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May 31, 2024

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Patrick Wruck:

Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively FortisBC)
Application for Approval of a Rate Setting Framework for 2025 through 2027
Supplemental Information

On April 8, 2024, FortisBC filed the Application referenced above. On May 2, 2024, the BCUC Panel responded with a Request for Supplemental Information. FortisBC respectfully submits the attached responses to the BCUC Panel's Request for Supplemental Information.

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

If further information is required, please contact the undersigned.

Sincerely,

on behalf of FORTISBC

Original signed:

Sarah Walsh

Attachments

cc (email only): Registered Interveners in the FEI and FBC 2020-2024 Multi-Year Rate Plan Proceeding; the Pre-Application Rate Setting Framework Workshop Participants and Stakeholders; and the Annual Reviews for 2024 Rates proceedings.

1. Given FortisBC's statement that energy transition impacts will "ultimately have an effect on FortisBC's rates,"[8] please explain when, if not now, a FortisBC Rate Framework would be expected to address the energy transition's effects on rates.[9]

Response:

The full context of FortisBC's evidence in Section B of the Application is that the energy transition *is* having, and *will continue to have*, an impact on rates. As FortisBC stated on page B-44 of the Application, the impacts of the energy transition on FortisBC's gas and electric operations are growing, and FortisBC must continue to evolve its rate-setting framework to help manage the impacts.[10]

FortisBC has made significant efforts over the past decade to evolve its rate-setting frameworks, as well as the projects, plans and programs which have been reviewed and approved through other regulatory proceedings, to manage the early impacts of the energy transition. While FortisBC expects the energy transition to unfold incrementally over many years, it is in fact already having an impact on FortisBC's rates, and the Current MRP and the proposed Rate Framework have been designed to incorporate the growing impacts of the energy transition into rates each year through the Annual Review process and other approved mechanisms, as well as provide incentives to achieve cost savings. Therefore, this Application aims to continue a flexible and efficient approach to rate setting that supports FortisBC's ability to adapt to the energy transition and manage the energy transition's impacts on the provision of affordable, reliable, and resilient service to customers.[11]

FortisBC's point in the portion of the Application referenced in the BCUC Panel's question is that, while the energy transition has an impact on rates, FortisBC's substantive actions in response will largely be addressed in separate proceedings, through important applications such as the Companies' long term resource plans, demand side management (DSM) expenditure plans, major project applications, rate design applications, and energy supply agreements and plans.[12] The BCUC's decisions in these other proceedings will have cost implications for FortisBC, and the proposed Rate Framework is designed to allow these cost implications to be incorporated into FortisBC's rates.

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8 Exhibit B-1, p. B-44.

9 Exhibit B-1, p. B-44. On pages B-41 to B-44 of Exhibit B-1, FortisBC outlines that the major regulatory proceedings where the energy transition impacts will be addressed include the long-term resource plans, major project applications, FEI gas filings for annual contracting plans, and demand side management expenditure plans.

10 "FortisBC has made significant efforts over the past decade to evolve its rate-setting frameworks, as well as the projects, plans and programs in the above noted proceedings, to manage the early impacts of the energy transition. As discussed in Section B1, the impacts of the energy transition on FortisBC's gas and electric operations are growing and FortisBC must continue to evolve its rate-setting framework to help manage the impacts. While many of these impacts will ultimately have an effect on FortisBC's rates, the majority of the related projects, plans and programs are reviewed and determined outside of the Rate Framework and outside of the annual rate-setting process (i.e., Annual Reviews)." Application, p. B-44.

11 Exhibit B-1, Section B3, p. B-41.

12 Exhibit B-1, Section B3.1, pp. B-41 to B-45.

The Impacts of the Energy Transition are Reflected in the Current MRP

FortisBC provided examples of impacts of the energy transition on FEI's delivery rates during the Current MRP in Table B2-2 of the Application. These and other impacts of the energy transition have been reflected in FEI's delivery rates through the Current MRP, as follows:

- **The increased deferral amortization related to the DSM deferral account.** FEI applies for acceptance of its DSM expenditure plans through separate BCUC processes, and the costs of the DSM plans are recorded in the approved DSM Plan deferral accounts (rate base and non-rate base). The impacts of DSM Plan costs are accounted for in the Current MRP and proposed Rate Framework through the Annual Review process, where FortisBC includes the amortization of the DSM Plan deferral account in its forecast annual revenue requirement to set rates each year.

- **The loss of revenue from FEI's contract with BC Hydro for the Island Generation (IG) facility.** This is an example of a loss of load on the gas system which negatively impacted delivery rates due to decreased revenue. Under both the Current MRP and the proposed Rate Framework, FEI forecasts its load and revenues each year through the Annual Review process so that losses of revenue, such as from the termination of FEI's contract with BC Hydro, are reflected in rates each year.

- **The inclusion of the impact of the BCUC's Decision and Order G-236-23 regarding Stage 1 of the Generical Cost of Capital (GCOC) proceeding, which increased FEI's deemed equity thickness and return on equity (ROE).** In the BCUC's decision on Stage 1 of the GCOC, the BCUC approved a higher cost of capital for FEI based on a number of factors, including the energy transition, stating: "As a natural gas distribution utility, FEI's shareholder and investors are faced with higher business risk driven primarily by the Energy Transition."[13] Again, through the Annual Review process, FortisBC is able to incorporate the updated ROE when setting rates each year.

For FBC, a key driver of rate increases during the latter part of the Current MRP term, which is related to the energy transition, is the increased cost of power supply. Under the Current MRP and proposed Rate Framework, FBC forecasts its power supply costs each year in the Annual Reviews, ensuring that these costs are reflected in rates. Power supply costs will continue to put pressure on FBC's rates in the future and will continue to be reflected in FBC's rates under the Rate Framework.

Notably, in most of the examples provided above, the determination of the overall cost was made outside of the rate-setting process, through other BCUC decisions, contract negotiations, and energy supply/contracting agreements. Moreover, in each of these examples, the Current MRP and proposed Rate Framework provide a mechanism for the costs (or loss of revenue) to be reflected in rates.

[13] Decision and Order G-236-23, p. 137.

The Impacts of the Energy Transition are Addressed in the Proposed Rate Framework

In Section B3.2 of the Application, FortisBC summarized how the Rate Framework addresses the impacts of the energy transition. Further, in Table B2-11 FortisBC addressed the concerns raised by interveners, many of which are related to the impacts of the energy transition. FortisBC provides a copy of Table B2-11 below for ease of reference as the majority of the issues raised (items 1, 2, 3, 6, 7, and 8) are relevant to the BCUC's question and provide a summary of how the Rate Framework addresses the energy transition, as well as references to the locations in the Application where the issues are addressed.

Table B2-11: Summary of Intervener Feedback

No.	Intervener Feedback	How FortisBC Has Addressed in Application	Application Reference
EVOLVING WITH THE ENERGY TRANSITION			
1.	Adapt with the energy transition while maintaining affordability.	FortisBC proposes to address this challenge by maintaining a cost-control focus, supporting customers in reducing their energy consumption, optimizing existing infrastructure and investments, and adding new sources of revenue serving non-traditional markets. Further, FortisBC has proposed mechanisms that, over the three-year term, will provide flexibility to adapt to the changing environment, including formula-based growth capital for FEI (see item 6 below).	Section B1.4; Section B3.2; Section C3.3.1
2.	Concerns about the viability of the gas utility given existing and anticipated government policy direction.	While the long-term role for gas infrastructure is uncertain from a policy perspective, FortisBC views gas infrastructure as a critical element of the energy system in BC, meeting peak energy demand during cold weather events, providing access to scalable supplies of low carbon energy, and bringing low carbon fuels to hard-to-decarbonize sectors. Further, there are many filings that deal with the impacts of the energy transition beyond the rate setting framework. FortisBC continues to manage the impacts across all of its filings.	Section B1.4.1; Section B3.1
3.	Utilize innovation, renewable gases, gas and electric integration, and new lines of business to help keep the gas utility viable.	FEI proposes to continue the Clean Growth Innovation Fund, continue investments in clean growth initiatives, to focus on more integrated planning for gas and electric systems, and to continue to pursue growth in non-traditional markets.	Sections C2.2.3.3 and C2.3.3.2; Section C2.5; Section C5
PURSUING REGULATORY EFFICIENCIES AND TRANSPARENCY			
4.	Pursue regulatory efficiencies where possible while enabling collaboration and ensuring transparency.	FortisBC has filed a joint application between FEI and FBC given the overlap in common rate framework elements. Reviewing those elements in the same regulatory proceeding enhances the efficiency of the review process. FortisBC is also proposing to continue the Annual Review process while gaining efficiencies by removing from the scope of the Annual Review process those components of the Framework that are approved by the BCUC in this Proceeding and that remain unchanged each year.	Section B3.2; Section C1.10
5.	Comfortable with the Application incorporating both FEI and FBC.	As noted above, this Application incorporates both FEI and FBC with distinctions between the two utilities noted throughout as applicable. FortisBC believes that this approach optimizes regulatory efficiency.	Throughout Application

No.	Intervener Feedback	How FortisBC Has Addressed in Application	Application Reference
INVESTING IN SAFE, RELIABLE AND RESILIENT SERVICE			
6.	FEI will be experiencing a drop off in customer growth and this should be considered for the growth capital formula and depreciation moving forward.	FEI considers the formula approach based on unit costs and a forecast of gross customer additions with true-up for variances remains the most appropriate approach for establishing FEI's growth capital. Since this approach will continue to be dependent on the number of gross customer additions, it will also provide flexibility when establishing the amount of growth capital each year during the transitional period to lower carbon emission energy. For example, if the number of gross customer additions is reduced during the three-year term due to the energy transition, the formula approach will also reduce the amount of growth capital calculated but still enable FEI to meet the obligation to connect any new customers if requested to do so.	Section C3.3.1; Section D2
7.	Investment is needed for emergency event preparedness and cyber related risks.	FortisBC concurs and has suggested in this Application that this increases the need for investment in physical and cyber security for both FEI and FBC to maintain the safety and reliability of the Province's energy system. Additionally, the increasing frequency of extreme weather events has created additional risk to energy infrastructure and FEI and FBC must invest to ensure their systems are resilient and adaptable in response.	Section B1.6; Sections C2.2.4.3, C2.3.4.3 and C2.3.4.5; Sections C3.3.3.4 and C3.4.3.4
ADAPTING SERVICE QUALITY INDICATORS			
8.	Adapt and report on the energy transition and general support for exploring possible leading indicators to establish a means of more effectively measuring overall employee safety. Question over the need to report meter reading completion with AMI in place. (Further specific SQI feedback is noted in the SQI appendices)	FortisBC has considered all feedback received from interveners on the proposed SQIs, including proposing a new FEI category of Informational Indictors specific to the energy transition and proposing a new employee safety leading informational indicator for both FEI and FBC. FEI and FBC have proposed to rename and transition meter reading completion to an informational indicator given the implementation of advanced metering. FEI has also considered feedback on the threshold for TSF (non-emergency) and has maintained the threshold at 68 percent.	Section C6; Appendices C6-1 and C6-2

The Rate Framework is Designed to Incorporate and Manage Rate Impacts

Further to the table above, FortisBC recognizes that energy affordability will be increasingly challenged over time and expects that pressure on FEI's and FBC's rates will continue over the term of the Rate Framework. FortisBC designed the Rate Framework with rate pressures from the energy transition in mind. Specifically, the proposed Rate Framework incorporates mechanisms designed to enable FortisBC to invest in clean energy and emissions reduction activities while also providing incentives to find efficiencies and cost savings in other areas of the Companies' operations, with an overall focus still being placed on FortisBC's ability to provide safe, reliable and resilient service to customers.

Key areas creating increased costs and rate pressures are:

- Increased costs related to investment in emissions reduction, such as the costs of acquiring renewable and low carbon fuels;
- Increased costs related to expanding electrical generation, transmission and distribution infrastructure to meet growing demand, while also maintaining a clean electricity portfolio;
- Increased costs related to investments in climate adaptation and resilience; and
- Rate pressures due to the potential for reduced throughput and a decline in customer additions on the gas system, resulting in increased costs per customer.

FortisBC elaborates on each of the four bullet points below, including how the Rate Framework has been developed in consideration of these costs and pressures.

1. <u>Investment in Emissions Reduction</u>

While FEI's ability to make investments in and acquire renewable and low carbon fuels is primarily enabled by legislation such as the *Greenhouse Gas Reductions (Clean Energy) Regulation* (GGRR), the Rate Framework provides the mechanisms for forecasting and recovering the costs of doing so.

FEI (and FBC) are proposing to continue the flow-through treatment for Clean Growth Initiatives and forecast the cost of these initiatives each year in the Annual Review process. This treatment is critical for FEI to continue to expand its efforts in areas such as hydrogen development. Further, as explained on page C-99 of the Application, FEI is proposing a new category of Clean Growth Initiatives related to methane emission mitigation. Forecasting these expenditures each year and treating them as a flow-through will allow FEI to make the necessary expenditures in its Clean Growth Initiatives during the term of the Rate Framework. Given that the goal of these Clean Growth Initiatives is to reduce emissions, the Companies should be encouraged to invest in these activities. Therefore, it is appropriate during the term of the Rate Framework that the investments are made outside of formula O&M (or regular forecast capital) and thus excluded from the earnings sharing mechanism. Because the timing of the investments can be difficult to forecast, as has been seen with biomethane projects, treating the costs as flow-through ensures that customers pay only actual costs. Furthermore, the forecast expenditures are reviewed annually by the BCUC and interveners through the Annual Review process, allowing stakeholders to scrutinize the planned expenditures.

Another critical area of emissions reduction is the replacement of conventional gas with renewable and low carbon gas in FEI's system. The acquisition of renewable and low carbon gas through purchase agreements, and the rate design for the sale of renewable natural gas (RNG), are approved in separate, stand-alone proceedings. Notably, on March 20, 2024, the BCUC issued Decision and Order G-77-24 (RNG Decision) which approved FEI's proposed RNG Blend Service. FEI is in the process of implementing the changes resulting from the RNG Decision. The key outcome of the RNG Decision is that a percentage of the gas that FEI sells to all sales customers

will now be RNG, with customers having the option to voluntarily purchase a higher percentage of RNG than that included in the RNG Blend. The Rate Framework will be able to accommodate these changes, as, consistent with the approach in the Current MRP, FEI will report on the RNG Account (previously the Biomethane Variance Account (BVA)) in each Annual Review.

FEI's RNG Program has been a critical and instrumental component of the Company's response to the energy transition. The RNG Program was first introduced as a pilot program over a decade ago and has continued to evolve and expand in response to government policies and the evolution of renewable gas solutions in the market. Importantly, neither the original program, nor the iterations of the program over the past decade, have been approved through the rate-setting processes.

FEI is also proposing to continue the Clean Growth Innovation Fund (CGIF) with enhancements to better enable the issuance of funds. Please refer to Section C5 of the Application and to the additional information provided in response to BCUC Panel Question No. 7.

2. <u>Increased Costs Related to Expanding Electrical Generation, Transmission and Distribution Infrastructure to Meet Growing Demand</u>

The energy transition is putting pressure on FBC's rates due to the increased costs of power supply and the increased need to invest in generation, transmission and distribution infrastructure to support current and increasing levels of demand.

FBC has provided detailed evidence supporting its three-year capital forecasts in Section C3.4 of the Application. As an example, on page C-106, FBC explains that it is planning to reconductor four transmission lines and to upgrade or rebuild seven stations to accommodate the energy transition and increasing electrical loads.

The Rate Framework supports FBC's increased capital investment needs. The mechanisms within the Rate Framework balance the need to consider affordability for customers with the critical need to invest in the electric system. The continuation of the earnings sharing mechanism means that FBC is incented to maintain a cost-control focus and to manage spending over the three-year term. However, the Rate Framework is also flexible enough to accommodate unexpected projects that might arise during the three-year term. An example of this during the Current MRP was the Playmor Substation Rebuild project. FBC identified the need for the Playmor Substation Rebuild project after the Current MRP was approved. Since the project was clearly not identified as part of the regular capital forecasts in the 2020-2024 MRP Application, FBC applied for approval of the project pursuant to section 44.2 of the UCA as part of the 2020-2021 Annual Review. The project was then reviewed and approved through the Annual Review process. Conversely, the Rate Framework is flexible enough that, should an unexpected situation arise where a project needs to be removed from regular capital, this can be accommodated. For example, in 2023, FBC was directed to file a CPCN for the Fruitvale Substation project. This project had been approved as part of FBC's regular capital expenditures under the Current MRP. In recognition that the project now required a CPCN, FBC removed the capital expenditures from the regular capital forecasts. As a result, the earnings sharing calculation was not impacted.

With regard to power supply costs, FBC expects that costs in this area will continue to increase given the constrained market and growing need for clean electricity. The Rate Framework addresses this issue in two ways. First, FBC proposes to continue to forecast power supply costs each year in the Annual Review and to capture the variances between actual and forecast power supply costs in the Flow-through deferral account. This ensures that FBC has the opportunity to update its power supply costs each year and that customers will ultimately only pay for the actual costs of power supply. Second, as explained in Section C2.3.3.3 of the Application, FBC is seeking increased O&M funding to add resources to manage and optimize its power supply portfolio. With the increasingly challenging and complex power supply environment, FBC must increase its resourcing to investigate new resource opportunities and to find ways to optimize and secure its supply.

3. <u>Increased Costs Related to Investments in Climate Adaptation and Resilience</u>

Climate adaptation and resilience are important considerations for both FBC and FEI, and the utilities will require funding to harden the systems and counteract the impacts of climate change. For FBC, the impacts of climate change are particularly acute, as the electric infrastructure is above ground and therefore more exposed to climate events.

In the Annual Review for 2024 Rates, FBC received approval to establish the Climate Change Operational Adaptation (CCOA) Plan deferral account. In response to BCUC IR1 17.3, FBC provided its Roadmap on Climate Change Adaptation. At this time, FBC has completed a draft of its climate change risk assessment (CCRA). FBC is currently reviewing the draft internally and will then start applying the results of the CCRA by identifying specific vulnerable assets and determining project alternatives.

The reason that FBC has not provided further information in this Application on the CCOA or the CCRA is that FBC has not yet identified the related projects. However, the Rate Framework does not hinder the continued development of these plans and projects. In all likelihood, the projects that will be required to address climate change adaptation will require a CPCN or Major Project approval. However, in the event that smaller projects are identified during the three-year Rate Framework term, the Rate Framework is flexible enough to accommodate the necessary expenditures. As evidenced in the Current MRP, if incremental funding is required, FBC (or FEI) has the ability to seek deferral account treatment during the Annual Review process.

FBC also notes that it will be filing its next long term electric resource plan (LTERP) by December 31, 2026. The results and developments of the CCOA and CCRA will be further discussed in this filing. Further, the outcomes of the BCUC's review of the LTERP will likely not be known until sometime in 2027, which coincides with the conclusion of the proposed three-year Rate Framework term. Thus, the BCUC's findings and determinations on the LTERP will align well with the timing of the Rate Framework.

Similar to FBC, FEI considers climate adaptation and resiliency to be critical; however, such investments are most likely to be proposed through CPCN or Major Project applications. Additionally, FEI notes that in the 2022 Long Term Gas Resource Plan (LTGRP) Decision, the

BCUC rejected FEI's Resiliency Plan and noted that FEI has committed to preparing a new resiliency plan. FEI will be filing this new Resiliency Plan as part of its Supplemental Evidence in the Tilbury LNG Storage Expansion (TLSE) Project CPCN Application. The Resiliency Plan is comprehensive and supported by external experts. The outcomes of FEI's Supplemental Evidence and Resiliency Plan will be determined by the BCUC Panel in the TLSE Project CPCN proceeding. However, any subsequent rate impacts from that proceeding can be incorporated through the Annual Review process contemplated by the Rate Framework.

Finally, FBC has included a request for increased formula O&M funding related to System Operations and Adaptation, as explained in Section C2.3.4.5 of the Application. This funding includes increased Engineering resources to support FBC's capital plan and to ensure the reliability of energy supply, and increased tree and vegetation management funding. Vegetation and tree management are critical to responding to climate change impacts. Should FBC require additional funding to address climate change adaptation, the Rate Framework provides flexibility to accommodate this. First, under a formulaic approach for setting the total O&M funding level, FBC has the ability to reprioritize the funding annually so that it can increase spending in areas of greater need without requiring increases to the overall funding envelope. This is also beneficial to customers as it mitigates additional rate pressures. Second, if an unexpected or extraordinary event occurs, FBC has the ability within the Rate Framework to seek exogenous treatment.

4. <u>Rate Pressures due to the Potential for Reduced Throughput and a Decline in Customer Additions on the Gas System, Resulting in Increased Costs per Customer</u>

The energy transition creates increased uncertainty and risk for FEI, as the pace and impact of changes in policies and the implementation of policies will impact FEI's ability to connect new customers on the system and is expected to place downward pressure on customer demand over time. However, the energy transition will unfold over decades and the impact during the proposed three-year term can be managed within the Rate Framework.

FortisBC designed the Rate Framework with these uncertainties and risks in mind, including the following:

- FortisBC proposes to shorten the term of the Rate Framework to three years. As explained in Section B3.2.1.1 of the Application, three years provides a balance between a long enough time frame to find some efficiencies in the regulatory process and provide certainty on the rate mechanisms in place, while recognizing the quantum of the transformational impacts due to the energy transition as well as the timing of these impacts is uncertain.

- FEI is proposing to set its Growth capital funding annually by a formula which is based on the forecast gross customer additions multiplied by a net inflation factor. This means that FEI's annual Growth capital spending envelope is directly correlated to the number of new connections and will therefore decrease as the new connections decrease. Further, the net inflation factor and earnings sharing mechanism create an incentive for FEI to contain its Growth capital costs.

- FEI is also proposing to continue to set its regular O&M annually by a formula which is based on its forecast average customer count multiplied by a net inflation factor. This will reduce FEI's annual regular O&M spending envelope if existing customers convert to alternative clean energy sources such as electricity. Further, the net inflation factor and earnings sharing mechanism create an incentive for FEI to contain its O&M costs.

- As explained in Section C3.2.1.1 of the Application, FEI has carefully considered and scoped projects that are driven by capacity. Given the uncertainty over future gas demand levels driven by climate policy, FEI has reviewed capacity-driven projects to ensure they meet the needs of the shorter-term system demand forecast. In particular, FEI has reviewed the size of planned upgrades (length/size of system improvement or capacity of station) with a view to shorter timelines. Through this lens, FEI has assessed whether projects can be re-scoped into multiple smaller capacity upgrades so that FEI can proceed with only the portions that meet the underlying need for the near term.

- The inclusion of the earnings sharing mechanism as part of regular forecast capital provides an incentive for FEI to constrain capital spending where possible, and FEI's forecast of regular capital expenditures declines over the three years of the Rate Framework term.[14]

The Annual Reviews Provide a Regular Opportunity to Consider Rate Impacts

FortisBC has been addressing rate impacts during each year's Annual Review for both FEI and FBC under the Current MRP term and will continue to do so under the proposed Rate Framework. FortisBC considers the Annual Reviews remain the most appropriate forum to address rate impacts, when all aspects of FEI's and FBC's revenue requirement are identifiable, including all available offsetting benefits, before determining if a rate mitigation strategy is required. This approach has been successfully implemented during the previous PBR Plan term as well as the Current MRP term. Given that the level and pace of rate impacts during the energy transition for both FEI and FBC is uncertain at this time, using the Annual Reviews to address ongoing rate impacts is a flexible approach, regardless of whether the impact is due to the energy transition or other factors. For example, both FEI and FBC proposed and received approval during the Annual Review for 2024 Rates proceedings to defer a portion of the rate impact resulting from the BCUC's GCOC Stage 1 Decision. The impact on FEI's and FBC's revenue requirements of the GCOC Stage 1 Decision occurred outside of the Current MRP's framework; however, the Annual Review process within the Current MRP framework provided the forum to determine how best to incorporate the revenue requirement impacts into FEI's and FBC's rates.

In summary, FortisBC has made significant efforts over the past decade to evolve its rate-setting frameworks, as well as the projects, plans and programs which have been reviewed and approved through other regulatory proceedings, to manage the early impacts of the energy transition. The energy transition is already having an impact on FortisBC's rates, and the Current MRP and the

[14] Exhibit B-1, Section C3.3, Table C3-4, p. C-72.

1 proposed Rate Framework have been designed to incorporate the growing impacts of the energy
2 transition into rates each year through the Annual Review process and other approved
3 mechanisms, as well as to provide incentives for FEI and FBC to achieve cost savings.

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2. Please clarify why FortisBC considers the proposed Rate Framework, as filed, to be "flexible enough to accommodate the impacts of the energy transition."[15]

Response:

As noted in Section B1.1, a key focus of this Application is on proposing flexible rate-setting mechanisms that recognize the uncertainty inherent in the energy transition and that manage its impacts on the provision of affordable, reliable and resilient service to customers. In Section B3.2, FortisBC explains how it leveraged the existing flexibility of the Current MRP when developing the proposed Rate Framework, and how the Rate Framework elements provide flexibility and are responsive to the energy transition and other influences in FortisBC's operating environment. As discussed in the response to BCUC Panel Question No. 1, the energy transition is already impacting FortisBC, and the Rate Framework is able to incorporate the rate pressures and manage the rate impacts created by the energy transition.

FortisBC's proposed Rate Framework is based on the Current MRP, which has performed well through a challenging period and has demonstrated flexibility and adaptability. During the Current MRP term, the Companies faced unprecedented challenges, including:

- the global COVID-19 pandemic;
- significant economy-wide inflationary pressures;
- persistent supply chain shortages and uncertainty;
- a historic flooding event impacting a wide area of the Province; and
- the worst wildfire season on record.

Despite these impacts, the Current MRP continued to work as intended, with the formulas adjusting for changes in inflation, savings being captured and returned to customers through the exogenous factor mechanism, the use of deferral accounts to capture unexpected costs and savings such as the PST rebates and COVID-19 Customer Recovery Fund costs, and the Annual Reviews to provide a touch point for FortisBC, the BCUC, and interveners. FortisBC included the following evidence in the Application in support of its conclusion that the Current MRP has performed well:

- Tables B2-3 and B2-5 demonstrate that FEI's delivery rates and FBC's electricity rates have trended below cumulative inflation (approximately two-thirds of cumulative inflation for FEI and half of cumulative inflation for FBC), when excluding items approved outside the Current MRP;

[15] Exhibit B-1, p. B-41.

- Tables B2-8 and B2-9 show that FEI and FBC will have returned savings to customers of approximately $28.0 million and $11.8 million, respectively, over the term of the Current MRP; and

- Tables C1-4 and C1-6 demonstrate that FEI and FBC have maintained efficiency, with FEI performing slightly better and FBC performing significantly better than industry peers on an O&M per customer basis.

FortisBC has proposed the continuation of the mechanisms in the Current MRP that provide the flexibility needed over the upcoming three years to manage the impacts expected to result from the energy transition. FortisBC recognizes that the external operating environment continues to evolve, and outlines how the energy transition is expected to impact FEI and FBC in Sections B1.4.1 and B1.4.2 of the Application, as follows:

> FEI's focus continues to be on reducing emissions while also providing safe, affordable, reliable, and resilient service to customers. The development and refinement of climate policy has led to uncertainty over what the future role of the gas system will be. Provincial policy is driving towards reducing emissions by 40 percent by 2030 and 80 percent by 2050, with ambitions to achieve Net Zero emissions across BC's economy. The most direct impacts of this policy environment on FEI are the potential for a decline in customer attachments, lower throughput through energy efficiency requirements, and increased cost pressures for customers due to investments in emissions abatement (e.g., investments in renewable and low carbon gas and energy efficiency initiatives).
>
> Although FBC serves a smaller segment of the Province's electrical load than BC Hydro, FBC will nonetheless play a vital role in BC's energy future. To that end, FBC is focused on keeping pace with the growing demand for electricity in a constantly evolving operating environment. Policies are increasingly promoting the use of electricity, including in home heating, light duty transportation and industrial processes. Electrification of heating demand in particular poses a significant challenge to the electric grid which lacks the capacity to shoulder peak heating demand on its own. Electrification demands from all sectors of the economy would therefore exceed what the grid is currently designed for and challenge FBC to maintain reliability, resiliency, and affordability.

These impacts can be summarized into three categories:

(1) increased costs facing both FEI and FBC;

(2) decreased load/revenue facing FEI; and

(3) extraordinary/unforeseen events affecting both FEI and FBC.

FortisBC confirms that the Rate Framework contemplates and includes mechanisms to manage these rate impacts.

1. <u>Increased Costs Facing Both FEI and FBC:</u>

While not an exhaustive list, FEI anticipates that the energy transition is expected to create rate pressures in the following ways during the proposed three-year Rate Framework term; however, through the mechanisms proposed as part of the Rate Framework, FEI will work to manage customer rate impacts:

- **Increased cost of energy.** FEI's cost of energy could increase due to an increased cost of conventional gas due to constrained supply and/or through the increased blending of RNG on FEI's system. These costs are managed outside of the Rate Framework, as they do not impact delivery rates. Specifically, FEI's annual contracting plans and energy supply contracts are reviewed and accepted through separate processes pursuant to section 71 of the UCA and in accordance with the BCUC's Energy Supply Rules, changes to FEI's rate design are reviewed in separate proceedings, and changes to FEI's commodity cost are reviewed quarterly through FEI's quarterly gas cost reports.

- **Need to accelerate investments in Clean Growth projects and emissions reductions.** FEI should be encouraged to invest in Clean Growth Initiatives aimed to reduce emissions in response to supporting policies and enabling legislation. The Rate Framework provides FEI with the flexibility to ramp up, or ramp down, spending on Clean Growth Initiatives through the Annual Review process and flow-through mechanism, allowing FEI to respond to changes in policies and legislation. The ability for FEI to forecast and true-up spending annually enables FEI's investments in Clean Growth Initiatives to evolve over time. For example, FEI has been increasing its spending on hydrogen investigation and development through system-readiness studies and investigations into pilot projects. This spending has been enabled through the flow-through mechanism, which ensures that FEI has the funding that it needs but that customers are only paying for the actual costs that are prudently incurred, as these costs are reviewed and approved annually by the BCUC through the Annual Review process. Additionally, FEI anticipates that it will need to make greater investments in methane emissions mitigation during the three-year term of the Rate Framework and has therefore identified these expenditures as flow-through as part of the Clean Growth Initiatives category which will be forecast each year.

- **Need to increase DSM expenditures or respond to changes in DSM regulations.** FEI's most recent DSM Expenditure Plan was accepted by the BCUC pursuant to Decision and Order G-31-24 on February 2, 2024. FEI therefore has an accepted DSM Plan for 2024 through 2027, which aligns with the three-year term of the Rate Framework. However, should a situation arise where changes need to be made to the DSM Plan, FEI can apply for changes to the DSM Plan through a separate application. The Rate Framework can then accommodate any changes, as the DSM expenditures are recorded in deferral accounts and amortized into rates, with the amortization expense forecast, approved and incorporated into rates each year through the Annual Review process.

- **Need to comply with growing requirements related to GHG emissions and sustainability reporting disclosures as well as environmental requirements.** FEI has growing requirements related to GHG emissions and sustainability reporting and, as explained in Section C2.2.3.4 of the Application, has created a new Decarbonization and Sustainability department. FEI is seeking incremental O&M funding during the term of the Rate Framework to support the increased reporting and compliance requirements. Should FEI's resourcing needs be greater than anticipated during the term of the Rate Framework, the formulaic approach to funding O&M annually during the three-year term is flexible enough to allow FEI to re-allocate funds where available from one area of the business to another. This flexibility in managing O&M spending is a key benefit of the multi-year Rate Framework approach. Further, the net inflation factor applied to Base O&M annually ensures that FEI's O&M is increasing consistent with inflation, less a productivity improvement factor which incents the Company to maintain a cost-control focus.

For FBC, the energy transition is likely to impact costs in the following ways, all of which can be incorporated into rates through the Rate Framework:

- **Increased power supply costs.** Increasing power supply costs are already being experienced and have been discussed at length in FBC's most recent Annual Review for 2024 Rates proceeding. As proposed in the Rate Framework, power supply costs will continue to be forecast each year in the Annual Review process and treated as a flow-through. This provides FBC with the necessary flexibility to re-forecast power supply costs annually and to true-up the variances between forecast and actual costs so that neither the Company nor customers are at risk for cost variances, which are outside of FBC's control. Additionally, as explained in Section C2.3.3.3 of the Application, FBC is seeking increased O&M funding to add resources to manage and optimize its power supply portfolio. With the increasingly challenging and complex power supply environment, FBC must increase its resourcing to investigate new resource opportunities and to find ways to optimize and secure its supply.

- **Unexpected projects needed to address new load.** FBC has provided a comprehensive and detailed three-year forecast of expected Growth capital expenditures in Section C3.4.1 of the Application. Additionally, FBC has identified anticipated CPCNs or Major Projects which FBC expects to file for approval of during the Rate Framework term in Section C3.4.6. The pace of the energy transition could result in additional projects being required during the Rate Framework term which FBC has not forecast. Should such a situation arise, the Rate Framework has the flexibility to accommodate both increases and decreases in expenditures. Load-driven projects are always subject to some timing uncertainty, whether due to the energy transition or other factors. Through FBC's capital planning processes, FBC can re-prioritize capital spending and projects as needs change, and spending may be redirected to new or unplanned projects, with other projects being delayed. However, in the event that a new load-driven project becomes necessary during the Rate Framework (and the forecast cost of the project is less than

the CPCN threshold), and this project cannot be accommodated within the three-year approved capital forecast, FBC could apply for approval of the project pursuant to section 44.2 of the UCA. An example of this situation during the Current MRP term was the Playmor Substation Rebuild project.

- **Need to increase DSM expenditures or respond to changes in DSM regulations.** Similar to FEI, FBC's most recently accepted DSM Expenditure Plan is in place through 2027, which is aligned with the proposed three-year term of the Rate Framework. However, should a situation arise where changes need to be made to the DSM Plan, FBC can apply for changes to the DSM Plan through a separate application. The Rate Framework can then accommodate any changes, as the DSM expenditures are recorded in deferral accounts and amortized into rates, with the amortization expense forecast, approved and incorporated into rates each year through the Annual Review process.

- **Need to increase investment to address climate change adaptation.** As explained in the response to BCUC Panel Question No. 1, climate change adaptation is a key area of focus for FBC, and FBC is in the process of reviewing the results of the CCRA. With regard to larger capital investments in climate change adaptation, FBC will be developing project plans during the Rate Framework term and may apply for approval of expenditures. The proposed Rate Framework does not preclude FBC from applying for necessary capital expenditures, as FBC is able to seek CPCN approval through separate applications, or seek acceptance of capital expenditure schedules pursuant to section 44.2 of the UCA either through separate applications or as part of the Annual Review process.

2. <u>Decreased Load/Revenue Facing FEI:</u>

The policies enacted by government, as detailed in Section B1.3 of the Application, are contributing to a decline in new customer attachments for FEI. This is already being experienced and is expected to continue. While there is no evidence to suggest that new customer attachments will completely cease during the three-year timeframe of the proposed Rate Framework, the Rate Framework is designed so that FEI's annual revenue requirement will accommodate changes in customer attachments and customer counts.

For example, FEI is proposing to maintain the current formulaic approach for both O&M and Growth capital, which is dependent on the forecast of average customer counts and new customer attachments, respectively, with a true-up for actuals (based on a two-year lag). Therefore, as FEI's customer growth or overall customer counts decline, the formulaic approach is flexible such that FEI's funding for Growth capital and O&M will be adjusted to reflect a decline.

Further, since both the unit cost of Growth capital and unit cost of O&M is to be escalated annually by a net inflation factor (inclusive of a productivity factor) and variances between formula and actual amounts are subject to the earnings sharing mechanism, FEI continues to have a strong incentive to focus on cost-control which also helps to reduce rate pressures.

Finally, the Rate Framework is flexible enough to accommodate uncertainties in the energy transition's impact on annual load. FEI is proposing to continue to forecast load each year in the Annual Review process and treat variances in load as a flow-through, which ensures that any large, unexpected variances in load due to the loss of a large customer (or, conversely, new load from RS 46), will be captured in the Flow-through deferral account and recovered from or returned to customers in the subsequent year.

3. <u>Extraordinary/Unforeseen Events Affecting FEI and FBC:</u>

The Rate Framework contains a variety of mechanisms which provide flexibility for FEI and FBC to adapt to extraordinary or unforeseen events caused by the energy transition or other external factors. The key element of the Rate Framework that provides flexibility to address impacts to the revenue requirement from extraordinary or unforeseen events is the Exogenous or "Z-Factor". Both FEI and FBC were able to manage through various unforeseen events during the Current MRP term through the use of exogenous factors. For example, both utilities were approved for exogenous factor treatment to return COVID-19 pandemic savings to customers, and FBC has utilized exogenous factor treatment in both the 2014-2019 PBR Plan term and the Current MRP term to recover costs associated with wildfires.

Another regulatory mechanism which is not specific to the Rate Framework but is the most commonly used mechanism for utilities to address large rate impacts is the use of deferral accounts. There have been many instances where FEI and FBC have been faced with either large rate increases or rate decreases which require rate smoothing. Most recently, FEI and FBC both were approved to establish deferral accounts to smooth the impact of the GCOC Stage 1 Decision.

Finally, in the extreme scenario where the energy transition results in a large variance from FEI's or FBC's approved ROE, the Companies are proposing to continue the existing financial off-ramp provision as part of the Rate Framework. However, FortisBC considers the likelihood of the off-ramp being triggered to be low since the Rate Framework is only proposed to be in place until 2027 and the Rate Framework contains flexible elements to accommodate increases or decreases in costs and revenues, as explained above.

3. Please clarify how the specific elements of the proposed Rate Framework either address or will address the need to depart from a "business as usual" approach.[16]

Response:

The need to depart from "business as usual", as referenced on page B-2 of the Application and reproduced below, is a general reference to the fact that the energy transition will require both FEI and FBC to adapt and evolve to the changing energy landscape. The full statement from page B-2 is as follows:

> In light of the energy transition, FortisBC recognizes the need to continue evolving its approach and depart from business as usual over time. This transition, while essential, brings with it significant changes and challenges that require thoughtful and proactive responses. FortisBC has been actively adapting to the changing energy landscape and continues to evolve its approach as the energy transition unfolds.

As stated in the above passage, FortisBC has been actively adapting to the changing energy landscape and continues to evolve its energy services and operations in response to the energy transition. These changes are reviewed and approved through a variety of regulatory processes, including in some cases the rate-setting process. The following represent examples of how FortisBC is adapting to the energy transition and departing from "business as usual" over time and as the energy transition unfolds:

1. **Investigating in and adopting new technologies that mitigate peak electricity demand.** As discussed in Section B1.4.2, FBC sees hybrid heating systems as a potential solution to moderate the growth in peak capacity requirements and the infrastructure needed to support it. Both FEI and FBC are investigating options related to hybrid heating solutions and, if appropriate, will file an application (or applications) with the BCUC under the applicable sections of the UCA. Any rate impacts resulting from such applications would be considered through the Annual Review process. Additionally, as discussed in Section B1.3.1, FEI has amended its energy efficiency and rebate programs, pivoting towards advanced DSM measures such as hybrid heating systems. FEI's current DSM Plan is in place through 2027.

2. **Expanding the development and distribution of renewable gases.** FEI's RNG Program was first introduced as a pilot program over a decade ago and has expanded and evolved over time. With the recent BCUC Decision and Order G-77-24, FEI will be implementing the RNG Blend service, effective July 1, 2024. The introduction of this Blend service will result in all sales customers receiving a percentage blend of RNG, which will further FEI's efforts to achieve GHG emission reductions. FEI is also progressing its hydrogen development activities, including assessing the feasibility and system-readiness of introducing hydrogen into the distribution system and investigating pilot projects related

[16] Exhibit B-1, p. B-2.

to hydrogen blending. The Rate Framework supports the expansion of renewable gas development and distribution through the flow-through treatment of Clean Growth Initiatives.

3. **Accelerating the adoption of clean technologies.** For FBC, the primary focus of clean technology adoption is through electric vehicles (EVs). FBC is currently in the process of seeking approval of energy-based rates for its RS 96 EV Direct Current Fast Charging (DCFC) service. The request for energy-based rates is separate from the Rate Framework; however, if approved, the new rate design will be incorporated into FBC's rates. Further, FBC's EV DCFC program expenditures are proposed to continue to be treated as flow-through, consistent with the Current MRP. For FEI, in addition to the proposed continuation of flow-through treatment for Clean Growth Initiatives, FEI proposes to continue with the CGIF, which aims to accelerate the adoption of clean technologies, as explained in Section C5 of the Application.

4. **Incorporating new approaches into the capital planning process.** As explained in Section C3.2.1, while FortisBC's Asset Investment Process (AIP) remains the foundation for the Companies' capital planning process, in recent years, additional factors have had an increasing impact on the development of capital plans. As part of the Rate Framework, in consideration of the uncertainty over future gas demand levels, FEI has carefully reviewed capacity driven projects to ensure they meet the needs of the shorter-term system demand forecast. FEI has assessed capacity-driven projects and, where possible, has re-scoped projects into multiple smaller capacity upgrades so that FEI can proceed with only the portions that meet the underlying need for the near term. For FBC, the energy transition is expected to increase demand across the service territory, with growth being driven by electrification and building code changes, as well as the growing adoption of EVs. This expected increase in demand and pressure on the electric system is reflected in FBC's three-year capital forecasts. FBC has also included incremental O&M funding as part of formula O&M to ensure that it has adequate resources to execute the capital plan over the proposed three-year Rate Framework term.

5. **Introducing new metrics to report on the energy transition.** As discussed in Section C6.3.4, FEI proposes to introduce a number of energy transition informational indicators, which align with the pillars of the Company's Clean Growth Pathway to 2050.

Each of the above represent examples of how FortisBC is adapting to the energy transition and departing from "business as usual" over time and as the energy transition unfolds. FortisBC has been proactively evolving its approach to the energy transition over the past decade and will continue to do so.

It is important to recognize that the Rate Framework covers a three-year term, whereas the energy transition is expected to unfold over many years. At this time, there is considerable uncertainty for both FEI and FBC, which is why FortisBC has proposed and emphasizes the need for flexible approaches to rate-setting mechanisms in the Application. This challenge was acknowledged by

the BCUC in its decision approving BC Hydro's reconsideration of the Performance Based Regulation Report (BC Hydro Reconsideration Decision):[17]

> The Panel acknowledges the increasing cost uncertainty that BC Hydro is facing as a result of the energy transition that was not present to the same extent at the time the PBR Report Decision was issued in December 2021. The Panel is persuaded by the evidence provided by BC Hydro in this proceeding of legislative and mandate changes since December 2021 that increase cost uncertainty and cast doubt on whether PBR would be an effective regulatory regime for BC Hydro at this time. This is because the increased cost uncertainty will likely result in more costs that would need to be forecast outside of the PBR formula, as those costs are driven by external factors that are outside of BC Hydro's control. Therefore, given the increased uncertainty that BC Hydro is facing and changes in circumstances since 2021, the Panel is not convinced that the adoption of what would be a new and untested regulatory regime for BC Hydro is warranted at this time. The Panel cautions that this determination should not be construed as a commentary on or rejection of PBR as a regulatory incentive mechanism, nor as criticism of the BCUC's PBR Report Decision which was based on facts and circumstances that existed more than two years ago. As parties are aware, PBR has been successfully implemented and endorsed by the FortisBC utilities for decades in British Columbia, to the mutual benefit of both their ratepayers and shareholders. There may well come a time when BC Hydro will want or be driven to embrace a similar incentive regime, whether due to the need for greater cost containment or other reasons. [emphasis added]

FortisBC agrees with many of the statements made by the BCUC in the BC Hydro Reconsideration Decision. The energy transition has created increased cost uncertainty, and there will likely be an increase in costs that are driven by external factors outside of FEI's and FBC's control. Further, FortisBC agrees that given the increased uncertainty faced by utilities, adopting a "new and untested regulatory regime" should be avoided.

Unlike BC Hydro, FEI and FBC have been operating under a variation of a multi-year rate-setting framework for many years, and as the BCUC pointed out in the BC Hydro Reconsideration Decision, PBR has been "successfully implemented and endorsed by the FortisBC utilities for decades in British Columbia, to the mutual benefit of both their ratepayers and shareholders."

Accordingly, while FortisBC agrees (and has stated in the Application) that the energy transition requires that the Companies evolve and adapt their operations, the Rate Framework itself should be well understood and should be flexible enough to respond to the cost uncertainty created by the energy transition.

As FortisBC explained in the response to BCUC Panel Question No. 2, the Current MRP successfully navigated through an unprecedented event that had broad-reaching impacts. The

[17] Decision and Order G-73-24, p. 7.

1 proposed Rate Framework is similarly flexible and, importantly, will enable FEI and FBC to
2 manage through the ongoing rate pressures that will be created by the energy transition.

3

4. Please discuss whether FortisBC would characterize the proposed Rate Framework as one which is substantially different from the Current MRP.[18] If so, what are the new mechanisms to address the impacts of the ongoing energy transition for FEI and FBC, and the impact of climate change adaptation for FBC?

Response:

FortisBC would not characterize the proposed Rate Framework as substantially different from the Current MRP. Further, given the many challenges being faced by FEI and FBC due to the energy transition, adopting a substantially different regulatory regime would not be warranted at this time. As discussed in the response to BCUC Panel Question No. 3, this dynamic was acknowledged by the BCUC in the BC Hydro Reconsideration Decision which concluded that, "given the increased uncertainty that BC Hydro is facing and changes in circumstances since 2021, the Panel is not convinced that the adoption of what would be a new and untested regulatory regime for BC Hydro is warranted at this time."[19] Similar to BC Hydro, FortisBC is facing many challenges and uncertainties due to the energy transition, and adopting a substantially different regulatory regime at this time would add to those challenges, drawing important resources away from addressing the challenges and uncertainties of the energy transition. In these circumstances, it is highly preferrable for FortisBC to continue to evolve its tested and proven multi-year rate-setting framework which has been "successfully implemented and endorsed by the FortisBC utilities for decades in British Columbia, to the mutual benefit of both their ratepayers and shareholders."[20]

In the cover letter to the BCUC Panel's request for supplemental information, the Panel stated that it "disagrees with FortisBC that 'this rate framework is not where the majority of those [energy transition] determinations are made.'" FortisBC is unclear as to the basis for the Panel's statement. FortisBC explained in the Application why the Rate Framework is not the regulatory forum where many of the energy transition related activities are reviewed and approved. Specifically, FortisBC submitted evidence in Section B3.1 demonstrating that most of the energy transition-related applications and responses require separate regulatory applications and approvals. The Rate Framework then provides the mechanisms for incorporating the costs (or revenues) into the annual revenue requirement. This process would be no different than if FortisBC were operating under a cost-of-service rate-setting regime (as is the rate-setting approach currently being utilized by other BCUC-regulated utilities such as BC Hydro and Pacific Northern Gas). For instance:

- FEI's and FBC's DSM Plans are reviewed and approved through separate processes;

[18] The current multi-year plan was set by Decision and Orders G-165-20 and G-166-20 dated June 22, 2020 for the FortisBC Application for Approval of a Multi-Year Rate Plan for the Years 2020 through 2024 proceeding (Current MRP Decision).

[19] Decision and Order G-73-24, p. 7.

[20] Decision and Order G-73-24, p. 7.

- Any large capital projects that may be required to be undertaken by FEI and/or FBC to address the energy transition would likely require CPCNs that would be reviewed through separate regulatory processes;

- FEI's acquisitions of renewable gas are reviewed and accepted in accordance with section 71 of the UCA and the GGRR through separate filings;

- FEI's and FBC's annual approach to contracting for energy resources are reviewed through the respective ACP and AECP filings;

- FEI's and FBC's applications for rate design changes are reviewed through separate regulatory processes, such as the recently completed FEI Comprehensive Review of a Revised RNG Program Application[21] and the currently in process FBC EV DCFC Energy-Based Rate Application; and

- FEI's and FBC's long-term resource planning processes and applications occur outside of the rate-setting framework.

FortisBC has considered new and existing mechanisms within the proposed Rate Framework for responding to the energy transition impacts. While the Rate Framework is not substantially different from the Current MRP, FortisBC has provided evidence, analysis and rationale in support of the Rate Framework, including how it addresses the energy transition, but also other key factors including the provision of safe, reliable and resilient service to customers.

FortisBC notes that the BCUC's statement in the FEI Annual Review for 2024 Delivery Rates Decision (FEI 2024 Annual Review Decision) that "the next MRP should be substantially different from the current MRP" was provided as part of a series of observations made in response to certain intervener comments on FEI's future rate applications. These intervener comments ranged from a broad-based statement about enabling a process of transition to a "stable new equilibrium in a low-carbon future", to critiques of specific elements of the Current MRP, including the forecasting approach for gross customer additions and the weighting applied to the I-Factor.[22] Ultimately, the BCUC's decision on both FEI's and FBC's annual review proceedings declined to provide any specific direction and left the form of the next rate application up to FEI and FBC.

The BCUC stated the following in the FEI 2024 Annual Review Decision (pages 28-29):

> Having reviewed all of the parties' submissions in respect of FEI's next rates application, the Panel declines some interveners' invitation for the Panel to direct FEI to adopt specific proposals as part of its next rates application. However, we offer the following observations for FEI's consideration:
>
> - Should FEI's next rate application be a multi-year rate plan, the Panel would strongly urge FEI to consider new mechanisms within the framework

[21] The RNG Blend, for example, was reviewed and approved by Decision and Order G-77-24.

[22] FEI Annual Review for 2024 Delivery Rates Decision and Order G-334-23, p. 27.

> that will specifically address the effects of the ongoing energy transition. In the Panel's view, the next MRP should be substantially different from the current MRP and should be responsive to FEI's current operating environment as well as the changing needs and expectations of stakeholders and ratepayers in the ongoing energy transition in British Columbia.
>
> - The next rates application should take a holistic view to FEI's current operations and challenges/opportunities in the gas market.
>
> - Ultimately, the form of the next rates application will be up to FEI to determine in consultation with its stakeholders and there is no need for the BCUC to be prescriptive in directing either a multi-year rate plan or a cost of service filing.

In the FBC Annual Review for 2024 Rates Decision and Order G-340-23 (FBC 2024 Annual Review Decision), the BCUC made similar comments regarding FBC's next rate application (page 30):

> Having reviewed all of the parties' submissions in respect of FBC's next rates application, the Panel declines some interveners' invitation for the Panel to direct FBC to adopt specific proposals as part of its next rates application. However, we offer the following observations for FBC's consideration:
>
> - Ultimately, the form of the next rates application will be up to FBC to determine in consultation with its stakeholders. There is no need for the Panel to be prescriptive in directing either a multi-year rate plan or a cost of service filing, nor does it have a preference in that regard.
>
> - Should FBC's next rate application be a multi-year rate plan, however, the Panel strongly urges FBC to consider new mechanisms within the framework that will specifically address the effects of the ongoing energy transition and climate change adaptation. As noted earlier, the Panel reiterates the importance for the next multi-year rate plan to be responsive to the changing needs and expectations of stakeholders and ratepayers in the ongoing energy transition and efforts at climate change adaptation in BC. As FBC's CCOA Plan is already under development, the Panel expects that FBC will incorporate components of that plan into the various elements of FBC's next multi-year rate plan including its incentive provisions to the greatest extent possible.

FortisBC spent close to a year developing the Rate Framework Application, including consideration of key issues such as the successes of the Current MRP, a wide variety of new and existing rate-setting mechanisms and approaches, and the external policy and operating environment. During this period, FortisBC consulted with BCUC staff and interveners to seek their

views on the next rate framework, performed a jurisdictional review of how other utilities are setting rates to learn and gather new ideas, and retained subject matter experts to assess, among other things, how FortisBC is performing compared to other utilities as well as to assess whether a new depreciation approach (for FEI) should be considered.

Further, upon receiving the FEI and FBC 2024 Annual Review Decisions in December 2023, FortisBC took time to consider the BCUC's comments and has attempted to address them to the extent possible within the proposed Rate Framework. The BCUC's comments, together with FortisBC's analysis of the Current MRP, consideration of the policy and operating environment, review of other jurisdictions, expert evidence, and feedback from BCUC staff and interveners, ultimately shaped the Rate Framework Application, including the following conclusions:

- The energy transition has and will continue to put pressure on rates. Therefore, the Rate Framework should be flexible enough to address changes in load/revenues, costs, and other unforeseen circumstances so that rate impacts can be managed. FortisBC has demonstrated the flexibility inherent in the proposed Rate Framework in the responses to BCUC Panel Questions No. 1 and 2.

- FortisBC has been and continues to address the challenges and requirements of the energy transition; however, the purpose of the Rate Framework is not to prescribe FEI's or FBC's response to the energy transition. Rather, the purpose of the Rate Framework is to establish a flexible and efficient rate-setting framework that supports FortisBC's ability to adapt to the energy transition and manage its impacts on the provision of affordable, reliable, and resilient service to customers.

- As discussed in the response to BCUC Panel Question No. 2, the Current MRP performed well despite significant and unforeseen events, including the COVID-19 pandemic, significant economy-wide inflationary pressures, persistent supply chain shortages and uncertainty, a historic flooding event impacting wide areas of the province, and the worst wildfire season on record. At the same time, the Current MRP enabled FortisBC to progress its initiatives and plans for meeting the challenges of the energy transition. FortisBC has always been progressive in its approach to responding to the energy transition. In the 2020-2024 MRP Application, FortisBC introduced a number of new elements to the rate-setting framework specifically designed to address the energy transition as it was understood at that time. Therefore, it is reasonable that the proposed Rate Framework would contain many of the same characteristics of the Current MRP. Further, and as explained in the response to BCUC Panel Question No. 3, FortisBC is responding to the energy transition through its various programs and service offerings, and these are continuing to evolve and expand.

To summarize, the proposed Rate Framework contains the following elements which support and are responsive to the energy transition and climate change adaptation, some of which are changes from the Current MRP, some of which build on the existing mechanisms in the Current MRP, and some of which are consistent with the mechanisms in the Current MRP:

1. **Three-year term.** FortisBC has proposed to reduce the length of the Rate Framework term compared to the Current MRP. Three years provides a balance between a long enough time frame to find some efficiencies in the regulatory process and provide certainty on the rate mechanisms in place, while recognizing that the energy transition will have transformational impacts and that the timing and quantum of these impacts is uncertain. The three-year term also aligns with the conclusions of both utilities' DSM plans and is generally aligned with the utilities' next long term resource plans.

2. **Base O&M.** FortisBC has included additional expenditures related to its response to the energy transition, including for long-term gas and electric resource planning, power supply resource development, decarbonization and sustainability initiatives, policy advocacy, and engineering resources to support electric capital plans. Overall, the formulaic approach to O&M is consistent with the Current MRP, as this approach provides flexibility and efficiency, and maintains a cost-control focus. As explained in the response to BCUC Panel Question No. 1, a formulaic approach to O&M is responsive to the energy transition because the O&M funding envelope will adjust upwards or downwards based on changes in customer counts.

3. **Three-year capital forecast.** The incentive properties of the three-year regular capital forecasts are the same as the Current MRP, as they provide flexibility and maintain a focus on cost control. However, as explained in Section B1.5, FEI has adjusted its approach to capital planning to consider smaller incremental investments to increase future optionality as the energy transition evolves. For FBC, the challenge is balancing the need to be proactive in building capacity with the expected timing of demand on the system. With these considerations in mind, FBC's approach to capital forecasting is generally the same as the Current MRP; however, the magnitude of forecast capital expenditures has increased, reflecting the impacts of the energy transition on load growth and the need to invest in the reliability of the system.

4. **Growth capital formula for FEI.** FEI proposes to maintain a Growth capital formula, which is appropriate because it is responsive to changes in customer connections over time. FEI expects that the growth in new customer connections will decline, and the Growth capital spending envelope will adjust accordingly as per the proposed formula.

5. **Clean Growth Initiatives.** FEI and FBC propose to continue flow-through treatment for Clean Growth Initiatives. Clean Growth Initiatives are vital to supporting the energy transition, but the pace at which they may scale up is uncertain and difficult to anticipate. Therefore, forecasting the cost of these initiatives each year with flow-through treatment benefits both the Companies and customers because it allows for the Companies to invest the amounts needed to support the energy transition while ensuring that customers only pay for the actual expenditures incurred. FEI has identified the need to invest in methane emissions mitigation within its Clean Growth Initiatives.

6. **Exogenous Factor.** The exogenous factor mechanism has effectively helped FortisBC manage through unexpected events. Continuation of exogenous factor treatment of

events that are unforeseen and uncontrollable, like the recent wildfires and flooding, will ensure that FortisBC has the opportunity to bring forward such events for cost recovery each year in the Annual Reviews, which is appropriate in circumstances such as these where FEI and FBC do not control the level of expenditures.

7. **Off Ramps.** FortisBC proposes to continue with the existing off-ramps that were approved for the Current MRP. The off-ramps provide a safeguard to the Companies and customers, and while they have not been required thus far in the Companies' rate plan histories, given the uncertainties in the timing and pace of impacts of the energy transition, FortisBC considers it worthwhile to continue the off-ramp mechanism during the term of the Rate Framework.

8. **Service Quality Indicators.** FEI is proposing to introduce a new suite of informational indicators related to the energy transition. While not a traditional category of SQIs, FEI considers it important to report on these metrics within the Annual Review process given the overall focus on the energy transition within the Rate Framework, and to be responsive to the comments received from both the BCUC and interveners.

9. **Annual Reviews for setting rates.** FortisBC proposes to continue with the Annual Review process for setting rates but with some modifications to improve the efficiency of the process, thus allowing the Companies to better focus resources on responding to the energy transition and the increasingly complex operating environment. Through the Annual Review process, the BCUC and interveners have the opportunity to review the Companies' forecast and actual expenditures on Clean Growth Initiatives (and other flow-through expenses), year-over-year changes in customer growth and demand, and the level of the Companies' service quality, which would include FEI's proposed new informational indicators on the energy transition.

5. Similar to FortisBC proposals for the Current MRP,[23] please discuss whether FortisBC considered targeted incentives proposals in this Application (for example, incentives related to reduction of greenhouse gas emissions), what they were, and why they were ultimately not included in the proposed Rate Framework. If no targeted incentive proposals have been considered, please discuss what incentives might be appropriate for each of FEI and FBC and why.

6. Please discuss whether a variation of the incentive targets that FortisBC had proposed in the Current MRP[24] may now be more or less appropriate given the operating environment that FortisBC will be facing in the next three years.

Response:

This response addresses BCUC Panel Questions No. 5 and 6.

In preparing the Application, FortisBC considered the potential application of targeted/performance incentives at a high-level. FortisBC reviewed the BCUC's reasoning provided in the 2020-2024 Multi-year Rate Plan (MRP) Decision and Orders G-165-20 and G-166-20 (MRP Decision) for denying the proposed targeted incentives, and reviewed similar performance incentive mechanisms (PIMs) in other jurisdictions. However, for the reasons described below, FortisBC ultimately decided to propose the energy transition informational indicators described in Section C6.3.4 of the Application.

Analysis of the MRP Decision on Targeted Incentives

In the 2020-2024 MRP Application, FortisBC noted that while traditional performance frameworks have largely been successful in achieving cost efficiencies and reducing regulatory burden, a more targeted approach, through the use of some form of PIMs, can foster greater innovation in specific areas of interest and encourage the utilities to take on projects and initiatives that are beyond the traditional scope of the utility operations at an expedited pace. As such, FortisBC proposed a suite of targeted incentives, provided in the table below, focused on areas where success would benefit customers by: (i) advancing the adoption of cleaner, lower emissions energy solutions and contributing to the realization of energy and emissions goals; (ii) increasing customer engagement; and (iii) managing rate increases through growth in system throughput.

[23] Pages 162 to 165 of the Current MRP Decision discussed FortisBC's proposed incentives at that time for: growth in renewable gas, growth in natural gas for transportation, greenhouse gas emissions reductions, digital service adoption for customer engagement, and power supply incentives. Although the BCUC rejected FortisBC's proposed incentives in the Current MRP Decision, the BCUC emphasized that it is not opposed to incentives on principle and views that incentives have a potential role in utility ratemaking provided that they are well thought out, proportional, and bring about outcomes that are above and beyond what may reasonably be expected of a prudent utility operator.

[24] Ibid.

Table 1: Targeted Incentives Proposed in the 2020-2024 MRP Application

Item	Applicable to	Opportunity
Growth in Renewable Gas	FEI	Incentive to exceed forecast renewable gas volumes
Growth in NGT	FEI	Incentive to exceed load growth forecast for transportation customers
GHG Emissions Reduction (Customer)	FEI	Incentive to exceed forecast natural gas conversion activity
GHG Emissions Reduction (Internal)	FEI	Incentive to reduce internal GHG emissions below targeted levels
Customer Engagement	FEI / FBC	Incentive to increase the adoption of digital service channels
Growth in Electric Vehicle Transportation	FBC	Incentive to support the deployment of EV Charging infrastructure
Power Supply Incentive	FBC	Incentive to optimize power purchases

With the exception of customer engagement and power supply incentives, all the proposed targeted incentives were directly focused on specific areas of FEI's and FBC's energy transition plans in alignment with government policy.

In the MRP Decision (pages 162-163), the BCUC stated that it would assess the merits of the proposed targeted incentives based on the following principles:

1. The incentives should relate to activities that would otherwise not be undertaken by the utility as part of its normal business;

2. The incentives should entail stretch targets that are not readily achievable without significant additional or innovative efforts on the part of the utility itself, as opposed to the utility simply benefiting from third party contributions or legislative changes facilitating the achievement of targets;

3. The achievement of targets should provide a demonstrable benefit for ratepayers; and

4. The amount of the reward should be reasonable and proportional to the amount of effort required to achieve the award.

In its review of individual proposed targeted incentives, the BCUC determined that only the proposed "Growth in Renewable Gas Incentive" represented a target that required FortisBC to go

"above and beyond" its normal business. The BCUC was not persuaded that FEI's and FBC's other proposed incentive mechanisms would represent performance above or beyond the ordinary course of business.

Further, even in the case of the "Growth in Renewable Gas Incentive" which the BCUC acknowledged would require FEI to take on activities that are not "business as usual", the BCUC stated that it is "concerned about changes in the renewable gas market and legislative changes to the GGRR which may make it easier for FEI to achieve its renewable targets over the next five years."[25] Given this uncertainty, the BCUC denied FEI's request for approval of this incentive. The BCUC's concerns regarding the changes in the renewable gas market and legislative changes to the GGRR continue to be present.

FortisBC generally agrees with the criteria used to assess the merits of each proposed targeted incentive, but respectfully disagrees with their application.

For example, FEI's ability to create a "functioning NGT program facilitated by the GGRR"[26] does not mean that this initiative is a requirement or an activity that can be viewed as a traditional utility operation. Further, addressing emissions and investing in non-traditional areas requires government and regulatory support; therefore, if the utility is successful in influencing government policy or third parties to facilitate achieving a certain stretch target, the benefits are still achieved and can still justify the additional incentives.

Similarly, regarding FEI's efforts to reduce its internal and customer GHG emissions, FEI respectfully disagrees with the BCUC's comment that "there has been no significant change in this area requiring further extraordinary effort or innovation on the part of FEI for which it should be rewarded by an additional incentive."[27] Leadership in addressing the energy transition by pursuing activities that are "above and beyond" a typical gas utility's normal course of business should be encouraged.

Nonetheless, given the continued market and policy uncertainty and disagreement about what activities, programs or initiatives can be considered to be "above and beyond" normal course of utility business, FortisBC determined that it was appropriate to focus on the proposed energy transition informational indicators that are discussed in Section C6.3.4 of the Application as a starting point.

Review of Performance Incentives in Other Jurisdictions

FortisBC's decision to propose a suite of energy transition informational indicators instead of re-proposing targeted incentives in the Application was also informed by its review of similar incentive mechanisms in other jurisdictions. This review indicates that utility-specific PIMs have been designed to address specific aspects of performance regarding the energy transition, but

[25] MRP Decision, p. 163.
[26] MRP Decision, p. 164.
[27] MRP Decision, p. 164.

that these PIMs have been designed to work along side the existing ratemaking practices (cost of service, price or revenue cap framework, hybrid MRPs, etc.), and not as a way to fundamentally change the utility remuneration paradigm.

For instance, in its 2023 report titled "Framework for Energy Innovation" (formerly known as Utility Remuneration; EB-2018-0287), the Ontario Energy Board (OEB) recognized that, while identifying new or modified approaches to utility remuneration may be needed to adapt to the demands of the energy transition, this would be a lengthy and complex process and that addressing the most narrowly scoped issue at hand to facilitate near-term progress can inform the broader consideration of the utility remuneration:

> The FEI [Framework for Energy Innovation] Working Group and some other stakeholders suggested the OEB will need to reconsider the fundamental utility remuneration paradigm, in light of the impacts of the energy transition. The Letter of Direction to the OEB from Minister Smith also identified the need to reconsider utility remuneration, among other things, to support distribution sector resiliency, responsiveness, and cost efficiency. Identifying new or modified approaches to utility remuneration has extensive implications for utilities and customers. It requires careful and thorough consideration, and effective stakeholder consultation is essential to success. Testing incentives for third-party owned DER solutions is an important step towards OEB consideration of the broader, more fundamental remuneration question, while also facilitating more immediate progress on the use of DERs. Overall, testing incentives will help the OEB develop effective tools for driving sector performance, and ensure the regulatory framework and distributors are positioned to meet the demands of the energy transition.

In this context, targeted incentives are incremental incentives that can be considered either as part of a revenue requirement application (i.e., as a second phase of this Rate Framework proceeding) or a separate application.

The review of experiences in other jurisdictions can also inform the question of what incentives might be appropriate for each of FEI and FBC. The table below provides a summary of recent incentive mechanisms designed to address aspects of the energy transition in Canada. As shown, outside the programs explicitly designed for incentivizing energy efficiency and DSM, the use of performance incentives for addressing the energy transition in Canada is quite limited and, in the majority of the cases, focused on non-pipe and non-wire alternatives that can delay or replace the need for capital expenditures. Quebec is the only jurisdiction that had a financial incentive associated with achieving GHG emission targets as part of an overall scorecard mechanism linked to the earnings sharing mechanism. However, after a number of years of having this index as part of the scorecard mechanism, in 2022 the Regie determined that this approach "is not an appropriate means to support Energir's efforts to participate in the decarbonization of Quebec" and agreed with Energir's request to exclude this index from the scorecard calculations. The Regie instead ordered Energir to report its emissions as well as provide its three-year plan and associated costs to reach the provincial GHG emission reduction goals.

Table 2: Summary of Recent Incentive Mechanisms in Other Canadian Jurisdictions

Jurisdiction/Utility	Type	Incentive Metric and/or Structure
Alberta	Non-wire, Non-pipe alternatives	Utilities can file application to capitalize operating solutions that can act as alternatives to capital expenditures on a pilot basis.
Ontario/Electric	Third party DER deployment	As a stand-alone application or as part of their rebasing applications, utilities can propose incentives based on the following menu of options: (i) shared saving mechanism, (ii) performance targets or score-card incentives and (iii) margin on DER payments.
Ontario/Gas	Utility Owned Non-pipe solutions	Inclusion in rate base is preferred given its relative simplicity. Should include project costs of physical assets acquired and costs directly attributable to the project consistent with how fixed assets are currently capitalized.
Quebec	GHG emissions reduction (discontinued)	Scorecard incentive mechanism. GHG emission reduction target was one of the elements of Energir's scorecard that is linked to the earnings sharing mechanism. In 2022, the Regie agreed to exclude this index from Energir's scorecard incentive mechanism.

The use of PIMs to address specific priority areas is more prevalent in the United States.[28] Some of the energy transition related PIMs recently used by US regulators include targets for distributed energy resources, targets for expansion of charging stations, targets for "beneficial electrification" which may relate to the promotion of EVs and/or electric heat pumps, and targets for peak demand reduction through non-pipe and non-wire solutions.

In reviewing these programs, FortisBC makes two observations:

1. The majority of these initiatives are associated with electric utility operations; however, these initiatives can be extended to gas utilities. For instance, in Hawaii, the electric utilities can benefit from the Renewable Portfolio Standard Accelerator PIM where, if the total annual system generation from renewables as a percentage of total annual generation exceeds certain targets, the utilities can receive a pre-determined reward-only incentive. This program, at its essence, is comparable to the "Growth in Renewable Gas" targeted incentive that was proposed in FortisBC's 2020-2024 MRP Application. Another example relates to the Light-Duty Vehicle (LDV) emissions PIM in New York that encourages electric utility efforts that will accelerate light-duty EV adoption and lead to a decrease in lifetime CO_2e (carbon dioxide equivalent) emissions on a marginal emissions basis. This program, at its core, is comparable to the "Growth in NGT load" targeted incentive that was proposed in the 2020-2024 MRP Application.

2. In some cases, the PIMs are associated with various forms of energy efficiency and DSM programs. In BC, these initiatives are ordinarily addressed under the DSM Regulation, with their own regulatory treatment that incentivize utilities' spending in these measures. For instance, the recent amendments to the DSM Regulation support incentives for gas

[28] The Rocky Mountain Institute has a database of approved PIMs in various US jurisdictions with the ability to filter for incentive type, incentive structure, status, etc. For more information, please see the following link: https://pims.rmi.org/

and electric heat pumps and dual hybrid heat pump systems, while in other jurisdictions these programs may be addressed in the so-called “beneficial electrification” or “building electrification” PIMs.

In summary, FortisBC’s jurisdictional review indicates that:

- there has been no significant change in the utility remuneration paradigm (the review of the revenue requirement to set rates is still essential);
- the additional forms of incentives such as targeted incentives can be pursued separately or as another phase of the same proceeding;
- the extent of the application and impact of performance incentives to address the energy transition is limited (particularly for gas utilities); and
- the design of targeted incentives for each utility should be tailored to the utility’s specific needs and align with the applicable regulations to avoid duplication.

The design of an appropriate set of targeted incentives would require the following:

- careful analysis of the priority areas where incentives should be focused;
- identification of the incentive metrics;
- assignment of appropriate targets; and
- determination of an appropriate incentive structure (capitalization, fixed incentives such as ROE adders, margin on spendings, shared savings mechanism, scorecard-based incentives, etc.) and the appropriate level of rewards and/or penalties.

FortisBC’s previous work done in developing targeted incentives for the 2020-2024 MRP Application as well as the work done to develop FEI’s proposed suite of energy transition informational indicators as part of the Rate Framework may expedite the development of a variation of the incentive metrics proposed in the 2020-2024 MRP Application. Nevertheless, FortisBC would require additional time to develop a specific list of incentives. As such, if the BCUC is interested in exploring performance targets and incentives under these mechanisms, FortisBC could file a proposed set of incentives in a standalone Application or as part of a second phase to this proceeding. This process could also examine and refine the four principles as well as enhance understanding of performance above and beyond what is normally expected of a utility. If FortisBC were to file a standalone application (as opposed to a second phase to this proceeding), the Companies would require a minimum of four months to develop the application.

7. Please clarify the impact and role of extending FEI's Clean Growth Innovation fund as it relates to the energy transition.

Response:

The CGIF is an important and effective mechanism that supports provincial decarbonization goals by advancing the adoption of innovative technologies that will help FEI reduce GHG emissions and support the transition to a lower carbon economy, while optimizing the use of its gaseous energy delivery system for the benefit of its customers.

The 2020 CGIF performed well, providing significant funding for a variety of innovative methods of producing, distributing and utilizing low-carbon fuels. CGIF funding grants are amplified by contributions from government, other utilities and the private sector,[29] which create a larger impact for each dollar invested by FEI. The organizations receiving this funding are creating innovative products and services that will help decarbonize FEI's gas infrastructure, which is key to supporting its continued role in a lower carbon future.

In Section C5.2.3 of the Application, FEI summarized its CGIF funding across the focus areas of Production, Distribution, End Use, Carbon Capture and General Low Carbon. This included discussion of successful innovations, such as those advanced by BC-based companies like Ekona and G4 insights and the establishment of the UBC Okanagan Hydrogen Lab that will perform a range of applied tests to support hydrogen blending into FEI's gas system.

FEI further summarized the additional benefits gained through the 2020 CGIF in Section C5.2.4 of the Application:

> First, in addition to grant funding to support or progress development of a given project, organizations receiving funding from the 2020 CGIF benefited from the support provided by FEI and other partner utilities. This support includes, for example: (1) providing and facilitating access to utility and customer assets for testing and pilots; and/or (2) receiving utility feedback regarding how well their products and services address the needs of the utility and its customers.
>
> Second, the information gained through the fund has helped FEI staff to understand and prioritize key pre-commercial technologies that will be required to meet the CleanBC decarbonization goals. Without the 2020 CGIF, FEI staff would have less direct exposure to the start-up companies and academic institutions developing the technologies that will decarbonize gaseous fuels, mitigate costs for customers and make the gas distribution system more resilient. The exposure to innovative ideas and technologies provided by the fund provides FEI staff with a better understanding of the different advantages and disadvantages of new

[29] The NGIF estimates that the leverage of the Industry Grants program (which is one of the main recipients of CGIF funding) is about 10x Industry Grants - NGIF Capital. This leverage ratio is further increased for FEI because it is one of up to 15 NGIF members providing the funding for the grants made by NGIF. Overall leverage for 2020 CGIF projects is estimated to be over 20x.

technologies, often through pilot demonstrations, as well as insight into the challenges faced by start-ups when trying to move pre-production technologies into production. The development of internal knowledge through CGIF learnings is a significant benefit that will allow FEI to continue its role as a leader in the clean energy transition.

Third, the 2020 CGIF has enabled investments in a number of technologies that could reduce the cost of current and future gaseous fuels. The ongoing energy transition will drive higher costs for customers, all else equal. In the MRP Decision (pages 155-156), the BCUC recognized the need for investments to fund innovation activities that are designed to provide benefits to customers, including innovations that mitigate the risk of future rate increases. The 2020 CGIF has invested in a number of technologies that could reduce the cost of current and future low-carbon gaseous fuels; however, FEI believes that cost reductions remain an opportunity that should continue to be explored.

The 2025 CGIF builds upon the success of the 2020 CGIF, seeking to continue realizing these benefits by providing funding for innovative technologies and pilots. FEI is also seeking to expand the scope of funding to address other impacts of climate adaption and the energy transition as follows:

- The 2025 CGIF proposes to invest in technology solutions that will help mitigate cost pressures, which are expected to increase as the energy transition unfolds over time. By focusing more broadly on innovations that have the potential to reduce costs, the CGIF can play a bigger role in supporting the provision of cost-effective energy solutions for customers.

- The 2025 CGIF also proposes to focus on gas system infrastructure resiliency. The impacts of climate change are already being realized in the form of extreme weather events in British Columbia. Wildfires, atmospheric rivers, polar vortexes and heat domes are examples of weather systems that would have been considered highly anomalous in the past but are now more regular occurrences that challenge the resilience of the energy system. Given this challenge, innovative technologies that will increase energy system resilience are required, particularly for above-ground assets that are exposed to adverse climatic events.

Renewing and enhancing the CGIF will allow FEI to continue supporting and advancing British Columbia's energy transition. This will be achieved by investing in pre-commercial technologies that can reduce GHG emissions, mitigate cost pressures and further strengthen the resilience of the energy systems. It is critical that new technologies are developed and advanced to meet the challenges of the energy transition. The CGIF provides FEI an opportunity to contribute to the advancement of these technologies, which is of vital importance to both FEI's customers and to the province in general as new and innovative solutions are needed to respond to the energy transition.

8. Please identify the feasible alternatives (e.g. an extension of the Current MRP) to the proposed Rate Framework in order to set delivery rates for FEI and rates for FBC in the near term in light of the uncertainty cause by the energy transition.[30] Please discuss the pros and cons of each identified alternative.

Response:

The general purpose of a rate-setting framework is to establish the mechanisms for recovering costs and setting rates. The spectrum of rate-setting approaches generally ranges from a traditional cost of service-based approach to a pure performance-based approach, with options within this spectrum that utilize components of performance-based and cost of service-based rate-setting.

In consideration of the uncertainties created by the energy transition and the history of rate-setting approaches in BC, FortisBC does not consider adopting a pure performance-based rate-setting approach to be feasible at this time.

Further, and as stated in the response to BCUC Panel Question No. 3, FortisBC agrees with many of the statements made by the BCUC in the BC Hydro Reconsideration Decision,[31] including the following:

> …the increased cost uncertainty will likely result in more costs that would need to be forecast outside of the PBR formula, as those costs are driven by external factors that are outside of BC Hydro's control. Therefore, given the increased uncertainty that BC Hydro is facing and changes in circumstances since 2021, the Panel is not convinced that the adoption of what would be a new and untested regulatory regime for BC Hydro is warranted at this time.

Unlike BC Hydro, FEI and FBC have been operating under a variation of a multi-year rate-setting framework for many years, and as the BCUC pointed out in the BC Hydro Reconsideration Decision, PBR has been "successfully implemented and endorsed by the FortisBC utilities for decades in British Columbia, to the mutual benefit of both their ratepayers and shareholders."[32] FortisBC acknowledges, however, that it has also operated under cost of service at various times throughout both utilities' histories.

Accordingly, FortisBC identifies the following feasible alternatives for setting rates:

1. Cost of Service;

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[30] On page B-45 of Exhibit B-1, FortisBC notes that the proposed three-year term provides a balance between a long enough time frame to find some efficiencies in the regulatory process and provide certainty on the rate mechanisms in place, while recognizing that the energy transition will have transformational impacts and that the timing and quantum of these impacts is uncertain.

[31] Decision and Order G-73-24, p. 7.

[32] Decision and Order G-73-24, p. 7.

2. Extension of the Current MRP;
3. The Proposed Rate Framework; and
4. The Proposed Rate Framework with Targeted Incentives.

Further, when assessing the pros and cons of each alternative, FortisBC considers the following characteristics which it identified as important for the Rate Framework in the Application:

1. A term that provides incentive to perform and the capacity to focus on key issues, while acknowledging the current level of uncertainty in the operating environment;
2. Sufficient funding to address emerging requirements and challenges;
3. Flexibility to adapt to the energy transition to manage its costs and impacts; and
4. An efficient annual rate-setting process that allows the Companies to focus on responding to the energy transition operationally and through key regulatory filings focused on the energy transition.

1. Cost of Service

Under this alternative, FEI and FBC would each need to prepare and file separate, new applications. While the number of years forecast under a cost of service approach could be a single year or multiple years, both FEI and FBC would propose to set rates under cost of service for two years. The level of effort required to first prepare the applications and then to undergo the regulatory review of the applications would result in a decision likely not being issued until sometime in 2025. Thus, it would not make sense to only apply to set rates under cost of service for one year, as the Companies would have to immediately commence preparing the next rate application.

The advantages of a cost of service approach are that it is well known, relatively simple and is the approach used by other gas and electric utilities in BC (e.g., BC Hydro and Pacific Northern Gas).

However, there are a number of disadvantages, including that cost of service is less efficient, is less flexible, lacks incentives to invest in decarbonization, and does not reduce the uncertainty or eliminate costs associated with the energy transition. While some regulatory efficiencies would be gained from setting rates under cost of service for two years (i.e., there would be a longer break between the next rate-setting process because there would be no Annual Review process between Year 1 and Year 2), the efficiencies gained through the elimination of the Annual Review process would be more than offset by the requirement for the Companies to prepare an entirely new rate application before the end of the two-year cost of service period.

For these reasons, while feasible, FEI and FBC do not support a cost of service approach to setting rates at this time.

2. Extension of the Current MRP

FortisBC considers an "extension of the Current MRP" to mean that all of the existing mechanisms, including the Clean Growth Innovation Fund, would remain with no adjustments, with the exception of FEI's regular Sustainment and Other capital and FBC's regular Growth, Sustainment and Other capital, because there are no approved forecasts for 2025. In essence, the process would be the same as the Annual Reviews for 2023 Rates, where FEI and FBC filed the standard Annual Review materials but included updated forecasts for 2023 and 2024 regular capital (though in this case, the regular capital forecasts would only be for 2025).

The only advantage to this approach is that it would create a more streamlined regulatory process as compared to other options; however, the benefit of a more streamlined regulatory process would be more than offset by the requirement for the Companies to commence developing an entirely new rate application in tandem with the Annual Review process for setting 2025 rates (as the development of a rate application, including the consultation process, requires a significant amount of time before the application drafting even commences).

For these reasons, while feasible, FEI and FBC do not support a one-year extension to the Current MRP.

An extension longer than one year to the Current MRP would not be reasonable or practical without making substantive adjustments, including the following:

- Adjustments to the formulaic elements of O&M and Growth capital (for FEI), such as the X Factor.
- Adjustments to FEI's and FBC's Base O&M in order to incorporate the Companies' incremental needs related to decarbonization and sustainability, cyber security, engineering, vegetation management, long term resource planning, supply-side energy planning, and government, Indigenous and community engagement, among other areas.
- Adjustments to FEI's Growth capital, as it is significantly underfunded (as explained in Section C3.3.1 of the Application).
- Adjustments to FEI's and FBC's depreciation and net salvage rates, capitalized overhead rates, lead-lag days, and corporate services allocations, as it would not be reasonable to wait two more years to make these adjustments (i.e., seven years would have elapsed since the last adjustments), particularly given that the Companies have undertaken the necessary studies to support the proposed changes.

In consideration of the above adjustments (among others) that would be required to extend the Current MRP for longer than one year, there would be no regulatory efficiencies gained from this approach compared to continuing with the review of the Rate Framework Application. Therefore, while feasible, FortisBC does not consider a longer extension to the Current MRP to be preferrable to the proposed Rate Framework.

3. The Proposed Rate Framework

Under this alternative, FortisBC would proceed with the proposed Rate Framework Application as filed.

FortisBC has explained in detail in the Application, and in response to BCUC Panel Questions No. 1 through 4, how the Rate Framework is flexible enough to respond to the uncertainties and potential rate pressures created by the energy transition. Among other benefits, the proposed Rate Framework builds off the Current MRP, which has been successful over a challenging period. The proposed Rate Framework mechanisms provide sufficient O&M and capital funding to continue to provide safe, reliable and resilient service to customers, while also maintaining a focus on cost control and supporting the Companies' need to invest in emissions reduction activities. Further, the proposed Rate Framework provides the flexibility to enable the Companies to adapt and respond to the uncertainties and evolving requirements created by the energy transition. The proposed three-year term balances between a long enough time frame to find some efficiencies in the regulatory process and provide certainty on the rate mechanisms in place, recognizing the uncertainty inherent in the energy transition. Creating regulatory efficiency is vital, as it allows the Companies to focus more time and resources on other regulatory applications (such as the development of the next long term resource plans) and on responding to the energy transition and the complex operating environment.

The disadvantages of this alternative, which are common to all the alternatives, are that it does not reduce the uncertainty or eliminate costs associated with the energy transition.

FortisBC also submits that there is no basis or evidence thus far in this proceeding on which to justify a rejection of the Rate Framework Application in favour of a cost of service approach or an extension of the Current MRP. In its decisions on FEI's and FBC's 2024 Annual Reviews, the BCUC left the form of the next rate application up to the Companies. Moreover, the BCUC has repeatedly recognized that FortisBC's multi-year rate frameworks have worked well and benefited customers, and there is no evidence of any change in circumstance that would now indicate that a multi-year framework is unworkable. Nor is there any evidence that a different approach would improve FortisBC's ability to manage through the energy transition. FortisBC has spent nearly a year developing the Application and has supported its approvals sought with detailed and comprehensive evidence, including expert evidence, jurisdictional reviews, and supporting studies. In FortisBC's submission, rejecting the Rate Framework Application at this early stage of the proceeding without any fair opportunity for it to be heard and considered by the BCUC Panel could not be reasonably justified.

Accordingly, FortisBC considers the proposed Rate Framework to be superior to a cost of service approach or to extending the Current MRP, and does not support either of these alternative approaches at this time. However, FortisBC recognizes the BCUC's desire to further advance the rate-setting framework in response to the energy transition. As such, and as discussed in the response to BCUC Panel Question No. 5, FortisBC provides a fourth alternative, which is to continue with the review of the proposed Rate Framework but to establish a second phase in the

review process whereby FortisBC would file an application containing proposals for targeted incentives. This fourth option is discussed below.

4. The Proposed Rate Framework with Targeted Incentives

Under this alternative, FortisBC would proceed with the Rate Framework Application as filed, but if ordered by the BCUC, FortisBC would propose a second phase to the regulatory review process to define targeted incentives for FEI and FBC. The process could include refinement of the incentive principles, definition of performance expectations, establishment of achievable targets, and establishment of appropriate incentives.

The primary benefit of this option is that, subject to the achievability of the targets and appropriateness of the incentives, targeted incentives could further incent investment in decarbonization. However, FortisBC notes that the current policy uncertainty may continue to pose challenges in designing appropriate targets, as there is a risk that the target (or incentive) could become misaligned as policy changes occur, requiring periodic review and adjustment. The primary disadvantage (beyond potential misalignment with policy) is that further regulatory process would be required to develop the targeted incentive framework.