impacts to RS 1 customers from the recent GCOC Decision.[42] However, the impact of the GCOC Decision flows from the GCOC Decision itself, not FEI's proposals in this proceeding. If BCOAPO is suggesting that the BCUC should skew revenue rebalancing in this proceeding to offset the impacts of the GCOC Decision on RS 1 customers, that would clearly be inappropriate. Further, the R:C ratio for RS 1 was slightly reduced (by -0.1%) as a result of the GCOC Decision, whereas the R:C ratios of other rate schedules either stayed the same or increased slightly.[43] Therefore, there is no negative impact to RS 1 due to the GCOC Decision from a rate design perspective.

D. No Basis for Change in the Range of Reasonableness

39. CEC submits that the BCUC should ultimately do away with the use of a range of reasonableness,[44] reiterating the arguments it made in 2016.[45] FEI submits that there is no basis to change the range of reasonableness from the 95 percent to 105 percent range determined by the BCUC in the 2016 COSA Decision. The range of reasonableness was the subject of extensive argument in the 2016 COSA and RDA, and the BCUC's reasons for reducing the range to +/-5% at page 35 of the 2016 COSA Decision are extensive. In FEI's view, there has been no change in circumstances since the 2016 COSA Decision that would signal that a change in the range is warranted. Nor has CEC pointed to any new facts or arguments to support doing away with the range of reasonableness, and the significant rate impacts to RS 1 and RS 2 customers that this would entail.[46]

40. On the other hand, BCOAPO suggests that the range of reasonableness is "too tight" (i.e., should be wider), stating:[47]

> Rate rebalancing complexities that link a class's particular rate design (such as the appropriate fixed monthly charge versus volumetric charge and the economic

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42 BCOAPO Final Argument, p. 6.

43 Exhibit B-4, BCUC IR1 3.1.

44 CEC Final Argument, para. 17.

45 CEC Final Argument, paras. 76-77.

46 Exhibit B-4, BCUC IR1 19.4.1.

47 BCOAPO Final Argument, p. 9.

crossover between two classes) to inter-class cost allocation rebalancing is likely an indicator that the range of reasonableness of 95% to 105% is too tight for FEI.

41. FEI submits that there is no logical connection between whether the economic cross-over point is shifted and the range of reasonableness. If a change is to be made to RS 2, RS 3/23 or RS 5/25, there will be implications for the economic cross-over points. This is unrelated to the range of reasonableness.

E. No Compelling Reason to Depart from Use of R:C Ratios

42. RCIA accepts that FEI's rates should be rebalanced based on R:C ratios within a range of reasonableness of 95 percent to 105 percent, but RCIA recommends that FEI's next COSA study should rebalance revenues between classes based on the M:C ratios, with a range of reasonableness of 90 percent to 110 percent.[48] FEI submits that there is no compelling reason to depart from the existing practice of using R:C ratios to examine the range of reasonableness. As the BCUC concluded in the 2016 COSA Decision, the most important consideration remains consistency with past practice.[49]

43. In response to FEI's point that a range of reasonableness around the M:C ratio varies with the amount of gas costs, RCIA submits that the M:C ratio only varies with the proportion of gas costs because FEI has "artificially" fixed the R:C ratio.[50] FEI disagrees that it fixed the R:C ratio "artificially". In its response to BCUC IR1 17.1, FEI used the range of reasonableness around the R:C ratio as the reference point because this is the range of reasonableness that has been reviewed and approved by the BCUC. To be consistent with the BCUC's past determinations on the range of reasonableness, the range of reasonableness of the M:C ratio needs to be calibrated to align with the approved range of reasonableness using R:C ratios. As shown in that IR, the range of reasonableness around the M:C ratio that is equivalent to the range of reasonableness approved by the BCUC will be wider and will vary based on the cost of gas.[51] Maintaining an equivalent range of reasonableness is consistent with the BCUC's approved range and, therefore,

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48 RCIA Final Argument, pp. 7-11.

49 Exhibit B-4, BCUC IR1 17.1.

50 RCIA Final Argument, p. 9.

51 Exhibit B-4, BCUC IR1 17.1.

fosters rate stability. That is, if a range of reasonableness around the M:C ratio is not equivalent to the approved range of reasonableness around the R:C ratio, then this has the effect of changing the range of reasonableness, resulting in more or less rebalancing than would otherwise be required.

44. Ultimately, as the BCUC concluded in the 2016 COSA Decision, while there are pros and cons to using the R:C or M:C ratio as a guide, "the most important consideration in choosing an approach is consistency and that the same ratio and the same range should be used as the primary reference point on an on-going basis."[52] FEI submits that the BCUC's determination in the 2016 COSA Decision remains reasonable. Changing from the use of the R:C ratio to the M:C ratio would be a change in practice that would result in rate instability for customers and therefore should be rejected.

F. FEI's Option 5 is Superior to RCIA's Proposed Option

45. In its Final Argument, RCIA recommends a rebalancing option similar to that explored through RCIA IR1 19.1, with the exception that RS 6 (in addition to RS 1 and RS 2) would also be used to absorb "its proportionate share" of the revenue shift.[53] FEI submits that this option is inferior to Option 5 for two key reasons.

46. First, using RS 6 to rebalance is not effective and, therefore, the rate impacts to RS 6 cannot be justified. As FEI explained in the Application:[54]

> This is because for RS 6, the current revenue and costs in the 2023 COSA are approximately $210.9 thousand and $219.2 thousand, respectively. Therefore, RS 6 can only absorb a maximum of approximately $8.3 thousand from either RS 5/25 or RS 22, which would increase the R:C ratio of RS 6 to 100 percent. Considering the total revenue shift required from RS 5/25 and RS 22 is approximately $3.495 million ($3.344 million for RS 5/25 and $151 thousand for RS 22), changing the rates of RS 6 to only absorb $8.3 thousand, which is approximately 0.24 percent of the total revenue shift required, would be ineffective.

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52 Exhibit B-4, BCUC IR1 17.1.

53 RCIA Final Argument, p. 16.

54 Exhibit B-1, Application, pp. 51-52.

47. Although RS 6 can make no material contribution to absorbing the revenue shift, the rate impact to RS 6 would be 3.9 percent,[55] which is much higher than the 0.4 percent rate impact to RS 1 under FEI's Option 5. As using RS 6 to absorb a portion of the revenue shift would make no material difference, the 3.9 percent rate impact to RS 6 cannot be justified.

48. Second, the trade-off to using RS 2 to absorb the revenue shift is that RS 2 and RS 3/23 would have larger increases in their Basic Charge, which would mostly impact the commercial customers who consume small volumes. Specifically, this option would require RS 2 and RS 3/23 customers to pay approximately $82.50 per year and $191.30 per year more, respectively, when compared to FEI's proposed Option 5.[56] The smaller changes in the Basic Charges of RS 2 and RS 3/23 under Option 5 are preferrable because the increases in the Basic Charges would mostly impact the smallest commercial customers who consume very small volumes.

49. FEI also submits that RCIA's description of FEI's justification for Option 5 is not accurate. RCIA states that FEI is "targeting" RS 1 because RS 1 has the lowest R:C ratio and based on past practice.[57] RCIA further claims that FEI contradicts itself when it states that using rate schedules with R:C ratios less than 100 percent for absorbing revenue shifts is consistent with standard utility practice.[58] FEI submits that this is not a fair characterization of the evidence. The following summarizes, at a high level, the steps in FEI's analysis:

- FEI identified RS 1, RS 2 and RS 6 as the three rate schedules with an R:C ratio below 1.0, as the potential rate schedules to shift costs to.
- FEI ruled out shifting costs to RS 6, as this would be ineffective as discussed above.
- FEI analyzed various options involving shifting costs to RS 1 and RS 2 and concluded that Option 5 represents the best balancing of rate design considerations.

50. FEI submits that its analysis and proposed Option 5 remains the most reasonable option and should be approved.

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55 Exhibit B-4, BCUC IR1 19.4.1, Tables 1 and 5.

56 Exhibit B-7, RCIA IR1 19.1.

57 RCIA Final Argument, p. 13.

58 RCIA Final Argument, p. 14.

G. FEI's Option 5 is Superior to BCOAPO's Proposed Option

51. BCOAPO proposes a new rebalancing option (BCOAPO Option #2) in its Final Argument, which spreads the rebalancing costs *pro rata* amongst rate schedules with R:C ratios below 105 percent. FEI submits that BCOAPO Option #2 is not consistent with standard utility practice, results in greater overall rate impacts, and is inferior to FEI's proposed Option 5.

52. FEI's specific reply to BCOAPO's position is set out in the subsections below.

(a) FEI Responded Reasonably to BCOAPO IR1 1.8

53. BCOAPO submits that FEI's response to BCOAPO IR1 1.8 lost the "spirit and intent" of the question, suggesting that FEI did not model the alternative that it envisioned.[59] FEI's response to BCOAPO IR1 1.8, however, accurately reflected the question. As requested, FEI modelled "a scenario that equally spreads the rebalancing cost ($3.495 million) to each of the classes within the range of reasonableness (excluding Rate Schedules 4 and 7/27), to the extent possible without allowing any class's R:C ratio to exceed the range of reasonableness boundaries".[60] Far from being any fault in FEI's response to this IR, BCOAPO has simply recognized some of the defects in this scenario and has now sought to refine its approach in its argument. For example, BCOAPO recognized the impacts to RS 6 from its scenario in BCOAPO IR1 1.8, and now seeks to reduce those impacts.

(b) Using Classes Below 100 Percent for Rebalancing is a Principled Approach that is Standard Utility Practice

54. BCOAPO characterizes its approach, whereby all classes within the range of reasonableness pay for those that are outside of the range of reasonableness, as a "principled approach", whereas FEI's approach is "pragmatic."[61] FEI submits that BCOAPO's approach is not a principled one, but instead designed to minimize the impacts to RS 1, reflecting BCOAPO's interests in this proceeding. In contrast, FEI's approach is based on standard utility practice and based on sound regulatory principles.

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59 BCOAPO Final Argument, pp. 9-10.

60 Exhibit B-5, BCOAPO IR1 1.8.

61 BCOAPO Final Argument, pp. 8-9.

55. The 2023 COSA shows that there are currently three rate schedules with an R:C ratio below 100 percent which, in theory, can be used to rebalance RS 5/25 and RS 22. These three rate schedules are RS 1, RS 2 and RS 6. However, as discussed above, only RS 1 and RS 2 are suitable choices for rebalancing as it would not be effective to use RS 6 for revenue shifts. RS 1 and RS 2 are the two customer groups with the greatest revenue and most capability to absorb a revenue shift from RS 5/25 and RS 22. For example, RS 1 can absorb a maximum revenue shift of approximately $34.7 million until it reaches an R:C ratio of 100 percent. Similarly, RS 2 can absorb a maximum revenue shift of approximately $7.8 million until it reaches an R:C ratio of 100 percent. As such, FEI considered rebalancing options that would shift revenue from RS 5/25 and 22 to RS 1 or RS 2 to bring the R:C ratios of RS 5/25 and 22 back to 105 percent.

56. Contrary to BCOAPO's submission,[62] FEI did ***not*** consider shifting revenue to classes with an R:C ratio less than 100 percent because these classes are not paying their cost of service. Rather, FEI's approach moves all rate schedules further within the range of reasonableness because this brings all R:C ratios closer together, helps to avoid the need for rebalancing in the future, and creates the lowest overall rate impact to all customer classes.[63]

57. BCOAPO misleadingly states that its proposed approach is a return to the "principles established in 2016" and that "there is no distinction to be drawn amongst RCCs within the range of reasonableness."[64] However, BCOAPO's approach is, in fact, explicitly contrary to the approach established in the 2016 RDA Decision. As set out in paragraph 40 of FEI's Final Submission, the approach of using rate schedules with R:C ratios less than 100 percent for absorbing revenue shifts is standard utility practice and was approved and explicitly endorsed by the BCUC in the 2016 RDA Decision. BCOAPO does not address the BCUC's findings in the 2016 RDA Decision as quoted at paragraph 40 of FEI's Final Submission or refute that FEI's approach reflects standard utility practice as determined by the BCUC.

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62 BCOAPO Final Argument, p. 8.

63 FEI Final Submission, paras. 41-42.

64 BCOAPO Final Argument, p. 8.

(c) Reasonable and Appropriate to Consider Economic Cross-Over Points

58. BCOAPO suggests that the economic cross-over points between RS 2 and RS 3/23 and between RS 3/23 and RS 5/25 are not rate design concerns that should restrict rate rebalancing.[65] As such, BCOAPO's approach does not consider and makes no adjustments to maintain the economic cross-over points between RS 2 and RS 3/23 or between RS 3/23 and RS 5/25. FEI submits that it is contrary to rate design principles to ignore the economic cross-over points, and BCOAPO's option, therefore, does not reflect a proper balancing of rate design considerations.

59. First, FEI submits that the economic cross-over points between RS 2 and RS 3/23 and between RS 3/23 and RS 5/25 are rate design issues that should be considered when considering rebalancing options because they are elements of the rate design of RS 2, RS 3/23 and RS 5/25 that are impacted if the basic and/or variable charges of these rates are changed, which would have impacts on FEI's customers:

- As explained in detail in Section 5.2.2 of the Application, increasing the rates (basic and/or variable charges) of RS 2 would change the economic crossover point between the RS 2 customer group and RS 3/23 customer group, which is the annual volume at which point a customer would have the same annual total cost whether served under RS 2 or RS 3/23. Therefore, if RS 2 is included as part of the revenue rebalancing for RS 5/25 and RS 22, then consideration should be given to ensuring the economic cross-over point between RS 2 and RS 3/23 is closely aligned with the segmentation threshold of 2,000 GJ per year.

- Similarly, as explained in detail in Section 5.2.3 of the Application, as RS 5/25 generally captures customers with higher load factors of 40 percent or above, it is important to consider, as part of evaluating the different revenue rebalancing options, whether FEI should adjust rates so that it is economical for customers whose load factor is less than 40 percent to take service under RS 3/23, rather than RS 5/25.

60. Second, sending the right price signals is one of the Bonbright principles: "Price signals that encourage efficient use and discourage inefficient use".[66] To the extent that the economic cross-over points are not aligned with the segmentation threshold between RS 2 and RS 3/23 or

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65 BCOAPO Final Argument, p. 9.

66 Exhibit B-1, Application, p. 50.

the load factors segments between RS 3/23 and RS 5/25, price signals will not be optimal and this Bonbright principle will be not be fully met. While this consideration may not be determinative, it is not reasonable or appropriate to simply ignore it as BCOAPO recommends.

61. Third, contrary to BCOAPO's submission, FEI has never stated that the cross-over points would "self-correct over time".[67] What FEI stated in the Application was that it expects switching between rate schedules would naturally occur over time regardless of the economic cross-over point. This mitigates the impact of the cross-over point, but does not correct for it.

62. Finally, FEI's Option #5 corrects the cross-over point between RS 2 and RS 3/23, but not the cross-over point between RS 3/23 and RS 5/25, based on the balancing of rate design objectives, as is appropriate. BCOAPO's approach does not even consider the cross-over points, and thus does not engage in any balancing of objectives, but instead seeks solely to minimize rate impacts to RS 1. FEI submits that this is not a principled approach.

PART FOUR: TRANSPORTATION SERVICE REPORT

63. CEC states that it "appears the volume of transported gas moving through FEI's system is significant enough to warrant consideration of allocating a portion of FEI's Midstream costs to FEI's transportation service customers" and "recommends that the Commission direct FEI to consider in the context of its next COSA study, an allocation approach for allocating a portion of FEI's Midstream costs to FEI's transportation service customers."[68] FEI submits that there is no reasonable basis for CEC's request.

64. CEC's recommendation is based on the false assumption that the volume of transported gas compared to total gas volume moved through FEI's system is "of the essence".[69] However, the proportion of transported gas to the total gas volume is, in fact, only marginally relevant. Transportation customers pay for the cost to move their gas on FEI's system, and the only question is the extent to which they rely on FEI's midstream resources to balance their supply

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[67] BCOAPO Final Argument, p. 9.

[68] CEC Final Argument, para. 18.

[69] CEC Final Argument, para. 93.

and demand. In a scenario where transportation customers perfectly balance their supply and demand, they would not use any of FEI's midstream resources and there would be little rationale for charging transportation customers a midstream charge, regardless of the volume of transported gas. This illustrates that what is of the essence is, in fact, the extent to which transportation customers rely on FEI's midstream resources to balance their supply and demand, and whether the costs of this are reasonably recovered by the balancing charges under the Transportation Model.

65. CEC focuses on FEI's statement that the amount of balancing charges under the Transportation Service Model is "minimal".[70] However, CEC ignores FEI's point that these charges are mostly offset by the incremental variable costs to balance the system, as demonstrated by the fact that 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.[71] Thus, while the total amount of balancing charges recovered is in fact small when compared to FEI's total cost of service, the amount charged is reasonable and appropriate.

66. Further, CEC ignores all the reasons why a midstream charge to transportation customers would not be a reasonable option, including that this approach would not incent transportation customers to better balance their supply and demand.[72] Finally, CEC provides no rationale for why the BCUC-approved balancing charges should now be replaced by a midstream charge.

PART FIVE: 2030 IS AN APPROPRIATE TIME FOR THE NEXT COSA REVIEW

67. RCIA supports FEI's proposal to file the next COSA study in 2030.[73] However, CEC[74] and BCOAPO[75] submit that the next COSA study should be in 2027 and 2028, respectively, citing the

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70 CEC Final Argument, paras. 86-89.

71 FEI Final Argument, paras. 48-49.

72 FEI Final Argument, para. 50.

73 RCIA Final Argument, p. 23.

74 CEC Final Argument, para. 12.

75 BCOAPO Final Argument, p. 19.

AMI Project coming into service in 2027 and a "significant business change". FEI submits that neither the CEC nor BCOAPO's recommendations are reasonable as they do not take into account the year required to complete a COSA study, and the even longer time required for a comprehensive rate design. As such, if FEI filed its next COSA study in 2027 or 2028, FEI would need to start the COSA study process at the latest in 2026 or 2027, respectively. If FEI is to conduct a full rate design, work would need to begin in 2025 or 2026, respectively. In either case, the AMI Project would not be reflected in the COSA study, nor would there be much time for any business changes to occur and be reflected in FEI's revenue requirement.

68. In contrast, FEI's proposal of 2030 will allow sufficient time for the AMI Project to be completed and for the benefits of AMI to be reflected in FEI's revenue requirement. It will also allow sufficient time for any business changes to occur due to the energy transition and for those changes to be reflected in the revenue requirement. Waiting for the impacts of these changes to occur and develop before beginning the COSA study process will enable FEI to see if there is any significant impact or changes needed as a result.

69. FEI's proposal is consistent with past practice. For example, when FEI was ordered to conduct the 2016 RDA due to the amalgamation and common rates with FortisBC Energy (Vancouver Island) Inc. and FortisBC Energy (Whistler) Inc., the BCUC directed FEI to file the RDA for the amalgamated entity no later than two years after the effective date of the amalgamation, thus allowing sufficient time for the impact of amalgamation and common rates to be reflected in revenue requirements and rates.[76]

70. Therefore, FEI submits that its proposed timing for the next COSA study to be filed in 2030 is reasonable and should be accepted.

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[76] Decision and Order G-21-14, p. 22.

PART SIX: CONCLUSION

71. FEI submits that it has filed a detailed and comprehensive COSA study and analysis of rebalancing options and has provided a compelling response to the topics raised in intervener submissions. 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 29, 2024	***[original signed by]***
		Christopher Bystrom
		Counsel for FortisBC Energy Inc.
Dated:	February 29, 2024	***[original signed by]***
		Courtney Gibbons
		Counsel for FortisBC Energy Inc.